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## **Perennial Energy Holdings Limited**

**久泰邦達能源控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2798)**

### **MAJOR TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF THE MINING BUSINESS AT THE XIEJIAHEGOU UNDERGROUND COAL MINE IN GUIZHOU PROVINCE**

#### **THE PROPOSED ACQUISITION**

On 4 November 2019 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Vendor 1, pursuant to which the Purchaser has conditionally agreed to purchase, and Vendor 1 has conditionally agreed to sell and procure Vendor 2 to sell, the Target Business at the Consideration of RMB1,100 million.

Pursuant to the Acquisition Agreement, Vendor 1 guarantees to the Purchaser that each of the FY2020 Audited NP, FY2021 Audited NP and FY2022 Audited NP shall not be less than the Benchmark Profit (i.e. RMB150 million).

In the event where any of the FY2020 Audited NP, FY2021 Audited NP or FY2022 Audited NP is less than the Benchmark Profit, Vendor 1 shall pay compensation(s) to the Purchaser, subject to an overall cap of RMB300 million. Likewise, in the event where any of the FY2020 Audited NP, FY2021 Audited NP or FY2022 Audited NP is greater than the Benchmark Profit, the Purchaser shall pay bonus(es) to Vendor 1, subject to an overall cap of RMB300 million.

For the avoidance of doubt, the minimum and maximum amount payable by the Purchaser to Vendor 1 under the Acquisition Agreement (i.e. the Consideration plus Bonus minus Compensation) shall be RMB800 million and RMB1,400 million, respectively.

The Target Business is principally engaged in the business of exploration and mining of coking coal. It operates an underground coal mine in the Panxian Coalfield in Panzhou City, Guizhou Province, the PRC, namely, the Target Mine, with an annual production capacity of 450,000 tonnes. As at 30 September 2019, the Target Mine has Probable Reserves of 10.93 Mt, while its Indicated Resources and Inferred Resources are 16.82 Mt and 10.35 Mt, respectively.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are more than 25% while all applicable percentage ratios are less than 100%, the Proposed Acquisition constitutes a major transaction for the Company and is subject to the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, as at the date of this announcement, neither the Vendors nor any of their associates hold any Shares. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Proposed Acquisition, written shareholders' approval will be accepted in lieu of the general meeting on the condition that the accountants' report of the Target Business contains no qualified opinion by the reporting accountants pursuant to Rules 14.44 and 14.86 of the Listing Rules. Otherwise, the Company will convene a general meeting for the Shareholders to consider and, if thought fit, to pass the resolutions to approve the Proposed Acquisition. The Company intends to seek a written Shareholder's approval from Spring Snow, holding approximately 67.5% of the issued share capital of the Company as at the date of this announcement, to approve the Proposed Acquisition. The Company will make further announcement(s) in relation to the status of obtaining the aforementioned written Shareholder's approval.

## GENERAL

A circular containing, among other things, (i) the major terms of the Transfer Agreements; (ii) further details of the Target Business (including the Target Assets, Target Mine and Target Property); (iii) the financial information of the Target Business; (iv) unaudited pro forma financial information of the Enlarged Group; (v) the valuation report of the Target Business; (vi) a competent person's report on the Target Mine; and (vii) such other information as required under the Listing Rules shall be despatched to the Shareholders within 15 business days after the publication of this announcement (i.e. on or before 26 November 2019).

**As completion of the Proposed Acquisition is subject to satisfaction and/or waiver of a number of Conditions Precedent, the Proposed Acquisition may or may not proceed. Shareholders and investors should exercise caution when dealing in the Shares.**

## INTRODUCTION

The Board is pleased to announce that, on 4 November 2019 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Vendor 1, pursuant to which the Purchaser has conditionally agreed to purchase, and Vendor 1 has conditionally agreed to sell and procure Vendor 2 to sell, the Target Business at the Consideration of RMB1,100 million.

## **THE PROPOSED ACQUISITION**

### **1. The Acquisition Agreement**

Details of the Acquisition Agreement are set out below:

#### **Date**

4 November 2019

#### **Parties**

- (1) The Purchaser
- (2) Vendor 1, the sole operator and beneficial owner of the Target Mine

#### **Assets to be acquired**

The Purchaser has conditionally agreed to purchase, and Vendor 1 has conditionally agreed to sell and procure Vendor 2 to sell, the Target Business. Please refer to the paragraph headed “Information on the Target Business” in this announcement for further details.

#### **Individual transfer agreements**

Pursuant to the Acquisition Agreement, the Purchaser and Vendor 1 shall, and Vendor 1 shall procure Vendor 2 to, enter into individual transfer agreements, namely, the Property Transfer Agreement, the Assets Transfer Agreement and the Mining Right Transfer Agreement in relation to the transfer of the Target Property, the Target Assets and the mining right of the Target Mine, respectively. In case of ambiguities or provisions not specifically provided in the aforementioned individual transfer agreements, the terms and conditions of the Acquisition Agreement shall also apply to the aforementioned individual transfer agreements. Please refer to the paragraphs headed “The Proposed Acquisition – 2. The Property Transfer Agreement”, “The Proposed Acquisition – 3. The Assets Transfer Agreement” and “The Proposed Acquisition – 4. The Mining Right Transfer Agreement” in this announcement for further details.

