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Add New Energy Investment Holdings Group Limited
愛德新能源投資控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02623)

VERY SUBSTANTIAL DISPOSAL
PROPOSED DISPOSAL OF IRON MINE

ASSETS TRANSFER AGREEMENT

The Board hereby announce that on 21 May 2024 (after trading hours), the Vendor (the Company's indirect wholly owned subsidiary) and the Purchaser entered into the Assets Transfer Agreement, pursuant to which the Vendor conditionally agreed to dispose and the Purchaser conditionally agreed to acquire the Subject Assets for the Consideration of RMB314,483,935.40.

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable ratio in respect of the Disposal exceeds 75% under Rule 14.07 of the Listing Rules, the entering into the Assets Transfer Agreement constitutes a very substantial disposal of the Company and is subject to the reporting, announcement, circular and shareholders approval requirements under Chapter 14 of the Listing Rules.

GENERAL

A circular containing, among others, (i) details of the Assets Transfer Agreement, (ii) further information on the Subject Assets, (iii) financial information on the Subject Assets; (iv) pro forma financial information relating to the Disposal, (v) the notice convening the EGM, and (vi) other information as required under the Listing Rules, will be despatched to the Shareholders on or before 12 June 2024 in order to allow sufficient time to prepare the relevant information to be included in the circular.

As the Assets Transfer Agreement is subject to the fulfilment of the condition to the Assets Transfer Agreement set out in the paragraph headed “Condition Precedent” below, the Assets Transfer Agreement may or may not take effect and the Disposal may or may not proceed. Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

ASSETS TRANSFER AGREEMENT

The Board hereby announce that on 21 May 2024 (after trading hours), the Vendor (the Company’s indirect wholly owned subsidiary) and the Purchaser entered into the Assets Transfer Agreement, pursuant to which the Vendor conditionally agreed to dispose and the Purchaser conditionally agreed to acquire the Subject Assets for the Consideration of RMB314,483,935.40.

Date

21 May 2024

Parties

- (i) Shandong Ishine Mining Industry Co., Ltd. as the Vendor
- (ii) 山東丹峨礦業科技有限公司 (Shandong Dane Mining Technology Co., Ltd.*) as the Purchaser

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

Assets to be Disposed

Pursuant to the Assets Transfer Agreement, the Vendor shall transfer the assets including the mining right of Yangzhuang Iron Mine (including the ore processing plant), exploration right of Qinjiazhuang Ilmenite Mine, Yangzhuang Iron Mine production land (including leased and contracted land), buildings, production facilities (which are included in the fixed assets list of Yangzhuang Iron Mine and the ore processing plant).

Consideration

The Consideration for the Disposal is RMB314,483,935.40.

The Consideration was determined on normal commercial terms after arm’s length negotiations between the parties to the Assets Transfer Agreement by reference to the valuation of the business unit of Yangzhuang Iron Mine and related production facilities as at 31

December 2023 by an independent professional valuer at RMB291.9 million. Included in the unaudited financial statements of the Vendor for the year ended 31 December 2023, the unaudited net asset value of the Subject Assets was approximately RMB170.86 million, which included, among others, the mining right of Yangzhuang Iron Mine of approximately RMB67.85 million, other non-current assets (including relevant costs for the exploration right of Qinjiazhuang Ilmenite Mine) of RMB2.55 million, and buildings and facilities of the production line as well as mining facilities etc. of approximately RMB135.85 million after deducting the present value of the consideration payable for the mining right of Yangzhuang Iron Mine of approximately RMB22.39 million, provision for restoration of approximately RMB12.92 million and advanced construction funds from government of approximately RMB0.08 million.

The valuation method adopted by the independent valuer are as follows:

(a) Yangzhuang Iron Mine (including the ore processing plant)

Since the mining rights of Yangzhuang Iron Mine have predictable sustainable operating capabilities and profitability in the future, and the management can provide financial forecasts and meet the conditions for using the income method for evaluation, adoption of the discounted cash flow (“DCF”) is considered appropriate.

The value for the above is estimated at about RMB195,594,000.

(b) Exploration right of Qinjiazhuang Ilmenite Mine

As the future earnings cannot be reliably measured and comparable indicators and technical parameters could not be collected, the exploration rights of Qinjiazhuang Ilmenite Mine have therefore been valued by Exploration Cost-utility Method with reference to their replacement cost and utility coefficient.

The value for the above is estimated at about RMB1,916,000

(c) Yangzhuang Iron Mine production land, buildings, production facilities

Production land and buildings:

Due to the nature of the buildings and structures and their special location, relevant market comparables are not available. Therefore, it is valued with reference to its depreciated replacement cost. The value is approximately RMB57,448,000.

