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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)

PROFIT FORECAST IN RELATION TO THE VERY SUBSTANTIAL DISPOSAL FOR THE PROPOSED DISPOSAL OF IRON MINE

Reference is made to the announcement of Add New Energy Investment Holdings Group Limited (the “**Company**”) dated 21 May 2024 relating to the Assets Transfer Agreement (the “**Announcement**”). Unless otherwise stated, capitalized terms used herein shall have the same meanings as those defined in the Announcement.

Pursuant to the valuation provided by the independent professional valuer, the value of the mining right of Yangzhuang Iron Mine was appraised using the income approach, which involved the DCF method as a primary methodology, and thus the valuation of the mining right of Yangzhuang Iron Mine under a DCF approach is regarded as a profit forecast under Rule 14.61 of the Listing Rules (“**Profit Forecast**”). Details of the principal assumption, including commercial assumption on which the Profit Forecast are made, are set out as below:

The key, specific assumptions underlying the financial projections

- **Overall forecasting:**

Based on JORC (2012) compliant Resources & Reserves update issued by the third party Law&Godfrey on Yangzhuang Iron Mine’s current operating status, business plans and development strategies, as well as our research on the industry and market, we believe that the Yangzhuang Iron Mine has a predictable capacity of sustainable operation and making profits for the foreseeable future, hence, income approach is applicable to the mining right of Yangzhuang Iron Mine. And according to the Yangzhuang Iron Mine mining certificate, we understand that the mining right will expire in 2033, therefore, the forecasting period end in 2033.

Discounted cash flow analysis as at 31 December 2023

In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Receipt of Revenue	461,550	454,950	453,550	460,750	474,950	481,350	488,950	482,950	455,950	472,950
<i>growth rate</i>		(1.4)%	(0.3)%	1.6%	3.1%	1.3%	1.6%	(1.2)%	(5.6)%	3.7%
Payment of Direct costs (excluding depreciation and amortisation)	(239,086)	(236,660)	(234,646)	(233,378)	(273,530)	(282,904)	(281,210)	(273,000)	(272,240)	(310,300)
Gross margin <i>as a % of revenue</i>	222,464 48.2%	218,290 48.0%	218,904 48.3%	227,372 49.3%	201,420 42.4%	198,446 41.2%	207,740 42.5%	209,950 43.5%	183,710 40.3%	162,650 34.4%
Payment of Operating expenses (excluding depreciation and amortisation)	(67,500)	(67,500)	(67,500)	(67,500)	(67,500)	(67,500)	(67,500)	(67,500)	(67,500)	(67,500)
Earning before interest, tax, depreciation and amortisation (EBITDA) <i>as a % of revenue</i>	154,964 33.6%	150,790 33.1%	151,404 33.4%	159,872 34.7%	133,920 28.2%	130,946 27.2%	140,240 28.7%	142,450 29.5%	116,210 25.5%	95,150 20.1%
Income tax paid	(40,819)	(39,775)	(39,929)	(42,046)	(35,558)	(34,814)	(37,138)	(37,690)	(31,130)	(25,865)
After-tax operating net cash flows <i>as a % of revenue</i>	114,146 24.7%	111,015 24.4%	111,476 24.6%	117,827 25.6%	98,363 20.7%	96,132 20.0%	103,103 21.1%	104,760 21.7%	85,080 18.7%	69,285 14.6%
Payment of Capital expenditures	—	—	(311,382)	—	5,060	(378,382)	—	—	—	13,000
After-tax cash flow	<u>114,146</u>	<u>111,015</u>	<u>(199,906)</u>	<u>117,827</u>	<u>103,423</u>	<u>(282,250)</u>	<u>103,103</u>	<u>104,760</u>	<u>85,080</u>	<u>82,285</u>

- **Forecasting rationale and details:**

- Revenue growth rates

Forecasting revenue including 2 parts, Own production and contract processing, the growth rate among the forecasting period ranges from (5.6)% to 3.7%.

The production volume is planned to be stable each year. The selling price are determined by reference to the recent selling price of concentrates produced from the iron ores, taking into account future selling price fluctuation based on historical mineral price changes.

Revenue breakdown										
In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Own production										
Production of iron concentrate (thousand tons)	330	330	330	330	330	330	330	330	330	330
Unit sales price (CNY)	<u>920</u>	<u>900</u>	<u>896</u>	<u>918</u>	<u>961</u>	<u>980</u>	<u>1,003</u>	<u>985</u>	<u>903</u>	<u>955</u>
Subtotal	303,600	297,000	295,600	302,800	317,000	323,400	331,000	325,000	298,000	315,000
Contract processing										
Processing volume (thousand tons)	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350
Processing fee unit revenue (CNY)	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>
Subtotal	157,950	157,950	157,950	157,950	157,950	157,950	157,950	157,950	157,950	157,950
Total revenue	461,550	454,950	453,550	460,750	474,950	481,350	488,950	482,950	455,950	472,950
<i>growth rate</i>		<i>(1.4)%</i>	<i>(0.3)%</i>	<i>1.6%</i>	<i>3.1%</i>	<i>1.3%</i>	<i>1.6%</i>	<i>(1.2)%</i>	<i>(5.6)%</i>	<i>3.7%</i>

- Gross margin or EBITDA margins

The gross margin among the forecasting period ranges from 34.4% to 49.3%.

