罕王
HANKING

CHINA HANKING HOLDINGS LIMITED
中國罕王控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PURCHASE OF EQUITY INTERESTS OF TUOCHUAN (HONG KONG)

THE PROPOSED TRANSACTION

The Board is pleased to announce that, on 1 April 2019, the Company entered into the Agreement with the Seller, Mr. Yang and Tuochuan Capital. Pursuant to the Agreement, the Company agreed to purchase, and the Seller agreed to dispose of, 100% equity interests of the Target Company, a wholly-owned subsidiary of the Seller, at the consideration of RMB1,020 million, subject to the terms and conditions of the Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Agreement and the transactions contemplated thereunder exceed 100%, the Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Mr. Yang, the son of Ms. Yang, and Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, are also connected persons of the Company. As such, the Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DESPATCH OF CIRCULAR

A circular containing, among other things, (i) further information on the Agreement and the transactions contemplated thereunder; (ii) letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder; (iii) letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the Agreement and the transactions contemplated thereunder; (iv) the financial and other information of the Company; (v) the financial and other information of the Target Group; (vi) the pro forma financial information of the Enlarged Group upon Completion; and (vii) the notice of the AGM, is expected to be dispatched to the Shareholders on or before 29 April 2019, which is more than 15 business days after the publication of this announcement as more time will be needed for the preparation of certain information to be included in the circular.

Completion of the Acquisition is subject to fulfillment of the conditions set out in the Agreement, and the Acquisition may or may not proceed to Completion. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder.

In this connection, an Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder.

AGM

The AGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Meanwhile, Ms. Yang's sister owns 96.24% of Dengta Hanking Liuhe Iron Ore Co., Ltd. (燈塔市罕王柳河鐵礦有限責任公司), which is one of the major suppliers of the Target Group. Ms. Yang's sister does not have any Shares of the Company but the son of Ms. Yang's sister, Mr. Wang indirectly hold 2.35% Shares of the Company. Mr. Yang, the son of Ms. Yang, is also a connected person of the Company. Therefore, Ms. Yang, Mr. Yang and Mr. Wang are considered to have a material interest in the Agreement and will be required to abstain from voting on the resolution in relation to the

Agreement and the transactions contemplated thereunder. Save as disclosed above, there are no other associates of the controlling shareholders need to abstain from voting on the resolution in relation to the Agreement and the transactions contemplated thereunder.

INTRODUCTION

On 1 April 2019 (after trading hours), the Company, the Seller, Mr. Yang and Tuochuan Capital entered into the Agreement, pursuant to which the Seller has conditionally agreed to sell, and the Company has conditionally agreed to purchase the 100% equity interests of the Target Company at the consideration of RMB1,020 million.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

1 April 2019

Parties

(1) the Company;

(2) the Seller;

(3) Mr. Yang (as Seller Guarantor); and

(4) Tuochuan Capital.

Subject Matter

Pursuant to the Agreement, the Company agreed to acquire, and the Seller agreed to dispose of, 100% equity interests in the Target Company, subject to the terms and conditions of the Agreement.

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015. Tuochuan Capital transferred the equity interests of the Target Company to the Seller on 17 December 2018. As at the date of this announcement, the Target Company is a wholly-owned subsidiary of the Seller.

Upon Completion, the Target Company will become a subsidiary of the Company and the financial information of the Target Group will be consolidated into the financial statements of the Group.

Consideration

Pursuant to the Agreement, the Consideration for the Acquisition is RMB1,020 million, which was determined after arm's length negotiations between the Company and Seller Parties on normal commercial terms with reference to a number of factors. In determining the Consideration, the Board considered that (i) the valuation report issued by an independent valuer, valued the fair value of 100% equity interests of the Target Group of approximately RMB1,040 million as at 31 December 2018; (ii) the Target Group has strong historical financial performance for the three years ended 31 December 2018, recording a steady growth in both revenue and profits. Moreover, the sales volume of wind power ductile pig iron, which is the main product of Fushun Hanking D.R.I., accounts for over 50% of the total volume of China, indicating a promising development of the Target Group after the Acquisition; and (iii) the Target Group with principal business of iron ore smelting is a downstream processing company of the Company. Maogong Mining, a subsidiary of the Company, produces the iron ore concentrates with high quality and low impurity. With little titanium therein, such iron ore concentrates are suitable to be raw materials for manufacturing high-end casting products including wind turbine casts. Fushun Hanking D.R.I. has been purchasing iron ore concentrates from Maogong Mining since its establishment in 2002 and such purchase accounts for 80% of the total purchase of iron ore concentrates by Fushun Hanking D.R.I. in the last three years. Therefore, the Company will benefit from the synergy effect between the upper streams and down streams, as well as to expand and develop its existing principal business after the Acquisition. In 2019, Fushun Hanking D.R.I. starts to carry out technology improvements, expecting to increase output from the current 560,000 tons to approximately 630,000 tons in 2020, which will result in a further need to iron ore concentrates. The Board has reviewed the technology improvement plan of Fushun Hanking D.R.I. and considered it to be generally feasible.

