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匯力集團
HUILI GROUP

Huili Resources (Group) Limited
匯力資源(集團)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1303)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcements of Huili Resources (Group) Limited (the "**Company**") dated 29 May 2023, 30 June 2023 and 31 July 2023, respectively (collectively, the "**Announcements**") in relation to, among other things, the Acquisition. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Board wishes to clarify that in applying the exchange rate of RMB1.00 to HK$1.11 instead of RMB1.00 to HK$1.20 as set out in the Announcements, the unaudited consolidated financial information of the Target Group for the two financial years ended 31 December 2021 and 31 December 2022 should be as follows:

	For the year ended 31 December 2021		**For the year ended 31 December 2022**	
	RMB'000 (unaudited)	*Equivalent to approximately HK$'000*	*RMB'000* (unaudited)	*Equivalent to approximately HK$'000*
Revenue	260,215	288,839	25,106	27,868
Profit/(loss) before income tax	657	729	(879)	(976)
Profit/(loss) after income tax	493	547	(1,450)	(1,610)

The Board wishes to provide the following supplemental information in relation to the Consideration of the Acquisition.

The Consideration of the Acquisition, being HK$41,847,000 which shall be satisfied by the Company by the allotment and issue of 167,388,000 Consideration Shares, was based on the valuation (the "**Valuation**") of the Target Group of approximately RMB37,700,000 (equivalent to approximately HK$41,847,000) conducted by an independent valuer, Masterpiece Valuation Advisory Limited (the "**Independent Valuer**"), using a market approach which took into consideration industry comparable multiples and the financial performance of the Target Group. The Board is of the view that the Valuation and the Consideration is fair and reasonable in light of the reasons set out below.

VALUATION

The Valuation was calculated on the following basis:

(i) The Target Group had positive earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") of approximately RMB5.87 million (equivalent to approximately HK$6.52 million) for the financial year ended 31 December 2022 ("**FY2022**"), despite that the Target Group recorded loss of approximately RMB1.4 million (equivalent to approximately HK$1.6 million) during FY2022.

(ii) The Company inquired from the Independent Valuer on the methodology of the Valuation whom was of the view that a market approach, which took into consideration of industry comparable multiples and the financial performance of the Target Group, and the use of the enterprise value-to-EBITDA ratio of the market comparables, being three comparable companies listed on the PRC exchanges and one company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), were appropriate. In particular, the market comparables considered by the Independent Valuer and their respective size adjusted enterprise value-to-EBITDA ratios are as follows:

Company	**Stock market in which the company is listed on**	**Stock code**	**Size adjusted enterprise value-to-EBITDA ratio**
CCS Supply Chain Management Company Limited	Shanghai Stock Exchange	600180	8.67x
Daqin Railway Company Limited	Shanghai Stock Exchange	601006	2.56x
Ningxia Western Venture Industrial Company Limited	Shenzhen Stock Exchange	000557	3.31x
Canggang Railway Limited	Main Board of the Stock Exchange	2169	4.28x

The median of adjusted multiples of the above market comparables, being the enterprise value-to-EBITDA ratio after adjusting the lack of marketability discount and control premium (details of which are set out below), was approximately 3.89x and was derived at by the Independent Valuer by using a size adjustment after taking into account (a) the differences in competitive landscape in which the Target Group and the comparable companies operate; and (b) the respective scales of operations of the Target Group and the comparable companies. In particular, the Independent Valuer took into account the following before deriving at the enterprise value-to-EBITDA ratio of 3.89x:

Lack of marketability discount *(Note 1)*	15.8%
Control premium *(Note 2)*	21.9%

Notes:

1. Lack of marketability discount reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. In accordance with "Stout Restricted Stock Study Companion Guide (2021 edition)" by Stout Risius Ross, LLC, a marketability discount of 15.8% is considered appropriate and suitable for the Valuation as the Target Company is a private company.

2. Control premium is the amount that a buyer is willing to pay over the minority equity value of a company in order to acquire a controlling interest in such company. The equity value-to-EBITDA ratio adopted in the Valuation was calculated from publicly listed companies and thus market value calculated using such equity value-to-EBITDA ratio represents the minority ownership interest. As such, control premium was adopted to adjust such minority interest market value to controlling interest market value. Adjustment for control is made by the application of a control premium to the value of the Target Group's shares. In accordance with "Control Premium Study: 4th Quarter 2022" by FactSet Mergerstat, LLC, the suggested average control premium is 21.9% was considered appropriate and suitable for the Valuation by the Independent Valuer as the Company intends to acquire a controlling stake in the Target Group.

As the Valuation was prepared under fair value basis, the Independent Valuer is of the view, and the Board concurs that, the valuation of three out of four comparable companies which are listed on the PRC exchanges and used such multiples as derived from the relevant PRC market is an appropriate reflection and valuation of the market value, the financial performance and potential risks of the Target Group as the Target Group principally operates in Shanxi Province, the PRC, which is also the principal business location of the Group.

(iii) The enterprise value of the Target Group was derived by adding the net cash, being cash of approximately RMB14.85 million (equivalent to approximately HK$16.48 million) which the Target Group held as at 31 March 2023 and subtracting the interest-bearing debts from such cash amount, to the equity value of the Target Group.