Given the stability of volume of production and processing, relevant cash costs are expected to be stable at a level determined based on past operating experience. The cost of production increased starting from 2028 considering increasing complexity when the mining activities move forward.

Operating expenses are mainly freight charges, the EBITDA margin among the forecasting period ranges from 20.1% to 34.7%.

Freight charges are expected to be stable as annual volume of production and processing remained unchanged during the forecast period. EBITDA margin substantially decreased starting from 2028 due to expected increasing direct costs as discussed above.

– Direct costs (excluding depreciation and amortisation)

Direct costs breakdown										
In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Own production	198,250	195,890	193,890	192,550	232,560	241,870	240,100	231,950	231,460	269,350
Contract processing										
Processing volume (thousand tons)	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350
Processing fee unit cost (CNY)	28	28	28	28	28	28	28	28	28	28
Subtotal	37,800	37,800	37,800	37,800	37,800	37,800	37,800	37,800	37,800	37,800
Total Direct costs	236,050	233,690	231,690	230,350	270,360	279,670	277,900	269,750	269,260	307,150
<i>as a % of revenue</i>	<i>51.1%</i>	<i>51.4%</i>	<i>51.1%</i>	<i>50.0%</i>	<i>56.9%</i>	<i>58.1%</i>	<i>56.8%</i>	<i>55.9%</i>	<i>59.1%</i>	<i>64.9%</i>

– Gross margin

Gross margin breakdown										
In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Own production										
Revenue	303,600	297,000	295,600	302,800	317,000	323,400	331,000	325,000	298,000	315,000
Tax and surcharges <i>1.0%</i>	(3,036)	(2,970)	(2,956)	(3,028)	(3,170)	(3,234)	(3,310)	(3,250)	(2,980)	(3,150)
Direct costs	<u>(198,250)</u>	<u>(195,890)</u>	<u>(193,890)</u>	<u>(192,550)</u>	<u>(232,560)</u>	<u>(241,870)</u>	<u>(240,100)</u>	<u>(231,950)</u>	<u>(231,460)</u>	<u>(269,350)</u>
Subtotal	102,314	98,140	98,754	107,222	81,270	78,296	87,590	89,800	63,560	42,500
Contract processing										
Revenue	157,950	157,950	157,950	157,950	157,950	157,950	157,950	157,950	157,950	157,950
Direct costs	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>	<u>(37,800)</u>
Subtotal	120,150	120,150	120,150	120,150	120,150	120,150	120,150	120,150	120,150	120,150
Total gross margin	222,464	218,290	218,904	227,372	201,420	198,446	207,740	209,950	183,710	162,650
<i>as a % of revenue</i>	<i>48.2%</i>	<i>48.0%</i>	<i>48.3%</i>	<i>49.3%</i>	<i>42.4%</i>	<i>41.2%</i>	<i>42.5%</i>	<i>43.5%</i>	<i>40.3%</i>	<i>34.4%</i>

– Operating expenses (excluding depreciation and amortisation)

Operating expenses breakdown

In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Freight	67,500	67,500	67,500	67,500	67,500	67,500	67,500	67,500	67,500	67,500
<i>as a % of revenue</i>	14.6%	14.8%	14.9%	14.7%	14.2%	14.0%	13.8%	14.0%	14.8%	14.3%

– EBITDA

EBITDA

In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Own production										
Subtotal	102,314	98,140	98,754	107,222	81,270	78,296	87,590	89,800	63,560	42,500
Contract processing										
Gross margin	120,150	120,150	120,150	120,150	120,150	120,150	120,150	120,150	120,150	120,150
Operating expenses	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>	<u>(67,500)</u>
Subtotal	52,650	52,650	52,650	52,650	52,650	52,650	52,650	52,650	52,650	52,650
Total EBITDA	154,964	150,790	151,404	159,872	133,920	130,946	140,240	142,450	116,210	95,150
<i>EBITDA margin</i>	33.6%	33.1%	33.4%	34.7%	28.2%	27.2%	28.7%	29.5%	25.5%	20.1%

– Capex

Capex contains fixed assets disposal value, investment in tangible and intangible assets. The Capex as the % of revenue among the forecasting period ranges from (2.7)% to 78.6%.

Capex includes mainly 2 tranches of large-scale maintenance works expected to be carried out in 2026 and 2029 to retain the production and processing facilities at their designated capacity.