In considering the Acquisition and assessing the Consideration, the Board has, among other things, (i) engaged the PRC Legal Advisers to conduct legal due diligence on the Target Group; (ii) reviewed the legal due diligence report on the Target Group prepared by the PRC Legal Advisers and discussed the due diligence results with the PRC Legal Advisers; (iii) reviewed the unaudited consolidated financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards for the three years ended 31 December 2018; (iv) conducted financial due diligence on the Target Group by having management discussion and analysis with the management of the Target Group; (v) conducted onsite due diligence; and (vi) reviewed the valuation report and enquired into the valuer on the methodology, basis and assumptions adopted therein.

In reviewing the assumptions used in the valuation report, the Directors conducted the following due diligence: (i) discussed with the valuer to understand the valuation report and its assumptions; (ii) reviewed the unaudited financial information of the Target Group and industry reports to verify the assumptions in relation to the financial forecast; (iii) reviewed the technology improvement plan and other upgrade/expansion plans of the Target Group; and (iv) discussed with the Target Company's management.

The Directors consider the assumptions and financial forecast in the valuation report are fair and reasonable after taking into consideration that: (i) the valuer is an independent, qualified valuer with recognized reputation and work experience; (ii) the Company has the intention to retain the key management and technical personnel of the Target Group after the Acquisition; (iii) the Target Group will expand its manufacturing capacity after its technology improvements in 2019; (iv) the bad debt of the Target Group as at 31 December 2018 is RMB3,929,000, which will not materially affect their business operations; (v) the average growth rate of the revenue of the Target Group from 2016 to 2018 is around 22%; (vi) Fushun Hanking D.R.I. has stable base of customers and maintains long-term relationships with the top 10 customers; and (vii) the wind power industry has great development potential. According to the industry report issued by Hatch Associates Ltd. and other entities, the global wind power industry will continue to maintain a rapid growth in the next five to ten years, and the average annual growth rate will remain at around 10%. In the next five years, China's wind power industry will continue to develop rapidly. It is estimated that the installed capacity of wind power will be around 13 to 15 million kW per year. In the short-and-medium term, no risks of wind power castings (ductile iron castings) being replaced by other products have been found.

Disposal

Reference is made to the Company's announcement dated 5 July 2018 and circular dated 6 August 2018, in relation to the entering into of Indonesia SPA among the Company, Tuochuan Capital and Mr. Yang for the disposal of 70% equity interests of Hanking (Indonesia) by the Company to Tuochuan Capital. As of the date of this announcement, the Disposal has not yet completed as a condition precedent, 99% equity interest of Ginseng & Iron having been pledged by Tuochuan (Hong Kong) to the Company, has not been fulfilled.

According to the regulatory requirements on registration and administration of foreign exchange in China, the shareholder of the Target Company should be a company registered with the local Administration of Foreign Exchange ("**AFE**") in order to procure the Target Company to pledge 99% equity interests of Ginseng & Iron to the Company under the Indonesia SPA. As Tuochuan Capital is not registered with the local AFE while Hanking BVI is a registered company, Tuochuan Capital transferred the equity interests of the Target Company to the Seller on 17 December 2018. The consideration was HK$1.00 which was a nominal consideration determined in consideration of the restructuring between Tuochuan Capital and Hanking BVI, which are respectively owned by Mr. Yang and Ms. Yang, thus are two companies controlled by persons acting in concert. As the Target Company has long been a holding company and did not run any substantial business before it acquired Ginseng & Iron, the net assets value of the Target Company was only RMB309,000 prior to the transfer and no goodwill has been recognized upon the transfer.

The Board's original intention was to use approximately 50% of the proceeds from the Disposal for the development (including exploration, environment protection and pre-feasibility study) of the gold mine project of Primary Gold Limited and use the rest 50% for the proposed acquisitions between the

Company and identified potential sellers. As the development of the gold mine project of Primary Gold Limited is currently at a preliminary stage, the Board has changed its intention to re-allocate the entire proceeds from the Disposal for the Acquisition.

Payment

The Company and the Seller Parties agree that the consideration actually paid by the Company for the Acquisition shall be adjusted to RMB670 million (the "**Adjusted Payable Price**"), which will be paid by the Company with its own fund. Tuochuan Capital agrees to pay an amount equal to the Consideration less the Adjusted Payable Price in the same currency as paid by the Company to the Seller as agreed in the Agreement to the Seller (the "**Remaining Amount**"), for which purpose, Tuochuan Capital and the Seller will enter into a separate agreement to agree on the detailed arrangement in relation to the payment of such Remaining Amount. The completion of the payment of Remaining Amount is not the pre-requisite for the payment of the Adjusted Payable Price or the Completion.