(iv) The Independent Valuer is of the view that the enterprise value approach provided a more accurate reflection of the value of the Target Group's operations, as cash and cash equivalents are considered to be non-operating assets. As such, the addition of the cash held by the Target Group as at 31 March 2023 did not affect the calculation of the equity value of the Target Group. The EBITDA multiple adopted as a measure of profitability and cash flow generated from the assets of the Target Group provides a more comprehensive view of the financial performance and the quality of assets of the Target Group.

The Board is of the view that the Valuation, which was based on fair value and the basis set out above, is fair and reasonable as it represents an objective measure of the value of the Target Group.

ADJUSTED NET ASSET VALUE

Based on the unaudited consolidated management accounts of the Target Group, the consolidated net asset value of the Target Group as at 31 March 2023 was approximately RMB2.96 million (equivalent to approximately HK$3.28 million) as there was the Vendor's Loan of RMB14 million (equivalent to approximately HK$15.5 million). Pursuant to the terms of the Sale and Purchase Agreement, the Vendor's Loan will be transferred to the Purchaser (or its designated entity) at the nominal consideration of RMB1 (equivalent to approximately HK$1.11) upon Completion. As such, the adjusted net asset value (the "**Adjusted NAV**") of the Target Group as at 31 March 2023 was approximately RMB16.96 million (equivalent to approximately HK$18.83 million) if the Vendor's Loan was not taken into account.

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Board is also of the view that the Consideration is fair and reasonable as the Acquisition of the Target Group will bring operational synergies to the Group. Although the Target Group recorded a decrease in revenue from RMB260.2 million (equivalent to approximately HK$288.8 million) in the financial year ended 31 December 2021 ("**FY2021**") to RMB25.1 million (equivalent to approximately HK$27.9 million) in FY2022, such decrease was primarily due to the shift in the business focus of the Target Group from a coal trading company to a coal supply chain services company as during FY2021, over 90% of the revenue was generated from the trading of coal while all of the revenue in FY2022 was derived from the coal supply chain services business.

Furthermore, although the Target Group recorded net loss of RMB1.45 million (equivalent to approximately HK$1.61 million) in FY2022, such loss was mainly contributed by the adoption of a conservative depreciation policy by the Target Group which took into account depreciable lives for the major coal storage structures ranging from 72 months to 120 months. However, such depreciation policy adopted by the Target Group is substantially different from the deprecation policy adopted by the Group. If the depreciation policy of the Group was restoratively applied to the Target Group's assets during FY2021 and FY2022, the net profit would then be approximately RMB2.5 million (equivalent to approximately HK$2.8 million) and RMB4.2 million (equivalent to approximately HK$4.7 million) respectively and the consolidated net assets of the Target Group as at 31 March 2023 would then be approximately RMB12.9 million (equivalent to approximately HK$14.3 million), and be approximately RMB26.9 million (equivalent to approximately HK$29.9 million) after taking into account of the assignment of the Vendor's Loan. As such, in order to avoid the above discrepancies based on the different deprecation policies on the Valuation, the Company considered that EBITDA would be a better merit in assessing the financial performance of the Target Group and thus was used to derive at the Valuation.

Furthermore, despite the decrease in revenue from FY2021 to FY2022 and the net loss recorded in FY2022, the Board is of the view that the Acquisition will bring operational synergies to the Group. The core assets of the Target Group are a coal shed and the associated machineries of such coal shed. The coal shed has the storage capacity of 250,000 tonnes of coal with a construction area of approximately 16,746 square metres and equipped with 14 specialised bulldozers and loaders. The Acquisition would allow the Group to have immediate access to an existing coal shed and the specialised equipment, allowing the Group to integrate the operation of the Target Group to the Group's existing businesses to expand its scale of operation and create a new growth driver.

The coal shed and the specialised equipment allow the Company to fulfill the storage, loading and coal mixing demand of the customers in Shanxi province, the PRC and the Acquisition will allow the Group to integrate vertically upwards and enhance the value chain of the coal business through providing additional storage and coal mixing services to the Group's customers, and in turn strengthen the competitiveness of the Group. In particular, the coal shed of the Target Group is located approximately 7.0km from the Group's washery plant and approximately 2.5km to 3.0km from the key highways in Shanxi province, the PRC, which the Company considers is a prime location from an operational perspective and would provide a stable source of demand for the Target Group's businesses and may potentially provide an additional source of supply to the Group's trading businesses.

Lastly, through the Acquisition the Group will be able to leverage on the management expertise of the Target Group, in particular, the sharing of business knowledge regarding the storage, loading and coal mixing service line, to the Group's existing operational team which will in turn deliver better services to the Group's customers with additional value-added services on top of processing and trading services.

By reason of the above, taking into account (i) the Valuation; (ii) the Adjusted NAV; and (iii) the operation synergies to be leveraged by the Group pursuant to the Acquisition, the Board is of the view that the Valuation and the Consideration is fair and reasonable.

For ease of reference and unless otherwise specified in this announcement, sums in RMB in this announcement have been translated, for the purpose of illustration only, into HK$ on the basis of RMB1.00 = HK$1.11. This does not mean that HK$ could be converted into RMB, or vice versa, based on such exchange rate.

By order of the Board
Huili Resources (Group) Limited
Cui Yazhou
Chairman

Hong Kong, 11 August 2023

As at the date of this announcement, the executive Directors are Mr. Cui Yazhou (Chairman), Mr. Ye Xin, Ms. Wang Qian and Mr. Zhou Jianzhong; the non-executive Director is Mr. Cao Ye; and the independent non-executive Directors are Ms. Xiang Siying, Ms. Huang Mei and Mr. Chan Ping Kuen.