QINFA

中國秦發集團有限公司

CHINA QINFA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00866)

VERY SUBSTANTIAL DISPOSAL
DISPOSAL OF 40% INTEREST IN THE TARGET COMPANY

THE SALE AND PURCHASE AGREEMENT

On 25 June 2024 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company), the Purchaser and the Company (as guarantor) entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares, representing 40% shareholding interest in the Target Company at Completion, at a consideration of RMB2,950 million, subject to adjustment.

As at the date of this announcement, the Target Company is owned as to 100% by the Vendor. Upon Completion, the Company will hold 60% of the total issued shares of the Target Company through the Vendor. As such, the Target Company will become an indirect non-wholly owned subsidiary of the Company, and its financial results will continue to be consolidated in the financial statements of the Group upon Completion.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in relation to the Disposal calculated under Rule 14.08 of the Listing Rules exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules, and is therefore subject to reporting, announcement and Shareholders' approval requirements thereunder.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, further details of the Disposal, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or about 28 June 2024.

Completion of the Disposal is conditional upon satisfaction of the conditions precedent as set out in the section headed "The Sale and Purchase Agreement – Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares.

INTRODUCTION

On 25 June 2024 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company), the Purchaser and the Company (as guarantor) entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares, representing 40% shareholding interest in the Target Company at Completion, at a consideration of RMB2,950 million, subject to adjustment.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date: 25 June 2024

Parties:

(i) Vendor: Qinfa Investment Limited (秦發投資有限公司);

(ii) Purchaser: Zhejiang Energy International Limited (浙江能源國際有限公司);

(iii) Vendor's guarantor: the Company.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject Matter

Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares on the Completion Date. The Sale Shares shall represent 40% of the total issued shares of the Target Company after the completion of the Loan Capitalisation. The Company (as guarantor) has agreed to guarantee the performance of the Vendor's obligations under the Sale and Purchase Agreement and the Shareholders' Agreement. The Purchaser may designate its nominee to acquire the Sale Shares.

As at the date of this announcement, the Vendor holds 100% of the total issued shares of the Target Company, and the Target Company, indirectly through Far Link, QMI and LTI, holds 75% equity interest in SDE. SDE holds a coal mining business license for the Target Mines.

Consideration

The Consideration payable from the Purchaser to the Vendor is RMB2,950 million, subject to adjustment as detailed below. The Consideration was determined between the Vendor and the Purchaser after arm's length negotiations and on normal commercial terms, taking into account the value of approximately RMB2,970 million (the "**Appraised Value**") for 40% equity interest in the Target Group based on the valuation of the Target Group as at 31 December 2023 as appraised by BMI Appraisals Limited, an independent valuer, using the income approach. The Consideration (prior to adjustment) represents a slight discount of approximately 0.7% to the Appraised Value. Based on the above, the Directors consider the Consideration fair and reasonable, and is in the interest of the Company and the Shareholders as a whole.

Payment Arrangement

Upon satisfaction or waiver of the conditions precedent, on the Completion Date, the Purchaser shall:

(i) pay 95% of the Consideration into the designated bank account of the Vendor; and

(ii) deposit the remaining five percent (5%) of the Consideration into the Escrow Account.

Escrow Account and Indemnity

The Vendor shall indemnify the Purchaser if the Purchaser suffers any penalties, liabilities or losses as a result of the following circumstances:

(i) defects in SDE's land documents, or if the processing of land ownership certificates has not been completed within one year from the Completion Date;

(ii) failure to extend the mining operating permit (IUP-OP) due to the Target Company's failure to comply with the extension regulations before the Completion Date, or negligence resulting in the automatic expiration of the mining operating permit in accordance with the relevant laws;

(iii) inconsistencies between the environmental permit and the mining right certificate of the Target Mines;

(iv) LTI failing to adjust its business identification number in accordance with current Indonesian laws and regulations;

(v) failure of the Target Group to prepare Indonesian (Bahasa) versions of contracts to be conducted in Indonesia;

(vi) SDE's reclamation and mine closure plans not being adapted to and approved in accordance to the latest environmental permit;

(vii) failure to register QMI as a mining service business license company (IUJP) due to its inter-company cooperation with SDE;

(viii) failure to duly and accurately submit employment reports (*Wajib Lapor Ketenagakerjaan*) before Completion, resulting in (a) liabilities such as being demanded to pay the underpaid amount of social security and provident fund contributions in previous years; (b) penalties due to failure to pay employees' social security on time and in accordance with regulations; or (c) liability for compensation resulting from demands, lawsuits or claims filed by third parties;

(ix) the tax authorities' recovery of underpaid taxes, late fees and fines which were underpaid by the Target Group prior to Completion;

(x) capital expenditure for bridge construction to meet obligations under the forest land use permit, and other expenses caused by violations or failure to complete the obligations under relevant licenses or mining right certificates of the Target Mines;