#### **Consideration for the Proposed Acquisition**

The Consideration for the Proposed Acquisition is RMB1,100 million.

The Consideration shall be satisfied by the Purchaser to Vendor 1 in the following manner:

- (1) RMB110 million (equivalent to 10% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days from the date of the Acquisition Agreement;
- (2) RMB55 million (equivalent to 5% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days from the Completion Date;
- (3) RMB395 million (equivalent to approximately 35.9% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days from the date when the Post-Completion Matter (i) and (iv) below have been completed and the safety production permit, licence for water drawing, pollution discharging licence and licence for explosion work in relation to the Target Mine's operations have either been transferred to the Purchaser or registered in the name of the Purchaser;
- (4) RMB180 million (equivalent to approximately 16.4% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days upon the issue of the FY2020 Audited Report (Target Business) (the "**4th Instalment Payment Date**");
- (5) RMB180 million (equivalent to approximately 16.4% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days upon the issue of the FY2021 Audited Report (Target Business) (the "**5th Instalment Payment Date**"); and
- (6) RMB180 million (equivalent to approximately 16.4% of the Consideration) shall be payable by the Purchaser to Vendor 1 within 20 business days upon the issue of the FY2022 Audited Report (Target Business) (the "**6th Instalment Payment Date**").

The Group intends to finance the Proposed Acquisition partly by internal resources of the Group and partly through borrowings from independent third party(ies).

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors and are on normal commercial terms, with reference to, among other things, the preliminary valuation of the Target Business of approximately RMB1.1 billion as at 30 September 2019 determined by the Valuer, by way of income approach.

## Conditions Precedent to the Proposed Acquisition

Completion is conditional upon the following conditions having been fulfilled or waived (as the case may be):

- (a) completion of the due diligence review on the Target Mine, its operations and management to the satisfaction of the Purchaser;
- (b) Vendor 1 has obtained all compliance certificates or certificates of no penalty in relation to historical non-compliance incidents of the Target Mine as identified in the due diligence on the Target Business conducted by the Purchaser, if required;
- (c) Vendor 1 has assisted the Purchaser to obtain all necessary confirmations from relevant government authorities in relation to the Purchaser's right to use the Target Property;
- (d) the Purchaser has obtained all necessary approvals in relation to the Acquisition Agreement, including the approval of the transactions contemplated by the Acquisition Agreement by the Shareholders (being a shareholder or a closely allied group of shareholders who together hold more than 50% of the voting rights at a general meeting of the Company to approve the Proposed Acquisition if such general meeting were to be convened) having been granted by way of written shareholders' approval in accordance with the requirements of Rule 14.44 of the Listing Rules or by the Shareholders at a general meeting in compliance with the requirements of the Listing Rules and the Company has continued to comply with the Listing Rules and all applicable laws and regulations;
- (e) the Company has published the circular in relation to the Proposed Acquisition in accordance with the Listing Rules;
- (f) Vendor 1 has provided documents evidencing the payment of tax in relation to the Proposed Acquisition;
- (g) all necessary approvals for the Target Mine to expand its annual production capacity to 450,000 tonnes have been obtained;
- (h) Vendor 1 has assisted the Purchaser in handling the transfer of mining right licence procedures and has obtained the acceptance receipt issued by the Natural Resources Department of Guizhou Province\* (貴州省自然資源廳);
- (i) the PRC legal advisers of the Purchaser has issued a legal opinion on the Proposed Acquisition confirming that there will be no legal impediments for the Purchaser to obtain the necessary approvals in relation to the transfer of the mining right licence for the Target Mine, the Target Property and the Target Assets;
- (j) all permits and approvals in relation to the operations of the Target Mine remain legally valid as at Completion; and

- (k) the representations and warranties provided by Vendor 1 under the Acquisition Agreement remaining true and accurate and not misleading as at Completion.

The Purchaser has the right to waive any of the above Conditions Precedent in part or in full, except Conditions Precedent numbered (d) and (e) above which cannot be waived.

In the event that any of the above conditions is not fulfilled (or as the case may be, waived by the Purchaser) on or before 1 January 2020:

- (i) if Conditions Precedent numbered (d) and (e) above are not fulfilled on or before 1 January 2020, the Purchaser and Vendor 1 may negotiate to postpone the Completion Date to a date not later than 30 June 2020; or
- (ii) the Purchaser, after taking into consideration of the relevant circumstances, may waive such Conditions Precedent and proceed to Completion on 1 January 2020; or
- (iii) the Purchaser may terminate the Acquisition Agreement. Upon termination, (a) Vendor 1 shall reimburse the Purchaser for such part of Consideration which has already been paid by the Purchaser to Vendor 1 pursuant to the Acquisition Agreement, together with interest calculated at prevailing bank interest rates; and (b) the Purchaser has the right to require Vendor 1 to compensate the Purchaser for all costs incurred by the Purchaser in connection with the Proposed Acquisition.