Capex In CNY 000's	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Recovery of residual value of fixed assets	-	-	-	-	(5,060)	-	-	-	-	(13,000)
Investments in intangible assets	-	-	5,906	-	-	11,812	-	-	-	-
Investments in fixed assets	-	-	305,476	-	-	366,571	-	-	-	-
Total capex	-	-	311,382	-	(5,060)	378,382	-	-	-	(13,000)
<i>as a % of revenue</i>	-	-	<i>68.7%</i>	-	<i>(1.1)%</i>	<i>78.6%</i>	-	-	-	<i>(2.7)%</i>

Review by the auditor

Crowe (HK) CPA Limited, the auditor of the Company, has been engaged in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 500, *Reporting on Profit Forecasts, Statement of Sufficiency of Working Capital and Statements of Indebtedness* with reference to the Hong Kong Standard on Assurance Engagement 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the Hong Kong Institute of Certified Public Accountants to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Directors have properly compiled the Profit Forecast in accordance with the bases and assumptions adopted by the Directors and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

A letter from the Auditor in compliance with Rule 14.61(2) of the Listing Rules and a letter from the Board in compliance with Rule 14.61(3) of the Listing Rules are included in the appendices to this announcement.

The following are the qualifications of the experts whose opinions and advice are included in this announcement:

Name	Qualification
Crowe (HK) CPA Limited	Certified Public Accountant
King Kee Appraisal and Advisory Limited	Independent valuer

As at the date of this announcement, as far as the Directors are aware, neither of the above experts had any direct or indirect shareholdings in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this announcement with the inclusion therein of its letter, report or opinion (as the case may be) and reference to its name in the form and context in which they respectively appear.

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

Hong Kong, 12 June 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, Mr. Li Xiaoyang and Ms. Cheng Shuk Teh Esther.

APPENDIX I – LETTER FROM THE AUDITOR

The following is the text of a report received from the Auditor, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong, for inclusion in this announcement.

12 June 2024

The Board of Directors
Add New Energy Investment Holdings Group Limited
Suite 3105, 31/F, Tower 6, The Gateway
Harbour City, 9 Canton Road
Tsim Sha Tsui
Hong Kong

Dear Sirs

**Add New Energy Investment Holdings Group Limited (the “Company”)
and its subsidiaries (collectively, the “Group”)**

**Profit Forecast attributable to the Mining Right of Yangzhuang Iron Mine
for the Period from 1 January 2024 to 31 December 2033**

We refer to the forecast of the profit attributable to the mining right of Yangzhuang Iron Mine for the period from 1 January 2024 to 31 December 2033 (the “**Profit Forecast**”) set forth in the announcement of the Company dated 12 June 2024 (the “**Announcement**”) in connection with the Group’s proposed disposal of the assets, including the mining right of Yangzhuang Iron Mine (including the ore processing plant), exploration right of Qinjiazhuang Ilmenite Mine, and the related production land (including leased and contracted land), buildings and production facilities of Yangzhuang Iron Mine.

Directors’ Responsibilities

The Profit Forecast has been prepared by the directors of the Company based on a forecast of the results attributable to the mining right of Yangzhuang Iron Mine for the period from 1 January 2024 to 31 December 2033. The Company’s directors are solely responsible for the Profit Forecast.

Our 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 (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The 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 Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Forecast based on our procedures.

We conducted our engagement in accordance with the terms of our engagement letter dated 21 May 2024 and Hong Kong Standard on Investment Circular Reporting Engagement 500, *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to Hong Kong Standard on Assurance Engagement 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Forecast in accordance with the bases and assumptions adopted by the directors and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the 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.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions adopted by the directors as set out in the Announcement and is present on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2023.

Yours faithfully
For and on behalf of
Crowe (HK) CPA Limited

Leung Chun Wa
Partner

**APPENDIX II – LETTER FROM THE BOARD IN RELATION
TO THE PROFIT FORECAST**

12 June 2024

Hong Kong Exchanges and Clearing Limited
12/F., Two Exchange Square
8 Connaught Place
Central, Hong Kong

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
FOR THE PROPOSED DISPOSAL OF IRON MINE**

We refer to the announcements of Add New Energy Investment Holdings Group Limited (the “**Company**”) dated 21 May 2024 and 12 June 2024 (the “**Announcements**”) in relation to the captioned matter and the valuation dated 23 March 2024 (the “**Valuation**”) prepared by King Kee Appraisal and Advisory Limited (“**Valuer**”) in relation to the valuation of the Yangzhuang Iron Mine.

We understand that the Valuer prepared the Valuation of mining right of Yangzhuang Iron Mine based on the discounted cash flow method, and constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Unless otherwise stated, capitalized terms used in this letter shall have the same meanings as those defined in the Announcements.

We have reviewed and discussed the bases and assumptions upon which the valuation of the mining right of Yangzhuang Iron Mine has been made with the Valuer, and reviewed the valuation for which the Valuer is responsible. We have also considered the letter from Crowe (HK) CPA Limited dated 12 June 2024 regarding whether the future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions set out in the Valuation.

We have noted that the future estimated cash flows do not involve the adoption of accounting policy. On the basis of the foregoing, we are satisfied that the forecast included in the Valuation and the preliminary valuation therein prepared by the Valuer has been made after due and careful enquiry.

This letter is for the sole purpose of Rule 14.61(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with this letter.

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