(xi) the failure of SDE, QMI and LTI to submit accurate periodic investment realization reports (*Laporan Kegiatan Penanaman Modal*) before Completion;

(xii) violations or non-compliance with local content requirements (TKDN) in relation to the procurement of goods and services in Indonesia prior to Completion;

(xiii) SDE's failure to comply with the submission of export realization reports prior to Completion;

(xiv) risks arising from the construction of the pier at the Target Mines without prior approval, including penalties, losses and liabilities arising from demolition of the existing structure, and the costs of obtaining the required environmental and construction permits;

(xv) SDE's failure to obtain a formal operating permit for the pier under-construction at the Target Mines before Completion;

(xvi) failure to submit overseas loan reports in compliance with Indonesian currency laws before Completion;

(xvii) failure to notarise the share purchase agreement between Qinfa Overseas Investment Limited (秦發海外投資有限公司) ("**Qinfa Overseas Investment**"), a wholly-owned subsidiary of the Company, and the Target Company in respect of equity interest in QMI, or the failure to complete the pre- and post-announcement requirements of the transaction in accordance with the applicable law, and penalties or unfavorable consequences to the Target Group's shareholding in SDE as a result of the failure to complete the announcement of the transaction in respect of the equity interest in SDE in accordance with the relevant laws;

(xviii) additional tax liabilities on the Target Group due to the debt restructuring;

(xix) losses caused by claims filed by WM against the Target Group;

(xx) losses incurred by the Target Group as a result of any breaches of the pre-Completion undertakings set out in Sale and Purchase Agreement;

(xxi) failure on the part of Qingdao Qinfa Material Supply Co., Ltd. (青島秦發物資供應有限公司) ("**Qingdao Qinfa Material**"), a subsidiary of the Company, to provide warranty of the quality in respect of materials and equipment procured by the Target Mines from Qingdao Qinfa Material;

(xxii) any liability resulting from intentional concealment, material omission, misrepresentation or fraud prior to Completion.

For the two years following Completion, the Purchaser may deduct its entitled compensation from the Escrow Account. The Purchaser and the Vendor consider the retained amount in Escrow Account (i.e. 5% of the Consideration) to be a reasonable and sufficient sum to cover the compensation arising from the above circumstances.

After the initial two year period, or if the balance of the Escrow Account is not sufficient to satisfy the amount of compensation at anytime during the two-year period, the Vendor shall pay the compensation or the shortfall (as the case may be) to the Purchaser directly. The remaining balance (if any) in the Escrow Account shall be released to the Vendor two years after the Completion Date.

Adjustment Mechanism

Within 30 days after the Completion Date, an independent professional institution shall conduct an additional audit (the "**Supplementary Audit**") on (i) the debt restructuring of the Target Group; (ii) the asset and financial status of the Target Group during the Transition Period and as at the Completion Date; and (iii) the capital expenditure of the Target Group against the proposed investment plan as agreed by the parties and set out in the Sale and Purchase Agreement, to determine if there is any variation between (a) the indebtedness, asset and financial status of the Target Group as at the Completion Date and that as at the reference date (i.e. 30 September 2023); and (b) the actual capital expenditure made by the Group in the Target Company as at the Completion Date and that in the proposed investment plan, which shall be the basis of determination for the downward adjustment to the Consideration.

The Vendor and the Purchaser shall agree upon the amount of downward adjustment (the "**Consideration Adjustment**"), which shall be equal to 30% (being the effective interest in SDE to be held by the Purchaser after Completion) of the difference between the relevant financial metrics as at the Completion Date and that as at the reference date and/or in the proposed investment plan. After the Consideration Adjustment is confirmed by the Vendor and the Purchaser, the Vendor shall pay the Consideration Adjustment to the Purchaser within seven days. If the Vendor fails to do so, the Purchaser may withdraw such amount from the Escrow Account.

As at the date of this announcement, based on the information currently available to the Company and barring unforeseen circumstances, the Company does not expect there will be any material adjustment to the Consideration, having considered the following:

(i) the Company does not contemplate any material change in the debt restructuring, and the asset and financial status of the Target Group during the Transition Period; and

(ii) the proposed investment plan is composed of the actual capital expenditure made by the Group in the Target Group from 30 September 2023 to the date of the Sale and Purchase Agreement, and the estimated future investment amount from the date of the Sale and Purchase Agreement up to the Completion Date. Barring unforeseen circumstances, the capital expenditure of the Target Group shall follow the proposed investment plan. Hence, it is not expected that there will be any material variation between the actual capital expenditure made by the Group in the Target Group and the proposed investment plan.