The Directors confirm that as at the date of this announcement, none of the above Conditions Precedent have been fulfilled and the Company has no intention to waive any of the above Conditions Precedent.

## **Completion**

Upon the fulfilment or waiver of all of the Conditions Precedent set out in the Acquisition Agreement, Completion shall take place on the Completion Date.

The following matters shall take place at Completion:

- (i) the Target Property and the Target Assets shall be delivered to the Purchaser;
- (ii) the management of the Core Operations Team shall be handed over to the Purchaser and the Purchaser shall enter into new employment contracts with the Core Operations Team;
- (iii) the Indemnity Agreement shall be entered into between Vendor 1 and the Purchaser;
- (iv) (a) Vendor 1 shall handover all financial information relating to the operations of the Target Mine to the Purchaser, where necessary; (b) the Purchaser shall appoint employees to manage the production and sales operations of the Target Mine; and (c) the Purchaser shall begin to be entitled to the economic benefits attributable to the Target Mine's operations; and

- (v) the contracting party to all Key Business Contracts shall be changed from Vendor 1 to the Purchaser or the Purchaser has entered into new Key Business Contracts with the relevant parties, where necessary.

Upon Completion, the Purchaser will become the owner of the Target Mine and will become the sole operator of the Target Business.

### **Post-Completion Matters**

Immediately after Completion, Vendor 1 shall provide assistance to the Purchaser on the following matters (the “**Post-Completion Matters**”):

- (i) the fulfilment of such Conditions Precedent which have been waived by the Purchaser at Completion (if any);
- (ii) to assist the Purchaser to obtain the temporary used lands approvals in relation to such temporary used lands within the Target Property;
- (iii) where necessary, to assist the Purchaser to complete the transfer of state-owned construction land within the mining area of the Target Mine and obtain the necessary real estate related approvals;
- (iv) to assist the Purchaser to obtain the renewed mining right licence by 30 June 2020; and
- (v) to assist (a) the transfer of all permits in relation to the Target Mine’s operations from Vendor 1 to the Purchaser; or (b) the registration of all such foregoing permits in the name of the Purchaser, including but not limited to the safety production permit, licence for water drawing, pollution discharging licence and licence for explosion work, etc.

In the event where the relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets have neither been transferred to the Purchaser nor registered in the name of the Purchaser by 31 December 2020:

- (i) the Purchaser may impose a daily penalty of RMB1,000 on Vendor 1 calculated from 31 December 2020 until all relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets have been transferred to the Purchaser or registered in the name of the Purchaser for compensating the Purchaser for all costs incurred during the process of obtaining such permits and approvals. Vendor 1 shall also compensate the Purchaser for all losses suffered by the Purchaser in relation to the failure to transfer all relevant permits and approvals in relation to the Target Mine, the Target Property and the Target Assets to the Purchaser by 31 December 2020; or

- (ii) the Purchaser may terminate the Acquisition Agreement. Upon termination:
  - (a) Vendor 1 shall reimburse the Purchaser for such part of Consideration which has already been paid by the Purchaser to Vendor 1 pursuant to the Acquisition Agreement, together with interest calculated at prevailing bank interest rates;
  - (b) the Purchaser shall return the Target Property, the Target Assets and the management right of the Target Mine's operations to Vendor 1 within 20 business days upon the receipt of the reimbursement in paragraph (a) above and cease to be entitled to any economic benefits attributable to the Target Mine's operations with effect from the Termination Date;
  - (c) the Purchaser is entitled to retain all economic benefits attributable to the Target Mine prior to the Termination Date; and
  - (d) the Purchaser has the right to require Vendor 1 to compensate the Purchaser for all costs incurred by the Purchaser in connection with the Proposed Acquisition.

In the event the Purchaser decides to terminate the Acquisition Agreement, the results of operations of the Target Business will cease to be consolidated into the financial statements of the Group with effect from the Termination Date.

### **Profit Guarantee, Compensation and Bonus**

Pursuant to the Acquisition Agreement, Vendor 1 guarantees to the Purchaser that each of the FY2020 Audited NP, FY2021 Audited NP and FY2022 Audited NP shall not be less than the Benchmark Profit (i.e. RMB150 million).

In the event where any of the FY2020 Audited NP, FY2021 Audited NP or FY2022 Audited NP is less than the Benchmark Profit, Vendor 1 shall pay compensation(s) to the Purchaser, subject to an overall cap of RMB300 million. Likewise, in the event where any of the FY2020 Audited NP, FY2021 Audited NP or FY2022 Audited NP is greater than the Benchmark Profit, the Purchaser shall pay bonus(es) to Vendor 1, subject to an overall cap of RMB300 million.