Production facilities:

Due to insufficient existing financial information, the valuer uses cost approach and market approach for valuation. The value is approximately RMB36,958,000.

The total value of Yangzhuang Iron Mine’s production land, buildings and production facilities is approximately RMB94,406,000.

DCF approach

Under a DCF approach, forecast free cash flows (“**FCFs**”) are discounted back to the present date, generating a net present value for the cash flow stream of the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilized level of earnings, or to be reflective of an entire operation cycle for more cyclical industries.

FCFs under a DCF approach is defined as earnings before interest and depreciation and amortization minus required changes in working capital minus required capital expenditures..

The rate at which the future cash flows are discounted (“**the discount rate**”) should reflect not only the time value of money, but also the risk associated with the business’ future operations. The discount rate most generally employed is the weighted average cost of capital, reflecting an optimal as opposed to actual financing structure.

Exploration Cost-utility Method

Due to the nature of the buildings and structures of the property and the particular location in which they are situated, comparable sales in the relevant market are not available. Therefore, property interest are valued by cost by reference to its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Depreciated replacement cost

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Cost approach and market approach

Application of the market approach involves an analysis of the used market to measure the value level of exchanges of comparable property. An estimated amount is added to or deducted from the market price to reflect the difference in condition and utility between the item appraised and its normal used market comparatives.

Where the basis is the cost approach, an estimate is made on the cost of reproduction new or replacement cost, less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear, and obsolescence, taking into consideration past and present maintenance policy, and rebuilding history, if any, and current utilization.

Cost of replacement new is the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets taking into consideration current prices of materials, manufactured equipment, labour, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition, but without provision for overtime or bonuses for labour and premium for materials.

The valuation under a DCF approach is regarded as a profit forecast under Rule 14.61 of the Listing Rules, and a further announcement in respect of the profit forecast will be published by the Company in accordance with Rule 14.60A within 15 business days after publication of this announcement.

The Consideration for the Disposal is RMB314,483,935.40, which will be settled / applied as follows:

1. the Purchaser shall settle the first payment of the purchase price of RMB50 million to the Vendor within 10 Business Days upon signing of the Assets Transfer Agreement;
2. the Purchaser shall pay the transfer price of RMB100 million to the Vendor within 10 Business Days after the Transfer Reference Date; and
3. the Purchaser shall pay the remaining amount to the Vendor within 10 Business Days upon completion of transfer of all Subject Assets, and the registration of transfer of the mining right and fixed assets; pursuant to the agreement for payment of renewal fee for the mining permit for Yangzhuang Iron Mine by instalments (the “**Instalment Payment Agreement**”) dated 3 August 2020 entered into between the Vendor and the PRC relevant authorities, as at the Transfer Reference Date (as defined below), the outstanding amount would be RMB25 million, the parties agreed that the Purchaser shall undertake the payment obligation, upon obtaining the approval on the change of payment obligation from the governmental authorities, such amount shall be deducted from the aggregate amount payable by the Purchaser. If the change of payment obligation is not approved by the governmental authorities, then the Purchaser shall pay the agreed price and the Vendor shall pay the renewal fee of the mining right in a lump sum.

Pursuant to the Instalment Payment Agreement, the Vendor shall pay an aggregate consideration of RMB70,466,000 for the renewal of mining right for Yangzhuang Iron Mine. As at the date of this announcement, the Vendor had paid RMB45,466,000, which had been recognized as prepayments for renewal of mining right. The remaining amount of RMB25,000,000 will be payable in five instalments from 2024 to 2028. The new mining permit for Yangzhuang Iron Mine has been issued by the relevant authorities in August 2023. Environmental assessment report has been submitted to the relevant competent authorities for approval of the safety production permit which is under the process of approval by the relevant competent authorities.

Condition Precedent

Completion of the Assets Transfer Agreement is subject to the approval of the Shareholders at the EGM for the Assets Transfer Agreement and the transactions to be contemplated thereunder. Such condition cannot be waived.

The above condition precedent shall be fulfilled within 60 days after the date of the Assets Transfer Agreement, and otherwise the Assets Transfer Agreement shall lapse and be terminated, and the Vendor shall refund the Consideration paid to the Purchaser.

Completion

Completion is subject to the satisfaction of the condition precedent under the Assets Transfer Agreement.

The Vendor and the Purchaser agreed that the day following the satisfaction of the condition precedent above shall be the transfer reference date (the “**Transfer Reference Date**”).

Upon completion of the transfer of the Subject Assets, the Purchaser has all rights and obligations to the transferred assets, and the Vendor is no longer has any rights and obligations thereunder. Regardless of whether the transfer registration of the Subject Assets is completed or not, it will not affect the delimitation of the rights and obligations of the parties to the Subject Assets on the Transfer Reference Date.