The capital expenditure made by the Vendor or its affiliates in the Target Group for the production and operation needs of the Target Group during the Transition Period which has not been included in the debt restructuring (after confirmation by the Supplementary Audit) (the "**Additional Expenses**") shall be borne by the Vendor and the Purchaser in the proportion of 70% and 30%, respectively. In this regard, the Purchaser agrees to provide a shareholder's loan to the Target Group in respect of 30% of the Additional Expenses in substitution for part of the existing shareholder's loan provided by the Vendor, at a rate and on terms no higher than the market interest rate and equal to those of the Vendor.

Upon Completion, the Purchaser will hold 30% effective interest in SDE. Therefore, the Purchaser shall be responsible for 30% of the Additional Expenses. The Board considers such allocation to be fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

The Sale and Purchase Agreement shall be established on the date on which it is signed by the parties and shall become effective on the date on which the following conditions are satisfied:

(i) the signing of the Shareholders' Agreement and the amendment of the Target Company's articles of association;

(ii) the Company obtaining Shareholders' approval at the EGM with regard to the Sale and Purchase Agreement and the transactions contemplated thereunder, in accordance with the Listing Rules; and

(iii) the Purchaser obtaining written approval from and/or completing filing with Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司), the State-owned Assets Supervision and Administration Commission of Zhejiang Provincial People's Government (浙江省國有資產監督管理委員會), the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the Ministry of Commerce of the PRC (中華人民共和國商務部), in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

If the parties fail to complete the aforementioned conditions within 120 days after the signing of the Sale and Purchase Agreement (or a later date as otherwise agreed by the parties), the Sale and Purchase Agreement shall be terminated.

Completion is conditional upon and subject to the satisfaction of the following conditions (the "**Completion Conditions**"):

(i) the completion of the debt restructuring (including the Loan Capitalisation), upon which the capital and borrowing status of each company in the Target Group shall reach a status mutually accepted by both the Vendor and the Purchaser;

(ii) the completion of the Internal Reorganisation;

(iii) there being no material adverse effect since the signing of the Sale and Purchase Agreement;

(iv) the Vendor and WM reaching a written agreement regarding dividend arrangements and coal supply rights in respect of WM's entitlement of 15% of the saleable coal production of SDE;

(v) (a) the signing of a package agreement between SDE, QMI and Qingdao Qinfa Material in relation to the settlement arrangement of a procurement contract entered into among SDE, QMI and Qingdao Qinfa Material; (b) the completion of the sale and purchase agreement (including the payment of consideration) between Qinfa Overseas Investment and the Target Company in respect of equity interest in QMI; and (c) the completion of the settlement and elimination of intercompany balance between the Group and the Target Group;

(vi) the pier under construction at the Target Mines obtaining its environmental permit and beginning legal operation;

(vii) the extension of the term of forest land use permit (Persetujuan Penggunaan Kawasan Hutan or PPKH) of the Target Mines, to be consistent with the current term of the mining right certificate;

(viii) the completion of the trial burn test on the raw coal produced by the Target Mines at the Purchaser's power plant; and

(ix) if the transaction requires approval under the competition or antitrust laws of the relevant countries, and the completion of the transaction without such approval will be illegal, prohibited or restricted, all approval decisions issued (or deemed to have been issued) or decisions stipulating that the transaction can be implemented by the market regulatory authorities and/or other competent antitrust review bodies in the relevant countries or regions, must be obtained by the Vendor on its own initiative.

If the Completion Conditions are not satisfied or waived by the Long Stop Date, the Sale and Purchase Agreement shall terminate unless the Vendor and the Purchaser agree in writing to extend the Long Stop Date, and as compensation, the Vendor shall pay to the Purchaser one percent (1%) of the Consideration (i.e. RMB29.5 million) within ten (10) business days after the termination of the Sale and Purchase Agreement. For the avoidance of doubt, compensation will not be required if the conditions set out in (viii) and (ix) are not met due to reasons not attributable to the Vendor.

Completion

Completion shall take place on the Completion Date, after the fulfillment or waiver of all the conditions precedent under the Sale and Purchase Agreement.

Upon Completion, the Company will hold 60% of the total issued shares of the Target Company through the Vendor. As such, the Target Company will remain to be a subsidiary of the Company, and its financial results will continue to be consolidated in the financial statements of the Group upon Completion.

Coal Supply Arrangement

Pursuant to the Sale and Purchase Agreement, the parties agreed that after Completion, SDE shall supply 51% and 34% of its total annual coal production to the Vendor and the Purchaser, respectively.

The allocation of coal was determined based on the shareholding of SDE and the Target Company. As at the date of this announcement and upon Completion, SDE is, and will remain to be, held as to 75% by the Target Group and 25% by WM. Pursuant to an agreement previously entered into by the Group and WM, WM will be entitled to 15% of SDE's total annual coal production instead of dividend payment from SDE. The remaining 85% of SDE's annual coal production will be allocated in proportion to the Vendor and the Purchaser's shareholding in the Target Company (i.e. a 60/40 split). Based on this calculation, the Vendor and the Purchaser will therefore be entitled to 51% and 34% of SDE's annual coal production, respectively.