Set out below is the calculation of compensation and bonus pursuant to the Acquisition Agreement:

***Compensation payable by Vendor 1 to the Purchaser***

<b>Circumstances</b>	<b>Amount of Compensation Payable (Note 1)</b>	<b>Timing for payment of Compensation (Note 2)</b>
If the FY2020 Audited NP < Benchmark Profit	RMB150 million – FY2020 Audited NP (the “ <b>FY2020 Compensation</b> ”)	Within 10 business days upon the issue of the FY2020 Audited Report (Target Business)
If the FY2021 Audited NP < Benchmark Profit	RMB150 million – FY2021 Audited NP (the “ <b>FY2021 Compensation</b> ”)	Within 10 business days upon the issue of the FY2021 Audited Report (Target Business)
If the FY2022 Audited NP < Benchmark Profit	RMB150 million – FY2022 Audited NP (the “ <b>FY2022 Compensation</b> ”)	Within 10 business days upon the issue of the FY2022 Audited Report (Target Business)
If the Average Audited NP < Benchmark Profit	(RMB150 million – Average Audited NP) x 7.3 – Basic Compensation + Basic Bonus (the “ <b>Additional Compensation</b> ”)	Within 10 business days upon the issue of the FY2022 Audited Report (Target Business)

*Notes:*

- (1) The amount of compensation payable by Vendor 1 to the Purchaser at any point of time shall not exceed the sum of RMB300 million and any Bonus received by Vendor 1 from the Purchaser as at that time.
- (2) In the event where Vendor 1 has not paid the applicable Compensation in accordance with the aforementioned payment schedule, the Purchaser is entitled to deduct a sum equalling to the respective compensation amount in the next instalment payment.

### ***Bonus payable by the Purchaser to Vendor 1***

<b>Circumstances</b>	<b>Amount of Bonus Payable (Notes 1 and 2)</b>	<b>Timing for payment of Bonus</b>
If the FY2020 Audited NP > Benchmark Profit	FY2020 Audited NP – RMB150 million (the “FY2020 Bonus”)	On the 4th Instalment Payment Date
If the FY2021 Audited NP > Benchmark Profit	FY2021 Audited NP – RMB150 million (the “FY2021 Bonus”)	On the 5th Instalment Payment Date
If the FY2022 Audited NP > Benchmark Profit	FY2022 Audited NP – RMB150 million (the “FY2022 Bonus”)	On the 6th Instalment Payment Date
If the Average Audited NP > Benchmark Profit	(Average Audited NP – RMB150 million) x 7.3 + Basic Compensation – Basic Bonus (the “Additional Bonus”)	On the 6th Instalment Payment Date

#### *Notes:*

- (1) The amount of bonus payable by the Purchaser to Vendor 1 at any point of time shall not exceed the sum of RMB300 million and any Compensation paid by Vendor 1 to the Purchaser as at that time.
- (2) The Purchaser is entitled to refuse the payment of Bonus or reduce the amount of Bonus payable if (a) Mr. Li ceases his employment with the Target Business or ceases to be involved in the operations of the Target Business on or before 31 December 2022; or (b) Mr. Li fails to discharge his duties in operating the Target Business with due care and skill.

For the avoidance of doubt, the minimum and maximum amount payable by the Purchaser to Vendor 1 under the Acquisition Agreement (i.e. the Consideration plus Bonus minus Compensation) shall be RMB800 million and RMB1,400 million, respectively.

### **Core Operations Team and Key Business Contracts**

Vendor 1 undertakes to ensure the Core Operations Team shall stay with the Target Business after Completion, among which, Mr. Li shall stay with the Target Business and work diligently for the Target Business’ operations at least until 31 December 2022; and the Purchaser agrees to enter into new employment contracts with the Core Operations Team on terms no less favourable than that prior to Completion.

In the event there are prevailing Key Business Contracts entered into by Vendor 1 in relation to the Target Business as at Completion, Vendor 1 shall negotiate with the relevant parties to terminate such Key Business Contracts and the Purchaser shall enter into new Key Business Contracts with such relevant parties.

## **2. The Property Transfer Agreement**

### **Date**

4 November 2019

### **Parties**

- (1) The Purchaser
- (2) Vendor 1, the sole operator and beneficial owner of the Target Mine

### **Assets to be acquired**

The Target Property

## **3. The Assets Transfer Agreement**

### **Date**

4 November 2019

### **Parties**

- (1) The Purchaser
- (2) Vendor 1, the sole operator and beneficial owner of the Target Mine

### **Assets to be acquired**

The Target Assets

## **4. The Mining Right Transfer Agreement**

Pursuant to the Acquisition Agreement, the Purchaser, Vendor 1 (the sole operator and beneficial owner of the Target Mine) and Vendor 2 (the registered licence holder of the Target Mine's mining right) shall enter into the Mining Right Transfer Agreement, pursuant to which, the mining right of the Target Mine shall be transferred by the Vendors to the Purchaser.

## **INFORMATION ON THE TARGET BUSINESS**

The Target Business is principally engaged in the business of exploration and mining of coking coal. It operates an underground coal mine in the Panxian Coalfield in Panzhou City, Guizhou Province, the PRC, namely, the Target Mine. The current mining right licence of the Target Mine was resulted from consolidations of multiple mining licences in the past decade. In September 2008, the Target Mine obtained a mining right licence which carried an approved annual production capacity of 150,000 tonnes. In recent years, steps have been taken to prepare and develop the Target Mine to expand its annual production capacity to 450,000 tonnes. On 24 June 2019, the Target Mine has obtained approval for joint trial operation from the Energy Bureau of the Guizhou Province and commenced trial operation for 450,000 tonnes/year production capacity. In September 2019, the Target Mine obtained a mining right licence with an approved annual production capacity of 450,000 tonnes. The current mining right licence is valid from September 2019 to September 2039 and covers a mining area of 1.0135 sq.km.. As at the date of this announcement, applications have been submitted by the Vendors to the relevant authorities for other relevant permits and approvals in alignment with the enhanced production capacity.

