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HUSCOKE HOLDINGS LIMITED

和嘉控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 704)

TERMINATION OF MAJOR TRANSACTION AND ENTERING INTO OF MERGER AND ACQUISITION FRAMEWORK AGREEMENT IN RESPECT OF THE ACQUISITION OF INTEREST IN THE TARGET COMPANY

INTRODUCTION

Reference are made to the announcements of the Company dated 25 June 2018, 24 December 2018, 3 January 2019, 18 March 2019 and 5 November 2019 (the “**Announcements**”) in relation to, among others, the entering of the Letter of Intent, the entering of the MOU with the Target Company, the entering into of the Agreement, the entering into of the Framework Agreement and the New Framework Agreement. Capitalised terms used herein shall have the same meanings as defined in the Announcements unless the context requires otherwise.

TERMINATION OF MAJOR TRANSACTION

Reference are made to (i) the announcement of the Company dated 3 January 2019 in relation to, among others, the entering into of the agreement by the JV Subsidiary, Jinyan Electricity, the Target Company, Xiaoyi ILNG, and the Personal Guarantor (the “**Major Transaction**”); and (ii) the announcements of the Company dated 8 March 2019, 8 April 2019, 8 May 2019, 6 June 2019, 8 July 2019, 6 September 2019, 8 November 2019, 8 January 2020, 6 March 2020, 8 May 2020, 8 July 2020 and 8 September 2020 (the “**Delay Announcements**”) in relation to the delay in despatch of the Circular. Capitalised terms used herein shall have the same meanings as defined in the Announcements and the Delay Announcements unless the context requires otherwise.

It is expected that the transactions contemplated under the Merger and Acquisition Framework Agreement (the “**M&A Framework Agreement**”) (as further described below) will cause key changes to the original terms of the Major Transactions. Due to Phase 1 Project of the Target Company has been put into production and Phase 2 Project has completed the infrastructure construction, its overall operating capacity and asset value may be increased. It has become necessary for the Company and the Target Company to re-evaluate the Target Company and its current state of business and asset value, which may also affect the consideration payable for the Target Company by the Group and how such consideration will be satisfied. Given the above, in order to safeguard the best interest of the Company and its shareholders as a whole, the Board has decided to make strategic adjustments to this transaction, the Company will expedite transactions contemplated under the M&A Framework Agreement and will disclose the progress of the transaction in accordance with the requirements under the Listing Rules when appropriate. Meanwhile, the JV Subsidiary entered into a termination agreement with Jinyan Electricity, the Target Company, Xiaoyi ILNG, the Personal Guarantor, pursuant to which the parties agreed to terminate the agreement in respect of the Major Transaction accordingly.

The Board considers that the termination of the Major Transaction has no material adverse impact on the current operation, business or financial position of the Group. The Company will not despatch the Circular to the Shareholders.

ENTERING INTO OF THE M&A FRAMEWORK AGREEMENT

As disclosed in the announcement of the Company dated 5 November 2019, the Company entered into the New Framework Agreement with the JV Subsidiary, Jinyan Electricity, Jianeng Coal, the Target Company, Xiaoyi ILNG, Mr. Yang Linhai* (楊林海) and Mr. Wu Tangjun* (武堂俊), pursuant to which the Company and/or designated company within the Group intend to acquire and to subscribe for the share capital of the Target Company such that the Company will be interested in a controlling shareholding stake of more than 50% of the enlarged share capital of the Target Company.

The Board wishes to announce that the Company had been in negotiation with the JV Subsidiary and the Target Company in connection with the matters above, and wishes to provide an update to the market. The Company has entered into the M&A Framework Agreement with the JV Subsidiary and the Target Company, pursuant to which the Company and/or the Company may through direct investment and/or establishment of a merger and acquisition fund (the “**M&A Fund**”) may acquire and subscribe for more than 50% of the enlarged share capital of the Target Company.

The key terms of the M&A Framework Agreement are set out below:

THE M&A FRAMEWORK AGREEMENT

Date: 16 September 2020

Parties:

- (i) The Company

- (ii) The JV Subsidiary
- (iii) The Target Company

The Information of the Parties

The 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.

The Target Company 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 a coke project (the “**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 will be constructed in two phases: phase one includes coking furnaces with coke production capacity of 2.54 million tons per year (“**Phase 1 Project**”); and phase two includes coking furnaces with coke production capacity of 2.53 million tons per year (“**Phase 2 Project**”). A supervisor of the Target Company is a director of the JV Subsidiary.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, save as disclosed in the Announcements, the Target Company and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons of the Company in accordance with the Listing Rules.

Major terms of the M&A Framework Agreement

Pursuant to the M&A Framework Agreement, the Company and/or the M&A Fund intend to acquire and to subscribe for the share capital of the Target Company such that the Company and/or the M&A Fund will hold more than 50% of the enlarged share capital in the Target Company.