The coal sale price shall be calculated based on a 120% mark-up on the cost per tonne incurred by SDE plus corporate income tax. If the shareholding of SDE held by the Vendor and the Purchaser changes, the ratio of coal supplied to both the Vendor and the Purchaser will also be adjusted accordingly.

It is contemplated that within six months after Completion, each of the Vendor and the Purchaser (or an associated company as designated by it) shall enter into a coal supply agreement (the "**Coal Supply Agreement**") for a term of 20 years with SDE.

Upon Completion, the Purchaser will be interested in 40% shareholding of the Target Company, while the remaining 60% shareholding of the Target Company will continue to be owned by the Group. Accordingly, the Purchaser will become a connected person of the Company by virtue of being a substantial shareholder of the Company's non-wholly owned subsidiary upon Completion. As such, the transactions with the Purchaser under the Coal Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company will fully comply with Chapter 14A of the Listing Rules when it enters into the Coal Supply Agreement.

As the continuing connected transactions contemplated under the Coal Supply Agreement will exceed a term of three years, an independent financial adviser will be appointed pursuant to Rule 14A.52 of the Listing Rules to explain why a term longer than three years is required and to confirm that it is a normal business practice for agreements of this type to be of such duration. The independent financial adviser's view will be set out in the announcement to be published by the Company upon signing of the Coal Supply Agreement.

SHAREHOLDERS' AGREEMENT

On 25 June 2024, the Purchaser and the Vendor entered into the Shareholders' Agreement, which subject to Completion, shall become effective on the Completion Date. If the Purchaser designates its nominee to acquire the Sale Shares upon Completion, the Purchaser will novate all of its rights and obligations under the Shareholders' Agreement to its nominee.

The principal terms of the Shareholders' Agreement are set out as follows:

Date: 25 June 2024

Parties:

(i) Company: Lead Far Development Limited (力遠發展有限公司);

(ii) Party A: Qinfa Investment Limited (秦發投資有限公司);

(iii) Party B: Zhejiang Energy International Limited (浙江能源國際有限公司);

(iv) Guarantor: the Company.

Board Composition

Unless obtaining unanimous written consent from all the shareholders of the Target Company, the board of directors of the Target Company shall be composed of five directors, of which three directors shall be nominated by the Vendor and two directors shall be nominated by the Purchaser, and the chairman of the board of directors shall be appointed by the Vendor.

Reserved Matters

During the term of the Shareholders' Agreement, each of the shareholders shall take all appropriate actions to ensure that the Target Group does not implement the following actions without prior unanimous agreement from the shareholders of the Target Company:

(i) profit distribution plan, loss recovery plan and distribution of any dividends;

(ii) provision of any warranties or indemnities to any persons or guarantee indebtedness or liabilities for any persons;

(iii) issuance of shares (capital increase) and reduction of shares (capital reduction);

(iv) passing of any resolution which results in the close-down, liquidation or bankruptcy of the company or its subsidiaries or the entering into of any settlement or debtors' and creditors' agreement, or any similar cases;

(v) change of business scope of the Target Group;

(vi) amendments to the Target Group's articles of association;

(vii) issuance of corporate bonds;

(viii) carrying out any acquisition, merger or consolidation, reorganization, restructuring or consolidation, and entering into any partnership or joint venture agreement;

(ix) disposal, sub-division, spin-off or restructure of all or part of the business of the Target Group;

(x) the direct or indirect sale, transfer and disposal of shareholding in companies (excluding the Target Company) within the Target Group;

(xi) listing of the shares of the Target Group on any stock exchange; and

(xii) change of the class of issued shares or change of the rights or obligations attached to any issued shares.

Right of First Refusal and Tag-along Right

If any party intends to sell all or part of its shares in the Target Company to a third party (excluding sales to related parties), the other shareholder of the Target Company is entitled to a right of first refusal to purchase all (but not part only) of the shares in the Target Company which the selling party intends to dispose of at the same price.

If any party intends to sell part or all of its equity interest in the Target Company to a third party, the other party may exercise its tag-along right to sell their respective shares. The selling party shall procure the third party to acquire the shares held by the other party on the same terms as the proposed sale.