There are 19 coal seams with mining potential in the Target Mine and set out below are the Coal Resources and Coal Reserves estimation under JORC Code as at 30 September 2019:

### **Coal Resources**

– Indicated Resources	16.82 Mt
– Inferred Resources	10.35 Mt

### **Coal Reserves**

– Probable Reserves	10.93 Mt
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According to the China Coal Classification Standard, the raw coal extracted from the Target Mine is mostly coking coal. Depending on the quality of raw coal extracted, some of the raw coal extracted from the Target Mine can also be used as thermal coal for electricity generation purposes.

Comparing with 1/3 coking coal produced at the Group's Baogushan Mine and Hongguo Mine, coking coal is a bituminous coal with a relatively low degree of metamorphism and a relatively low volatile content. Coking coal is a metallurgical coal suitable for coke production when blended with other types of metallurgical coals of higher grade such as 1/3 coking coal.

Typical customers for coking coal are coking enterprises, iron and steel or chemical manufacturers possessing coke production capabilities. The production of coke requires the use of coking coal and other types of coal as raw materials. In turn, coke is a key raw material used in the production of iron and steel. Both 1/3 coking coal and coking coal are constituent resources in the production of coke. Depending on different coking needs, the use of constituent coal types, including coking coal and 1/3 coking coal ratio, may vary. Generally speaking, coking coal has lower volatilization, higher sulfur content and higher cohesion, and 1/3 coking coal has higher volatilization, lower sulfur content and lower cohesion. Due to the different characteristics of 1/3 coking coal and coking coal, coking plants normally require a combination of various types of coal including 1/3 coking coal and coking coal in order to produce coke of a specified quality. As such, 1/3 coking coal and coking coal are not interchangeable constituents in the production of coke of a specified quality and they are not substitutes for each other.

In 2016, 2017, 2018 and the six months ended 30 June 2019, raw coal mined at the Target Mine amounted to approximately 115,581 tonnes, 411,440 tonnes, 213,074 tonnes and 279,591 tonnes, respectively. The increase in production of raw coal in 2017 was mainly due to the recovery of the coal market upon completion of overcapacity reduction and continuous decrease of coal supply caused by coal capacity reduction in 2016.

In 2017 and 2018, raw coal mined at the Target Mine exceeded the approved annual production capacity of 150,000 tonnes per year (the “**Over-production Incidents**”). As stated in the confirmation issued by the Panzhou Energy Administration dated 22 October 2019, in order to maintain a stable supply of thermal coal in Panzhou City, the Panzhou Energy Administration will, through government designated platform enterprises, provide thermal coal production target to coal enterprises in Panzhou City. Having considered the safety production levels of the Target Mine, the Target Mine was assigned with thermal coal production targets in 2017 and 2018. To achieve the aforementioned targets on thermal coal production, the actual production level of raw coal extracted by the Target Mine exceeded the permitted annual production capacity in 2017 and 2018. The Panzhou Energy Administration has confirmed that no penalty would be imposed on the Target Mine as a result of the Over-production Incidents.

As the Target Business does not have its own coal preparation plant, in 2016, 2017, 2018 and the six months ended 30 June 2019, the Target Business sold the raw coal extracted from the Target Mine directly to its customers. Apart from extracting raw coal from the Target Mine for sale, in order to fulfil the thermal coal production targets applicable to coal enterprises in Panzhou City and demand from customers, the Target Business also purchased raw coal for resale to its customers in 2017 and 2018.

Based on the management accounts of the Target Business and information provided by the Vendors, set out below is a summary of the unaudited financial information of the Target Business for the three financial years ended 31 December 2018 and the six months ended 30 June 2018 and 2019:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	63,609	317,229	125,206	12,054	199,132
Profit (loss) before taxation	3,341	105,773	21,959	(10,479)	90,733
(Loss) profit and total comprehensive (expense) income for the year/period	(1,567)	81,492	12,336	(11,397)	82,435

The unaudited assets value of the Target Assets, the Target Mine and the Target Property as at 31 December 2018 and 30 June 2019 amounted to approximately RMB71.3 million and RMB115.4 million, respectively.

The Target Business was preliminary valued at approximately RMB1.1 billion as at 30 September 2019 by the Valuer, by way of income approach.

## INFORMATION ON THE PURCHASER AND THE VENDORS

The Purchaser is an indirect wholly-owned subsidiary of the Company. The Group, through the Purchaser, is principally engaged in the exploration and mining of coking coal and coal refinery in the PRC.

Vendor 1 is a sole proprietorship established in the PRC and is wholly-owned by Mr. Li. Vendor 1 is principally engaged in the exploration and sale of raw coal in the PRC. As at the date of this announcement, Vendor 1 is the sole operator and beneficial owner of the Target Mine.