Information on the Subject Assets

The Subject Assets are owned by Shandong Ishine. Shandong Ishine is a limited liability company incorporated in the PRC, principally engaged in iron ore mining, processing and sales of iron ore concentrate in the PRC, and is renewing the mining rights of Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite located in the Shandong Province, the PRC.

The following are the financial summary of the Subject Assets for the two financial years ended 31 December 2023:

	For the year ended 31 December	
	2022	2023
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit before taxation	14,547	45,495
Profit after taxation	14,547	45,495

According to the unaudited management accounts of Shandong Ishine as at 31 December 2023, the total assets, total relevant liabilities and net asset value of the Subject Assets are RMB206.25 million, RMB35.39 million and RMB170.86 million respectively.

The total assets of the Subject Assets as at 31 December 2023 mainly included the mining right of Yangzhuang Iron Mine of RMB67.85 million, other non-current assets (including relevant costs for the exploration right of Qinjiazhuang Ilmenite Mine) of RMB2.55 million, and the buildings and facilities of the production line as well as mining facilities etc. of approximately RMB135.85 million. The total relevant liabilities included the present value of the consideration payable for the mining right of Yangzhuang Iron Mine of approximately RMB22.39 million, the recovery provisions of approximately RMB12.92 million and government advance project fund of approximately RMB0.08 million.

Financial Effects on the Disposal

Based on the net proceeds from the Disposal of approximately RMB289.48 million and the projection according to the net assets value of the Subject Assets as at 31 December 2023, the Company is expected to record a gain on disposal of approximately RMB118.62 million following the Disposal. In addition, the accounting treatment of the actual gains or losses recorded as a result of the Disposal are subject to the review and will be assessed upon completion of the Disposal.

Reasons and Benefits for the Assets Transfer Agreement

Since the suspension of production of the Yangzhuang Iron Mine in October 2015, Shandong Ishine had to pay for the maintenance of the Subject Assets, and the Subject Assets only generated income from the processing production line, and the mine was struggling to operate. As at the date of this announcement, the retained reserves of Yangzhuang Iron Mine are approximately 37.1 million tonnes.

The net proceeds from the Disposal is approximately RMB289 million, the Company intends to utilize the proceeds to invest in Zhuge Shangyu Ilmenite Mine owned by Shandong Ishine as a major strategy of the Group to increase the scales of mining and infrastructure of the production line of Zhuge Shangyu Ilmenite Mine, to provide better economic benefits to the Shareholders in the production of ilmenite.

The Board considers that the Disposal is in line with the Group's strategy of focusing on Zhuge Shangyu Ilmenite Mine. In addition, the Board considers that the Disposal provides a good opportunity for the Company to (i) improve the financial position of the Group, and (ii) to realise its investments in the Subject Assets in a timely manner.

The terms of the Assets Transfer Agreement are arrived at after arm's length negotiation between the Vendor and the Purchaser. In view of the above, particularly the Consideration represents (i) a premium of approximately 110% to the net asset value of the Subject Assets, and (ii) a premium of approximately 7.74% to the valuation of the Subject Assets as at 31 December 2023, the Directors (including the independent non-executive Directors) are of the view that the terms and condition of the Assets Transfer Agreement (including the Consideration) are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Save for the Disposal, the Company currently does not have any plan to further dispose its existing business or asset or acquire any new business in the future.

Upon completion of the Disposal, the Group also has trading of semi-coke, blended coal, coke, iron ore concentrate, iron ore concentrate raw ore deep processing, as well as lithium ore and other ore deep processing and trading businesses.

Hami Xinxing Tianshan Logistics Co., Ltd. is a wholly-owned subsidiary of the Group. It is a company principally engaged in the trade of coal and coal products, foreign mineral trade, multimodal transport and transportation agency. In 2023, the coal and coal product trading business achieved an operating income of RMB939.313 million and a net profit of RMB25.494 million.

Shandong Shengtai Mining Technology Company Limited is a wholly-owned subsidiary of the Group. It is a company principally engaged in the non-ferrous metal mining and processing industry. In 2023, 773,000 tons of Brazilian coarse powder has been processed and 546,900 tons of iron concentrate has been produced, with operating income of RMB100.305 million and gross profit of RMB28.818 million.

The Group possesses mining rights in respect of Zhuge Shangyu Ilmenite Mine, an ilmenite and magnetite mine located in Yishui Country, Shandong Province, the PRC. The Group owns the exploration right over Gaozhuang Shangyu Ilmenite project, an ilmenite ore project located in Shangyu District, Yishui County, Shandong Province, the PRC.