VALUATION

The valuation of the Target Group (the "**Valuation**") was conducted by BMI Appraisals Limited (the "**Valuer**"), an independent valuer, using the income approach. The income approach was considered to be the most appropriate valuation approach in this valuation for valuing the Target Group, as it takes the future growth potential and the specific issues of the Target Group into consideration. Under the income approach, the discounted cash flow ("**DCF**") method was adopted. Also, the DCF method takes into account the cyclical, capital intensive and finite nature of the mining operations. Accordingly, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. This announcement is therefore subject to the requirements under Rule 14.60A of the Listing Rules in relation to profit forecasts. For the purpose of complying with Rule 14.60A of the Listing Rules, the details of the principal assumptions upon which the Valuation was based are as follows:

General Market Assumptions:

1. There will be no material change in the existing political, legal, fiscal, technological, economic and market conditions in the jurisdiction where the Target Group is currently or will be situated;

2. There will be no material change in the taxation laws and regulations in the jurisdiction where the Target Group is currently or will be situated, that the tax rates will remain unchanged and that all applicable laws and regulations will be complied with;

3. The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;

4. The supply and demand, both domestically and internationally, of the products and/or services of the Target Group or similar products and/or services will not differ materially from those of present or expected;

5. The market prices and the relevant costs, both domestically and internationally, of the products and/or services of the Target Group or similar products and/or services will not differ materially from those of present or expected;

6. The products and/or services of the Target Group or similar products and/or services are marketable and liquid, that there are active markets for the exchange of the products and/or services of the Target Group or similar products and/or services; and

7. The market data, industry information and statistical figures obtained from publicly available sources are true and accurate.

Company-specific Assumptions:

1. All licenses, permits, certificates and consents issued by any local, provincial or national government or other authorized entity or organization that will affect the operation of the Target Group have been obtained or can be obtained upon request with an immaterial cost;

2. The core operation of the Target Group will not differ materially from those of present or expected;

3. The financial and operational information in respect of the Target Group have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the senior management of the Target Group;

4. The information in respect of the Target Mines stated in the competent person's report have been prepared on a reasonable basis after due and careful considerations by the competent person;

5. The Target Group currently has, or will have, adequate human capital and capacity required for the production and/or provision of the products and/or services of the Target Group, and the required human capital and capacity will be acquired in a timely manner that will not affect the operation of the Target Group;

6. The Target Group has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;

7. The senior management of the Target Group will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Target Group;

8. The senior management of the Target Group has sufficient knowledge and experience in respect of the operation of the Target Group, and the turnover of any director, management or key person will not affect the operation of the Target Group;

9. The senior management of the Target Group has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Target Group; and

10. The senior management of the Target Group has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Target Group.

Specific assumptions adopted in the discounted cash flow ("DCF") method:

1. A mine life of 28 years has been assumed;

2. Coal production ranges from 1,450,000 tonnes to 19,000,000 tonnes during the life of mine;

3. Coal price of approximately RMB400 per tonnes, which was determined with reference to the historical selling price of coal sold by the Target Group, and the coal price was expected to growth at a rate of 1.3% per year, with reference to the inflation rate in the PRC; and

4. Average annual capital expenditure of approximately RMB170 million per annum until the end of the mine life.

Profit forecast:

Under the income approach, the DCF method was adopted in the Valuation. The DCF method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows were computed using the following formula:

$FCF = NI + NCE + Int\ (1 - T_{int}) - NCI - InvFA - InvNWC$

Where:

FCF	=	*free cash flow*
NI	=	*net income after tax*
NCE	=	*non-cash expenses*
Int	=	*interest expenses*
T_{int}	=	*tax rate applied to interest expense*
$Int\ (1 - T_{int})$	=	*after-tax interest expense*
NCI	=	*non-cash incomes*
$InvFA$	=	*investment in capital expenditure*
$InvNWC$	=	*investment in net working capital*

The projected future financial performance of the Target Group for years with maximum and minimum free cash flow throughout the life of mine are as follows:

(RMB)	**Year with Maximum Free Cash Flow**	**Year with Minimum Free Cash Flow**
Revenue	7,542,712,950	862,473,215
Operating Expenses and Tax	4,817,605,813	631,223,324
Net Operating Profit After Tax	2,725,107,137	231,249,891
Depreciation and Amortisation	487,057,530	73,172,303
Investment in Capital Expenditure	124,667,491	17,248,934
Investment in Net Working Capital	(101,419,883)	285,911,075
Free Cash Flow	3,188,917,059	1,262,185

The results were then discounted using a discount rate to determine the present value of the expected cash flows and the concluded value of the Target Group.

In order to estimate the value of the Target Group and perform an overall reasonability assessment, it is required to determine an appropriate discount rate for the Target Group. As such, the Valuer adopted the weighted average cost of capital ("**WACC**") as the discount rate for the Target Group.

The WACC was computed using the following formula:

$$WACC = R_e\ (E/V) + R_d\ (D/V)\ (1 - T_c)$$

Where:

WACC	=	*weighted average cost of capital*
R_e	=	*cost of equity*
R_d	=	*cost of debt*
E	=	*value of the firm's equity*
D	=	*value of the firm's debt*
V	=	*sum of the values of the firm's equity and debt*
T_c	=	*corporate tax rate*

The WACC comprises two components: the cost of equity and the cost of debt. The cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"). The CAPM describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated.