Vendor 2 is a limited liability company established in the PRC and is owned as to 49% by 貴州三江源投資有限公司 (Guizhou Sanjiangyuan Investment Co., Ltd.\*) and 51% by 雲南德勝鋼鐵有限公司 (Yunnan Desheng Iron and Steel Co., Ltd.\*). Vendor 2 is principally engaged in (1) investment in and management of mining enterprises; (2) sale of coal products, mining machinery, coking coal, mining supplies and equipment etc.; (3) provision of mine engineering consultation services, technical advice; and (4) exploration and sale of coal. As at the date of this announcement, Vendor 2 is the registered licence holder of the Target Mine's mining right.

Pursuant to a mining right transfer agreement dated 10 July 2014 and entered into between Vendor 1 and Vendor 2, Vendor 1 agreed to transfer 5% interest in the mining right to the Target Mine to Vendor 2 (the "2014 Transfer"). As at the date of this announcement, although Vendor 2 has not yet paid the consideration for the 2014 Transfer to Vendor 1, the 2014 Transfer has been completed and Vendor 2 is the registered licence holder of the mining right to the Target Mine while Vendor 1 remains as the sole operator and beneficial owner of the Target Mine.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and their respective beneficial owners is a third party independent of the Company and its connected persons.

## **REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION**

The raw coal extracted from the Group's Hongguo Mine and Baogushan Mine are mostly 1/3 coking coal while the raw coal extracted from the Target Mine is mostly coking coal.

The Directors are of the view that the Group could diversify its product offering through the Proposed Acquisition such that the Group could offer both 1/3 coking coal and coking coal to its customers upon Completion. As mentioned in the paragraph headed "Information on the Target Business" in this announcement, given the different characteristics of 1/3 coking coal and coking coal, coking plants normally require a combination of various types of coal including 1/3 coking coal and coking coal in order to produce coke of a specified quality. In fact, a number of the Group's customers require both 1/3 coking coal and coking coal in their production process. Therefore, the Directors are of the view that the Proposed Acquisition would enable the Group to provide a more comprehensive product offering to its customers which in turn could increase customer stickiness and further enhance the Group's revenue and profits.

Upon Completion, the Group intends to utilise its Songshan Coal Preparation Plant to process the raw coal extracted from the Target Mine whereby undesirable materials and impurities, such as the ash and sulphur content, are removed from the raw coal to improve the quality of the coal products produced from the Target Mine. It is expected that the coal products from the Target Mine would be able to command a higher selling price with its improved quality after the coal preparation process.

Since the production process and business operations for both 1/3 coking coal and coking coal are substantially the same, the Directors are of the view that with the assistance of the Core Operations Team which the Group intends to retain upon Completion, the current management of the Group could continue to run the business operations of the Target Business in a smooth and orderly manner upon Completion. Furthermore, the Purchaser intends to enter into new Key Business Contracts with the relevant counterparties at Completion to ensure a smooth transition of the Target Business from the Vendors to the Purchaser.

In view of the above and after taking into consideration the coal reserves of the Target Mine, the historical financial performance of the Target Business and the valuation of the Target Business, the Directors are of the view that the terms of each of the Transfer Agreements are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are more than 25% while all applicable percentage ratios are less than 100%, the Proposed Acquisition constitutes a major transaction for the Company and is subject to the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, as at the date of this announcement, neither the Vendors nor any of their associates hold any Shares. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Proposed Acquisition, written shareholders' approval will be accepted in lieu of the general meeting on the condition that the accountants' report of the Target Business contains no qualified opinion by the reporting accountants pursuant to Rules 14.44 and 14.86 of the Listing Rules. Otherwise, the Company will convene a general meeting for the Shareholders to consider and, if thought fit, to pass the resolutions to approve the Proposed Acquisition. The Company intends to seek a written Shareholder's approval from Spring Snow, holding approximately 67.5% of the issued share capital of the Company as at the date of this announcement, to approve the Proposed Acquisition. The Company will make further announcement(s) in relation to the status of obtaining the aforementioned written Shareholder's approval.

## GENERAL

A circular containing, among other things, (i) the major terms of the Transfer Agreements; (ii) further details of the Target Business (including the Target Assets, Target Mine and Target Property); (iii) the financial information of the Target Business; (iv) unaudited pro forma financial information of the Enlarged Group; (v) the valuation report of the Target Business; (vi) a competent person's report on the Target Mine; and (vii) such other information as required under the Listing Rules shall be despatched to the Shareholders within 15 business days after the publication of this announcement (i.e. on or before 26 November 2019).