The parties shall negotiate and enter into formal agreement(s) pursuant to the major business terms as set out under the M&A Framework Agreement. Subject to the entering into of the relevant formal agreement(s), the major terms of the M&A Framework Agreement are as follows (among others):

1. Cash subscription

The Company intends to invest directly and/or through the establishment of a M&A Fund, to subscribe the new issued equity of the Target Company by cash, of which the initial capital injection is planned to be RMB 1 billion (or equivalent foreign currency), which will be used for debt repayment to the pledged shares of the Target Company and the construction of the Phase 2 Project. Subsequent investment amount and payment method will be finalised in the formal agreement to be entered pursuant to the final consideration to be confirmed by the preliminary work as contemplated under the M&A Framework Agreement.

2. Equity Merger

The Company intends to subscribe the new issued equity of the Target Company by using its equity interest in the JV Subsidiary held by the Company as consideration. The parties will base on the audited results of the operating assets of 600,000 tons per year of the JV Subsidiary and its market value of total coke production capacity as reference for the negotiation of equity consideration of the JV Subsidiary and confirm the final consideration.

If the transactions under the M&A Framework Agreement materialises, upon completion of the transactions, the Company and/or the M&A Fund is expected to hold more than 50% of enlarged share capital in the Target Company.

Pursuant to the M&A Framework Agreement, the New Framework Agreement dated 5 November 2019 entered into between the Company, JV Subsidiary, Jinyan Electricity, Jianeng Coal, the Target Company, Xiaoyi ILNG, Mr. Yang Linhai* (楊林海) and Mr. Wu Tangjun* (武堂俊) will be superseded and terminated. In the event of any inconsistency between the M&A Framework Agreement and the New Framework Agreement, the M&A Framework Agreement shall prevail.

Preliminary work to be carried out under the M&A Framework Agreement

For the purpose of achieving the contemplated transactions under the M&A Framework Agreement, the parties agree to carry out the following preliminary work for mergers and acquisitions, and conduct further friendly negotiations based on the results of the work to confirm the final consideration and/or the structure of the transaction:

- (1) The Company appoints a qualified professional consulting company to conduct financial due diligence on the business operation, assets, liabilities and financial position of the Target Company since its incorporation. Meanwhile, the Company shall arrange to complete legal due diligence before merger and acquisition. The Target Company should provide all necessary assistance and information, so that the Company can complete due diligence of the Target Company.
- (2) The Target Company appoints a firm of certified public accountants (practising) to conduct the audit of its accounts since its incorporation before merger and acquisition, to confirm its audited assets and liabilities as reference for the comprehensive assessment of its equity consideration.
- (3) The JV Subsidiary appoints a qualified professional business advisory company to conduct the internal audit of its accounts for three and a half years from 1 January 2017 to 30 June 2020 before merger and acquisition as reference for the comprehensive assessment of its equity consideration.

Conditions precedent

The parties will enter into formal agreement(s) subject to the following conditions precedent:

- (1) The parties having completed preliminary work for merger and acquisition, and being satisfied with the results, and confirming the final consideration of the transaction;
- (2) The parties having obtained the approval of the board of directors and shareholders for the transaction, and having formed relevant resolutions.
- (3) The Company having complied with the provisions and requirements under the Listing Rules ;
- (4) The Target Company having obtained all necessary consents, approvals and permits from all relevant government departments and regulatory authorities to the transaction; and
- (5) Having completed the establishment and fundraising for the M&A Fund (if using the form of M&A Fund), or having completed all necessary financing to the transaction (if the Company invests directly).

Reasons for and benefits of the entering into the M&A Framework Agreement

The JV Subsidiary is principally engaged in coke production business with a production capacity of 600,000 tons coke per year whereas the Target Company is committed to a coke production project with capacity of 5 million tons coke per year. At present, the Phase 1 Project has all been put into production, and the Phase 2 Project has completed the infrastructure construction and is expected to be put into production in the first quarter of 2022. The Board considers that the merger between the JV Subsidiary and the Target Company and acquisition of the Target Company by the Group could provide synergies and enlarge the existing coke production business of the Company. The Board considers the establishment of a M&A Fund to reduce capital expenditures of the Group in early stage of its investment into the Target Company. Overall, the possible merger and acquisition could provide an opportunity to expand production scale, production technology enhancement, improvements of the environmental standard of the Company so as to strengthen profitability and maintain sustainable development of the Group.

LISTING RULES IMPLICATION

The possible acquisition as contemplated under the M&A Framework Agreement, if materialises, may constitute notifiable transactions for the Company under Chapter 14 of the Listing Rules. The Company will make further announcement(s) as and when appropriate and comply with all applicable requirements under the Listing Rules.

The Board wishes to emphasize that the possible transactions as contemplated under the M&A Framework Agreement subject to, among others, the conditions precedent being fulfilled and formal agreement(s) being entered into. No formal agreement has been entered into between the parties. The possible transactions under the M&A Framework

Agreement may or may not proceed. Shareholders and potential investors of the Company are urged to exercise caution when dealing in the securities of the Company. Further announcement(s) will be made by the Company as and when appropriate in compliance with the Listing Rules.

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

Hong Kong, 17 September 2020

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*