The cost of equity under the modified CAPM was computed using the following formula:

$$R_e = R_f + \beta * MRP + RP_S + RP_U$$

Where:

R_e	=	*cost of equity*
R_f	=	*risk-free rate*
β	=	*beta coefficient*
MRP	=	*market risk premium*
RP_S	=	*size premium*
RP_U	=	*company-specific risk premium*

In the Valuation, the adopted rates of the above-mentioned valuation parameters are as follows:

Valuation Parameter		As at the Valuation Date (i.e. 31 December 2023)
a.	Risk-free Rate	6.45%
b.	Beta Coefficient	0.851
c.	Market Risk Premium	9.64%
d.	Size Premium	3.05%
e.	Company-specific Risk Premium	3.00%
f.	Cost of Equity	20.70%
g.	Cost of Debt	7.13%
h.	After-tax Cost of Debt	5.56%
i.	Weight of Debt	15.31%
j.	Weight of Equity	84.69%
k.	Discount Rate	18.38%

18.38% was adopted as the discount rate for the valuation of the Target Group as of the Valuation Date (i.e. 31 December 2023).

With 1% increase and decrease in the discount rate, the equity value of 40% interest in the Target Group will be approximately RMB2.8 billion and RMB3.1 billion respectively.

Confirmations

Moore CPA Limited has been engaged by the Company to review the calculations of the discounted future estimated cash flows upon which the Valuation was based, which do not involve the adoption of accounting policies, and the appropriateness and validity of the assumptions.

The Board has reviewed and considered the Valuation including the principal assumptions upon which the Valuation was based. The Board has also considered the report from Moore CPA Limited. On the basis of the foregoing, the Board is of the opinion that the Valuation has been made after due and careful enquiry.

A letter from the Board and a report from Moore CPA Limited are included in the appendices to this announcement for the purpose of Rule 14.60A of the Listing Rules.

Experts and Consents

The qualifications of the Valuer and Moore CPA Limited are as follows:

Name	Qualifications
Moore CPA Limited	Certified Public Accountants
BMI Appraisals Limited	Professional valuer

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of the Valuer and Moore CPA Limited is a third party independent of the Group and is not a connected person of the Group. As at the date of this announcement, neither of the Valuer and Moore CPA Limited has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group. As at the date of this announcement, each of the Valuer and Moore CPA Limited does not have any direct or indirect interests in any assets which have been since 31 December 2023 (the date to which the latest published annual result of the Group were made up) acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group. Each of the Valuer and Moore CPA Limited has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its opinion and advice in its report/letter and all references to its name in the form and context in which it appears in this announcement.

INFORMATION ON THE GROUP, THE PURCHASER AND THE TARGET GROUP

The Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. Its subsidiaries are principally engaged in the coal operation business, which involves the mining, purchase and sales, filtering, storage and blending of coal. The Vendor is a company established in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

The Company has no plans or intentions to downsize its businesses or the number of employees of the Group and the Target Group in the 12 months following Completion. The Group will continue to focus on and operate its existing coal mining business.

The Purchaser

The Purchaser, a company incorporated in Hong Kong with limited liability, is an investment holding company. The Purchaser is owned as to approximately 64.17% and 35.83% by Zhejiang Provincial Energy Group Co., Ltd.(浙江省能源集團有限公司) and Zheneng Capital Holdings Limited (浙能資本控股有限公司), respectively.

Zheneng Capital Holdings Limited is owned as to 100% by Zhejiang Provincial Energy Group Co., Ltd..

Zhejiang Provincial Energy Group Co., Ltd., a company established in the PRC, is headquartered in Hangzhou, the PRC, and holds and manages over 500 enterprises, with business covering areas such as electricity, coal, natural gas, petroleum, new energy, energy services, energy finance, energy technology innovation, and high-end energy equipment manufacturing. It is a modern comprehensive energy group with a full range of energy categories. The State-owned Assets Supervision and Administration Commission of Zhejiang Provincial People's Government (浙江省人民政府國有資產監督管理委員會) and Zhejiang Financial Development Co., Ltd. (浙江省財務開發有限責任公司) hold 90% and 10% of the state-owned equity of Zhejiang Provincial Energy Group Co., Ltd., respectively.

Zhejiang Financial Development Co., Ltd. is owned as to 100% by the Department of Finance of Zhejiang Province (浙江省財政廳).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Target Group

The Target Company is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. It is an investment holding company with subsidiaries principally engaged in the coal mining industry. The Target Company indirectly holds 75% equity interest in SDE. SDE is the holder of mining business license in respect of the Target Mines located in Sungai Durian, Kotabaru, South Kalimantan, Indonesia with a total area of approximately 185 square kilometers.

The financial information of the Target Group for the two years ended 31 December 2023 are set out as follows:

	Year ended 31 December	
	2022	**2023**
	(unaudited)	(unaudited)
	(RMB'000)	*(RMB'000)*
Revenue	–	–
Profit/(loss) before taxation	(38,272)	(46,857)
Profit/(loss) after taxation	(38,272)	(47,304)

The unaudited net liabilities value of the Target Group as at 31 December 2023 was approximately RMB175,342,000.