**As completion of the Proposed Acquisition is subject to satisfaction and/or waiver of a number of Conditions Precedent, the Proposed Acquisition may or may not proceed. Shareholders and investors should exercise caution when dealing in the Shares.**



## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“1/3 coking coal”	has the meaning ascribed to it under the China Coal Classification Standard
“2014 Transfer”	has the meaning as defined in the paragraph headed “Information on the Purchaser and the Vendors” in this announcement
“4th Instalment Payment Date”	has the meaning as defined in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition” in this announcement
“5th Instalment Payment Date”	has the meaning as defined in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition” in this announcement
“6th Instalment Payment Date”	has the meaning as defined in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Consideration for the Proposed Acquisition” in this announcement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 4 November 2019 entered into between the Purchaser and Vendor 1 in relation to the sale and purchase of the Target Business
“Additional Bonus”	the additional bonus payable by the Purchaser to Vendor 1 if the Average Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement
“Additional Compensation”	the additional compensation payable by Vendor 1 to the Purchaser if the Average Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement

“Assets Transfer Agreement”	the conditional sale and purchase agreement dated 4 November 2019 entered into between the Purchaser and Vendor 1 in relation to the sale and purchase of the Target Assets
“associate(s)”	has the same meaning as ascribed thereto in the Listing Rules
“Average Audited NP”	the average of the FY2020 Audited NP, the FY2021 Audited NP and the FY2022 Audited NP
“Baogushan Mine”	a coal mine located at longitudes from 104°27’14”E to 104°27’35”E and latitudes from 25°46’41”N to 25°47’07”N in Panzhou City, Guizhou Province, the PRC, which is wholly-owned by the Purchaser
“Basic Bonus”	the aggregate of the FY2020 Bonus, the FY2021 Bonus and the FY2022 Bonus
“Basic Compensation”	the aggregate of the FY2020 Compensation, the FY2021 Compensation and the FY2022 Compensation
“Benchmark Profit”	RMB150 million
“Board”	the board of Directors of the Company
“Bonus”	the aggregate of the Basic Bonus and the Additional Bonus
“China Coal Classification Standard”	a national standard (GB/T5751-2009) in respect of coal classification issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardization Administration of the PRC
“coking coal”	has the meaning ascribed to it under the China Coal Classification Standard
“Company”	Perennial Energy Holdings Limited (久泰邦達能源控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange
“Compensation”	the aggregate of the Basic Compensation and the Additional Compensation
“Completion”	completion of the Proposed Acquisition

“Completion Date”	1 January 2020 or such later date as agreed by the Purchaser and Vendor 1 in accordance with the terms and conditions of the Acquisition Agreement
“Conditions Precedent”	the condition(s) precedent of the Acquisition Agreement as set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Conditions Precedent to the Proposed Acquisition” in this announcement
“connected person(s)”	has the same meaning as ascribed thereto in the Listing Rules
“Consideration”	the consideration for the Proposed Acquisition, being RMB1,100 million
“Core Operations Team”	the key operations team which operates the Target Business which includes Mr. Li
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group upon Completion
“FY2020”	the financial year ending 31 December 2020
“FY2020 Audited NP”	the audited net profit of the Target Business for FY2020 as shown in the FY2020 Audited Report (Target Business)
“FY2020 Audited Report (Target Business)”	the audited report on the financial statements of the Target Business for FY2020 prepared by an auditor engaged by the Purchaser or its associated companies in accordance with the accounting standards applicable to the Company. The FY2020 Audited Report (Target Business) shall be issued on or before 30 April 2021
“FY2020 Bonus”	the bonus payable by the Purchaser to Vendor 1 if the FY2020 Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement
“FY2020 Compensation”	the compensation payable by Vendor 1 to the Purchaser if the FY2020 Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement
“FY2021”	the financial year ending 31 December 2021

“FY2021 Audited NP”	the audited net profit of the Target Business for FY2021 as shown in the FY2021 Audited Report (Target Business)
“FY2021 Audited Report (Target Business)”	the audited report on the financial statements of the Target Business for FY2021 prepared by an auditor engaged by the Purchaser or its associated companies in accordance with the accounting standards applicable to the Company. The FY2021 Audited Report (Target Business) shall be issued on or before 30 April 2022
“FY2021 Bonus”	the bonus payable by the Purchaser to Vendor 1 if the FY2021 Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement
“FY2021 Compensation”	the compensation payable by Vendor 1 to the Purchaser if the FY2021 Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement
“FY2022”	the financial year ending 31 December 2022
“FY2022 Audited NP”	the audited net profit of the Target Business for FY2022 as shown in the FY2022 Audited Report (Target Business)
“FY2022 Audited Report (Target Business)”	the audited report on the financial statements of the Target Business for FY2022 prepared by an auditor engaged by the Purchaser or its associated companies in accordance with the accounting standards applicable to the Company. The FY2022 Audited Report (Target Business) shall be issued on or before 30 April 2023
“FY2022 Bonus”	the bonus payable by the Purchaser to Vendor 1 if the FY2022 Audited NP is greater than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement
“FY2022 Compensation”	the compensation payable by Vendor 1 to the Purchaser if the FY2022 Audited NP is less than the Benchmark Profit, details of which are set out in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Profit Guarantee, Compensation and Bonus” in this announcement

