

*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.*



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

**(Stock Code: 00323)**

## **OVERSEAS REGULATORY ANNOUNCEMENT**

### **ANNOUNCEMENT ON DEVELOPMENT OF FUTURES HEDGING BUSINESS FOR 2022**

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On 28 February 2022, Maanshan Iron & Steel Company Limited (the “**Company**”) convened the fifty-sixth meeting of the ninth session of the board of directors to consider and approve the Company’s 2021 Hedging Work Summary and 2022 Hedging Plan, agreeing that the Company shall develop futures hedging business in respect of raw materials and products relating to production and operation. The details are hereby announced as follows:

#### **I. PURPOSE AND NECESSITY**

As the impact of futures prices on the spot market has further deepened, the Company has conducted futures trading based on the hedging principle, for the main purpose of serving the spot business and managing part of the risk exposure faced by its procurement and sales business through a combined spot-futures hedging, with an ultimate goal of reducing procurement costs and protecting order sales profits. Meanwhile, the use of futures to identify price trend is particularly essential for the Company to grasp the pace of market volatility, guide its procurement and sales business and manage its inventory.

## **II. BASIC INFORMATION ABOUT THE BUSINESS**

Major futures commodities involved in the production and operation of the Company will be hedged. The largest scale of hedges in 2022 will include: 2.4 million tonnes of iron ore, 480,000 tonnes of coking coal, 240,000 tonnes of coke, 60,000 tonnes of manganese-silicon and ferro-silicon, 300,000 tonnes of steam coal, and 1.2 million tonnes of steel products. The scale of standing futures hedging funds will be RMB100 million, within which day-to-day hedging activities will be carried out, with 40% of the total funds (i.e. RMB40 million) as the stop-loss limit for day-to-day hedging activities in 2022.

## **III. RISK ANALYSIS**

1. **Basis risk.** When the volatility of futures price is higher than the spot price, there will be a deviation of futures price from spot price in the market, making it difficult to achieve the hedging goal or even worse, causing losses on both futures and spot at the same time when there are adverse changes in basis.
2. **Completion risk.** The steel sold for hedging shall ensure that the steel to be delivered meets the requirements of the stock exchange for warehouse receipt registration. Physical delivery of purchased raw materials and fuels is subject to a risk that the delivered products will fall far short of the requirements of the Company's coal and ore allocation, making it difficult to feed into the furnace.
3. **Liquidity risk.** The limited trading volume of part of the hedged species, particularly as liquidity drops significantly before the delivery month, exposes the Company to the risk of failure to settle transactions or the volume not meeting the requirements of the hedging programme if the Company needs to hedge its recent steel inventories or procurement needs.
4. **Internal control and operation risk.** Due to the complexity of futures prices and the rapid and fast volatility, there is a risk that futures operations may not be opened and closed in a timely manner as required by the programme or instructions, and that there may be deficiencies in internal controls which may result in losses from futures hedging.

#### **IV. RISK CONTROL MEASURES**

The Company carries out the futures business without speculative purposes and strictly adheres to the hedging principle, and effectively prevents, detects and resolves risks in terms of organisation, systems and processes and risk control measures.

1. The Company has formulated and further improved the Administrative Measures For Its Futures Hedging Business, established a comprehensive organisational structure for hedging, with a clear division of function among the hedging leadership group, the hedging working group and the hedging risk control group, to ensure that the futures business process is carried out in an orderly manner under the management and supervision of the Company's leadership and relevant departments.
2. The Company has established an efficient hedging operation system, which, by keeping track of and forecasting the market, enables the Company to coordinate the needs of its procurement and sales operations and inventory targets, and make use of physical delivery or liquidation means to minimise the basis risk exposed in the hedging process.
3. The Company has built a strict trading management system whereby the total opening amount of trading shall not exceed the limit set in the hedging programme, the total amount of margin used for trading shall not exceed two-thirds of the trading account equity and the annual stop-loss limit shall be set for hedging operations.
4. The Company has established a hedging evaluation system, whereby the audit and finance departments shall evaluate the process and results of hedging work respectively and report to the board of directors on a half-yearly basis. The audit and evaluation system plays an important role in process control and operational regulation.

#### **V. INDEPENDENT DIRECTORS' OPINION**

Independent opinion of the independent directors in respect of the development of futures hedging business: it is necessary and feasible for the Company to develop futures hedging business in accordance with the actual situation and market changes to reasonably avoid the operational risks arising from significant price fluctuations, under the premise of ensuring normal production and operation. The decision-making procedures of the board of directors of the Company are in compliance with the relevant laws and regulations, and the corresponding business approval process and risk control system have been established to effectively prevent and control the risks of the hedging business. There are no circumstances which are detrimental to the interests of the Company and its shareholders. Therefore, it is agreed that the Company shall develop the hedging business.

## VI. SUPERVISORY COMMITTEE'S OPINION

The supervisory committee of the Company has the following opinion regarding the development of futures hedging business for 2022:

1. The Company develops futures hedging business in accordance with the actual needs of production and operation and market changes, which helps to avoid the risk of fluctuations in raw material prices and ensure normal production and operation.
2. The Company has developed and effectively implemented an internal control and risk management system in relation to hedging, which enables the Company to effectively control the risks associated with its hedging business.
3. Development of such business by the Company is not detrimental to the interests of the Company and its shareholders, and the consideration procedures are lawful and compliant.

Based on the above, the supervisory committee has agreed that the Company shall develop the hedging business.

*The Board*

**Maanshan Iron & Steel Company Limited**

1 March 2022

Maanshan City, Anhui Province, the PRC

*As at the date of this announcement, the directors of the Company include executive directors Ding Yi and Ren Tianbao; and independent non-executive directors Zhang Chunxia, Zhu Shaofang and Wang Xianzhu.*