The Target Mines were under construction for most of the last two years. Therefore, no revenue was generated by the Target Group for the two years ended 31 December 2023.

SDE began trial production on coal mining on 18 December 2023. As at 31 May 2024, SDE has produced approximately 0.88 million tonnes of raw coal since the beginning of the trial production. Income shall be generated after the formal operating permit for the pier (which is located at the Target Mines) is obtained.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Purchaser's holding company, a state-owned enterprise that owns national power plants in China, is looking for a stable and affordable source of coal for its power plant in China. Through purchasing the Sale Shares, the Purchaser shall be able to invest in an overseas coal mine with sufficient coal reserves.

The Vendor seeks partial realisation of its investment in SDE in return for cash. The Consideration received by the Vendor shall relieve its financial stress on capital expenditure and loan repayment. By entering into the Coal Supply Agreement, the Vendor will have a stable source of revenue due to continual demand from the Purchaser's stated-owned power plant.

Based on the above, the Board is of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, 95% of the Consideration shall be received by the Vendor on the Completion Date and 5% of the Consideration shall remain in the Escrow Account for two years after the Completion Date. It is expected that the Group's gearing ratio shall be significantly improved upon receipt of the funds.

It is estimated that upon the Completion, the Group will record an estimated unaudited equity account on the Disposal of approximately RMB2,253 million. Such unaudited equity account is estimated based on the consideration receivable from the Disposal of RMB2,950 million, less the non-controlling interest of the Target Group of approximately RMB675 million as at 31 December 2023, the fair value adjustment for imputed interest of the Consideration to be deposited into the Escrow Account of approximately RMB19.6 million, and the estimated expenses (including audit fees, legal fees, valuation fee and competent person fee as a result of the Disposal) of approximately RMB2.4 million.

The estimated unaudited equity account of the Disposal of RMB2,253 million does not refer to the gain or loss on the Disposal in the statement of comprehensive income.

In accordance with International Financial Reporting Standards 10 ("**IFRS 10**"), if the control of a subsidiary is not lost upon the partial disposal of the subsidiary, any difference between the fair value of the consideration received and the carrying amount of the equity interest disposed of is directly recognized in equity. IFRS 10 requires the aforesaid transactions with non-controlling interests to be equity transactions. Therefore, no gain or loss will arise on the Disposal in the statement of comprehensive income.

The above financial impact is shown for illustrative purpose only and the actual financial effect as a result of the Disposal to be recorded by the Company is subject to review by the auditors of the Group and will be assessed after Completion.

INTENDED USE OF PROCEEDS

Upon Completion, the net proceeds of the Disposal received by the Group shall be approximately RMB2,800 million (assuming no downward adjustments are made), excluding the five percent (5%) of the Consideration to be deposited into the Escrow Account and after taking into account the estimated expenses (including audit fees, legal fees, valuation fee and competent person fee as a result of the Disposal) of approximately RMB2.4 million. The Board intends to use (i) approximately 64% of the net proceeds for repayment of debts; (ii) approximately 16% for the general working capital of the Group; (iii) approximately 18% for the capital expenditure of the Group; and (iv) approximately 2% for dividend distribution. The remaining balance, if any, from the Escrow Account to be released to the Vendor shall be used as working capital.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules, and is therefore subject to reporting, announcement and Shareholders' approval requirements thereunder.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder or any of their respective associates has any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder, and as such, no Shareholder would be required to abstain from voting on the relevant resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, further details of the Disposal, together with a notice convening the EGM, is expected to be despatched to the Shareholders on or about 28 June 2024.

Completion of the Disposal is conditional upon satisfaction of the conditions precedent as set out in the section headed "The Sale and Purchase Agreement – Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