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongguo Mine”	a coal mine located at longitudes from 104°27’14”E to 104°28’22”E and latitudes from 25°47’23”N to 25°48’24”N in Panzhou City, Guizhou Province, the PRC, which is wholly-owned by the Purchaser
“Indemnity Agreement”	the indemnity agreement expected to be entered into between Vendor 1 and the Purchaser on the Completion Date, pursuant to which Vendor 1 provide the Purchaser with indemnities in respect of, among other matters, claims and liabilities arising from the historical non-compliance incidents of the Target Mine
“Indicated Resource”	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
“Inferred Resource”	that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling and assumed but not verified geological and/or grade continuity
“JORC Code”	Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists, and the Minerals Council of Australia in September 1999 and revised in December 2012
“Key Business Contracts”	such business contracts which are necessary to the operations of the Target Mine, including but not limited to electricity supply contract(s)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Measured Resource”	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence

“Mining Right Transfer Agreement”	the conditional sale and purchase agreement to be entered into among the Purchaser, Vendor 1 and Vendor 2 in relation to the sale and purchase of the mining right of the Target Mine
“Mr. Li”	Li Zuowen (李作文), the sole investor of Vendor 1
“Mt”	million tonnes
“Over-production Incidents”	has the meaning as defined in the paragraph headed “Information on the Target Business” in this announcement
“Panzhou Energy Administration”	盤州市能源局, Panzhou City Energy Administration*
“Post-Completion Matters”	has the meaning as defined in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Post-Completion Matters” in this announcement
“PRC”	The People’s Republic of China, and for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Probable Reserves”	the economically mineable part of an Indicated, and in some circumstances, a Measured Resource
“Property Transfer Agreement”	the conditional sale and purchase agreement dated 4 November 2019 entered into between the Purchaser and Vendor 1 in relation to the sale and purchase of the Target Property
“Proposed Acquisition”	the proposed acquisition of the Target Business by the Purchaser from the Vendors pursuant to the terms of the Transfer Agreements
“Purchaser”	貴州久泰邦達能源開發有限公司 (Guizhou Jiutai Bangda Energy Development Co., Ltd.*), a company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s) from time to time

“Songshan Coal Preparation Plant”	the coal preparation plant operated by the Group where raw coal are processed
“Spring Snow”	Spring Snow Management Limited, the controlling shareholder (as defined in the Listing Rules) of the Company which directly holds 1,080,000,000 Shares, representing approximately 67.5% of the total issued share capital of the Company as at the date of this announcement
“sq.km.”	square kilometres
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Assets”	certain assets of Vendor 1 (excluding the Target Mine and the Target Property) which are in relation to the Target Business operated by Vendor 1 at the Target Mine, which include machinery, office and electronic equipment, motor vehicles and the underground construction in progress which are related to the Target Business
“Target Business”	the business of exploration and mining of coking coal at the Target Mine operated by Vendor 1 as at the date of this announcement
“Target Mine”	貴州德佳投資有限公司盤縣羊場鄉謝家河溝煤礦 (Guizhou Dejia Investment Co., Ltd. Pan County Yangchang Village Xiejiahegou Coal Mine*), an underground coal mine located at longitudes from 104°47’04”E to 104°47’53”E and latitudes from 25°56’09”N to 25°56’51”N in Panzhou City, Guizhou Province, the PRC
“Target Property”	(1) the temporary land-use rights over two parcels of collectively-owned land in Panzhou City with a total site area of 39,236 sq.m., mainly used for the Target Business’ mining operations; and (2) the property interests over six buildings and structures with a total gross floor area of approximately 9,142.02 sq.m. and the ground construction in progress thereon
“Termination Date”	the date when the Purchaser returns the Target Property, the Target Assets and the management right of the Target Mine’s operations to Vendor 1 as more particularly described in the paragraph headed “The Proposed Acquisition – 1. The Acquisition Agreement – Completion” in this announcement

“Transfer Agreements”	collectively, the Acquisition Agreement, the Assets Transfer Agreement, the Mining Right Transfer Agreement and the Property Transfer Agreement
“Valuer”	Ravia Global Appraisal Advisory Limited, an independent valuer engaged by the Company
“Vendor 1”	盤縣羊場鄉謝家河溝煤礦 (Pan County Yangchang Village Xiejiahegou Coal Mine*), a sole proprietorship established in the PRC and wholly-owned by Mr. Li. As at the date of this announcement, Vendor 1 is the sole operator and beneficial owner of the Target Mine
“Vendor 2”	貴州德佳投資有限公司 (Guizhou Dejia Investment Co., Ltd.*), a company established in the PRC with limited liability. As at the date of this announcement, Vendor 2 is the registered licence holder of the Target Mine’s mining right
“Vendors”	collectively, Vendor 1 and Vendor 2
“%”	per cent.

\* *The English transliteration of the Chinese name(s) in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

By order of the Board  
**PERENNIAL ENERGY HOLDINGS LIMITED**  
**Yu Bangping**  
*Chairman and Executive Director*

Hong Kong, 5 November 2019

*As at the date of this announcement, the executive Directors are Mr. Yu Bangping, Mr. Sun Dawei, Mr. Wang Shize, Mr. Li Xuezhong, Mr. Lam Chik Shun, Marcus, Mr. Yu Zhilong and Mr. Yuxiao; and the independent non-executive Directors are Mr. Fong Wai Ho, Mr. Punnya Niraan De Silva, Ms. Cheung Suet Ting, Samantha and Mr. Wang Xiufeng.*