Information on the parties

The Company is an exempted company incorporated under the laws of the Cayman Islands with limited liability whose shares are listed on the Stock Exchange. The principal activities of the Group are iron ore and ilmenite ore exploration, mining and processing as well as trading of iron concentrates and other minerals in the Shandong Province, the PRC.

Shandong Ishine is a limited liability company incorporated in the PRC, principally engaged in iron ore mining, processing and sales of iron ore concentrate in the PRC, and owns the mining right of Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite located in the Shandong Province, the PRC.

Information on the Purchaser

山東丹峨礦業科技有限公司 (Shandong Dane Mining Technology Co., Ltd.*) is a limited liability company incorporated in the PRC which is authorized to carrying on business in non-coal resources mining and exploration of mineral resources.

The Purchaser is held as to 80% by 沂水晉璋貿易有限公司 (Yishui Jinzhang Trading Co., Ltd.*), and 20% by 臨沂料料順貿易有限公司 (Linyi Liao Liao Shun Trading Co., Ltd.*). 沂水晉璋貿易有限公司 (Yishui Jinzhang Trading Co., Ltd.*) is wholly-owned by Mr. Wang Zhongliang (王忠亮). 臨沂料料順貿易有限公司 (Linyi Liao Liao Shun Trading Co., Ltd.*) is owned as to 90% by Mr. Zhang Ximin (張希民) and 10% by Ms. Zhang Ping (張萍).

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

LISTING RULES IMPLICATION

As one of the applicable ratio in respect of the Disposal exceeds 75% under Rule 14.07 of the Listing Rules, the entering into the Assets Transfer Agreement constitutes a very substantial disposal of the Company and is subject to the reporting, announcement, circular and shareholders approval requirements under Chapter 14 of the Listing Rules.

GENERAL

A circular containing, among others, (i) details of the Assets Transfer Agreement, (ii) further information on the Subject Assets, (iii) financial information on the Subject Assets; (iv) pro forma financial information relating to the Disposal, (v) the notice convening the EGM, and (vi) other information as required under the Listing Rules will be despatched to the Shareholders on or before 12 June 2024 in order to allow sufficient time to prepare the relevant information to be included in the circular.

As the Assets Transfer Agreement is subject to the fulfilment of the condition to the Assets Transfer Agreement set out in the paragraph headed “Conditions Precedent” below, the Assets Transfer Agreement may or may not take effect and the Disposal may or may not proceed. Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITION

In this announcement, unless the context otherwise requires, capitalized terms used herein shall have the following meanings:

“Assets Transfer Agreement”	The assets transfer agreement entered into between 山東丹峨礦業科技有限公司 (Shandong Dane Mining Technology Co., Ltd.*) as purchaser on 21 May 2024 relating to the transfer of the Subject Assets
“Board”	the board of Directors
“Business Day(s)”	a day on which banks are generally open for business in the PRC, other than Saturday, Sunday and public holidays
“Company”	Add New Energy Investment Holdings Group Limited, a limited liability company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (stock code: 2623)
“Completion”	completion of the Disposal pursuant to the Assets Transfer Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Disposal in the aggregate amount of RMB314,483,935.40
“Disposal”	the transfer of the Subject Assets by the Vendor to the Purchaser pursuant to the Assets Transfer Agreement
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held convened to consider and approve, if thought fit, the Assets Transfer Agreement and the transactions to be contemplated thereunder
“Hong Kong”	the Hong Kong special administrative region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China (for the purpose of this announcement, exclude Hong Kong, Macau special administrative region of the PRC and Taiwan)

“Purchaser”	山東丹峨礦業科技有限公司 (Shandong Dane Mining Technology Co., Ltd.*) is a limited liability company incorporated in the PRC which is authorized to carrying on business in non-coal resources mining and exploration of mineral resources.
“Share(s)”	ordinary share(s) of par value of HK\$0.04 each in the share capital of the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Assets”	the assets including the mining right of Yangzhuang Iron Mine (including the ore processing plant), exploration right of Qinjiazhuang Ilmenite Mine, Yangzhuang Iron Mine production land (including leased and contracted land), buildings, production facilities (which are included in the fixed assets list of Yangzhuang Iron Mine and the ore processing plant).
“Vendor” or “Shandong Ishine”	Shandong Ishine Mining Industry Co., Ltd., a limited liability company incorporated in the PRC and being an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	the percentage

By order of the Board
Add New Energy Investment Holdings Group Limited
Li Yunde
Chairman

Hong Kong, 21 May 2024

As at the date of this announcement, the executive Directors are Mr. Li Yunde (Chairman), Mr. Geng Guohua (Chief Executive Officer) and Mr. Lang Weiguo; the independent non-executive Directors are Mr. Leung Nga Tat, Mr. Zhang Jingsheng and Mr. Li Xiaoyang.

** English translation for identification purpose only*