"Board"	the board of Directors
"Company"	China Qinfa Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the transactions pursuant to the Sale and Purchase Agreement
"Completion Date"	the seventh business day after the date on which all conditions precedent are satisfied (or waived), or another date as agreed in writing by both the Vendor and the Purchaser
"Consideration"	the total consideration of RMB2,950 million, subject to adjustment, payable by the Purchaser to the Vendor in respect of the Disposal pursuant to the Sale and Purchase Agreement
"Director(s)"	director(s) of the Company
"Disposal"	the proposed disposal of 40% shareholding interest in the Target Company by the Vendor to the Purchaser pursuant to the terms and conditions of the Sale and Purchase Agreement
"EGM"	an extraordinary general meeting of the Company to be held to approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Escrow Account"	the escrow account to be opened by the Vendor, the Purchaser and an escrow agent on or before the Completion Date
"Far Link"	Far Link Development Limited, a company incorporated in Hong Kong and held as to 100% by the Target Company as at the date of this announcement
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Internal Reorganisation"	the reorganisation of the Target Group pursuant to the Sale and Purchase Agreement, comprising the following steps: (i) the incorporation of Far Link; and (ii) the transfer of 1% shareholding interest in QMI and LTI from Qinfa Eternal Success Investment Limited, an indirect wholly-owned subsidiary of the Company, to Far Link, which has been completed as at the date of this announcement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Capitalisation"	the allotment and issue of shares in the capital of the Target Company to the Vendor, capitalising the loan payable by the Target Group to the Vendor in the amount of approximately RMB1.8 billion
"Long Stop Date"	22 December 2024, being 180 days from the signing date of the Sale and Purchase Agreement
"LTI"	PT Lintas Timur Investama, a company established under the laws of Republic of Indonesia, which is held as to 99% and 1% by QMI and Far Link, respectively, as at the date of this announcement
"PRC"	the People's Republic of China
"Purchaser"	Zhejiang Energy International Limited (浙江能源國際有限公司), a company incorporated in Hong Kong with limited liability
"QMI"	PT Qinfa Mining Industri, a company established under the laws of Republic of Indonesia, which is held as to 99% and 1% by the Target Company and Far Link, respectively, as at the date of this announcement
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 25 June 2024 entered into among the Vendor, the Purchaser and the Company as guarantor
"Sale Shares"	such number of shares representing 40% of the total issued shares of the Target Company after completion of the Loan Capitalisation, representing 40% of the total issued shares of the Target Company upon Completion

"SDE"	PT Sumber Daya Energi, a company established under the laws of Republic of Indonesia, which is held indirectly as to 75% by the Target Company as at the date of this announcement
"Share(s)"	the share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Agreement"	the shareholders' agreement dated 25 June 2024 entered into among the Vendor, the Purchaser, the Target Company and the Company in respect of the Target Company, which shall become effective on the Completion Date
"Target Company"	Lead Far Development Limited (力遠發展有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Target Group"	the Target Company and its subsidiaries
"Target Mines"	the coal mines located in Indonesia, the mining rights of which are held by SDE
"Transition Period"	the period from 30 September 2023 to the Completion Date
"Vendor"	Qinfa Investment Limited (秦發投資有限公司), a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
"WM"	PT Widyanusa Mandiri, a company established under the laws of the Republic of Indonesia, which holds 25% equity interest of SDE as at the date of this announcement
"%"	per cent.

By the order of the Board
China Qinfa Group Limited
XU DA
Chairman

Guangzhou, 25 June 2024

As at the date of this announcement, the Board comprises Mr. XU Da, Mr. BAI Tao, Mr. ZHAI Yifeng and Ms. DENG Bingjing as the executive Directors, and Prof. SHA Zhenquan, Mr. JING Dacheng and Mr. HO Ka Yiu Simon as the independent non-executive Directors.

Appendix I – Letter from Moore CPA Limited relating to the Profit Forecast

The following is the text of a report received from Moore CPA Limited for the purpose of incorporation in this announcement.

REPORT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 40% EQUITY INTEREST IN THE TARGET GROUP (AS DEFINED BELOW)

To the Board of Directors of China Qinfa Group Limited

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by BMI Appraisals Limited dated 25 June 2024 in respect of 40% equity interest in Lead Far Development Limited (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") as at 31 December 2023 (the "**Valuation**") is based. The Valuation prepared in connection with the Target Group is set out in the announcement of China Qinfa Group Limited dated 25 June 2024 (the "**Announcement**").The Valuation which is based on the discounted future estimated cash flows are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of China Qinfa Group Limited (the "**Directors**") are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and set out in the Announcement (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements", which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.60A(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with the terms of our engagement letter dated 31 January 2024 and Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,

Moore CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 25 June 2024

Appendix II – Letter from the Board relating to the Profit Forecast

The following is the text of a letter received from the Board for the purpose of incorporation in this announcement.

QINFA

25 June 2024

The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL – DISPOSAL OF 40% INTEREST IN THE TARGET COMPANY

We refer to the announcement of the Company dated 25 June 2024 (the "**Announcement**"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation conducted by BMI Appraisals Limited, an independent valuer. The Valuer conducted an income-based approach valuation (the "**Income Approach Valuation**") of the Target Group, among which the Income Approach Valuation (which is based on the discounted cash flow forecast) is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the bases and assumptions) and have reviewed the Valuation for which the Valuer is responsible. Pursuant to Rule 14.60A of the Listing Rules, we have engaged Moore CPA Limited, the auditor of the Company, to report on whether the discounted future estimated cash flows in connection with the valuation of the Target Group, so far as the calculations are concerned, have been properly compiled, in all material aspects in accordance with the bases and assumptions as set out in the valuation report.

On the basis of the above, we confirm that the Valuation has been made after due and careful enquiry by us.

Yours faithfully,

On behalf of the Board
China Qinfa Group Limited
XU DA
Chairman