In consideration of the payment of the Remaining Amount, Tuochuan Capital and the Company agree that the purchase price equal to RMB350 million to be paid by Tuochuan Capital to the Company in accordance with the Indonesia SPA will not be paid, provided that Tuochuan Capital pays the Remaining Amount to the Seller as agreed by them separately. The Seller Guarantor shall use his best effort to procure Tuochuan Capital to pay the Remaining Amount. The Seller Guarantor and Tuochuan Capital have irrevocably and unconditionally guaranteed to the Company the direct payment of the Disposal consideration of RMB350 million by Tuochuan Capital to the Seller to off-set as part of the Consideration. Upon Completion, the Company will record the "Remaining Amount" as "Receivable" and record the Consideration as "Payable" under its financial statements. As Tuochuan Capital and the Seller are companies controlled by persons acting in concert and pursuant to the terms and conditions of the Agreement, such "Receivable" and "Payable" will be offset in the financial statements of the Company upon Completion. The above accounting treatments have been agreed with the Company's auditors.

The Board considers that the above change in the use of the proceeds is more in line with the current business needs of the Company and is in the best interest of the Company and its Shareholders. The Board also considers that the non-payment of the Disposal consideration of RMB350 million by Tuochuan Capital directly to the Company does not constitute a material change to the terms under the Indonesia SPA. Pursuant to the Indonesia SPA, Tuochuan Capital should pay RMB350 million to the Company. Under the Agreement, the Company should pay RMB1,020 million to the Seller. To facilitate the payment, the Company, Tuochuan Capital and the Seller agree under the Agreement that Tuochuan Capital directly pays the Remaining Amount (i.e. RMB350 million, which is equal to the Disposal consideration) to the Seller as part of the Consideration. The Company therefore will only pay RMB670 million to the Seller.

Under the current arrangement, Tuochuan Capital is still obliged to pay the Disposal consideration and the Company will be deemed as having fully received the Disposal consideration when the Acquisition is completed. The current arrangement only changes the way in which Tuochuan Capital pays the Disposal consideration, but does not change its payment obligation, nor affect the Company's right to receive such consideration. It will not affect the substance of the Disposal. Therefore, the Directors consider it is not a material change to the Indonesia SPA but a better safeguard for the Company to get the Disposal consideration, which is in the best interest of the Company and its Shareholders.

Pursuant to the Agreement, the Adjusted Payable Price shall be payable by the Company to the Seller in RMB or its equivalent (using the average benchmark interest rate issued by the People's Bank of China for the five days before the date of the payment) by electronic transfer of immediately available funds through one or more instalments within one year after the Completion Date. The Company expects to pay RMB200 million upon the Completion and pay RMB235.28 million by end of the third month after the first instalment. The amount of RMB435.28 million will be used by the Seller to repay the outstanding loans extended to Liaoning Hanking. Once the Seller fully repays the outstanding loans, the Company will pay the remaining part of the Adjusted Payable Price within one year after the Completion.

The Seller agrees and undertakes that on the date when the Seller has received a portion of the Adjusted Payable Price in the amount of RMB435.28 million, the Seller shall cause the outstanding loans in the total amount of RMB435.28 million extended to Liaoning Hanking by the Target Group to be fully repaid by using such portion of the Adjusted Payable Price received from the Company, evidenced by written documents in form and substance satisfactory to the Company. RMB435.28 million is the total amount of several loans extended to Liaoning Hanking, the former shareholder of Ginseng & Iron, by the Target Group for the purpose of development and investment of its other business. The amount of RMB435.28 million cannot be offset as part of the Consideration because the offshore and onshore loans could not be directly offset due to restrictions of PRC policies on foreign exchange.

Notwithstanding anything to the contrary in the Agreement, the Company may refrain from paying any amount resulting from Adjusted Payable Price less RMB435.28 million or its equivalent until the Seller causes such outstanding loans to be fully repaid as set forth in the Agreement. In no case shall such refrained payment of any outstanding Adjusted Payable Price by the Company as a result of the Seller's failure to repay such outstanding loans be deemed as a default under the Agreement.

Conditions

Completion of the Acquisition is subject to the satisfaction or, if applicable, the waiver of the following Conditions on or before 5:00 p.m. on the Long Stop Date:

(a) the representations and warranties of the Seller Parties set forth in the Agreement shall be true, complete and correct in all respects as of the date of the Agreement and as of the Completion Date;

(b) each Seller Party shall have performed and complied with each of the obligations and arrangements required by the Agreement to be performed or complied with by it or him on or prior to the Completion Date;

(c) there has been no Material Adverse Change to the Target Group taken as a whole since the date of the Agreement;

(d) the due execution of the Agreement that are required to be executed by each of the relevant parties thereto;

(e) the passing of resolutions of the shareholder and the sole director of the Seller in the agreed form approving the execution and performance of the Agreement;

(f) the passing of resolutions of the Shareholders and the Board of the Company approving the execution and performance of the Agreement;

(g) all applicable contractual and regulatory approvals and consents with respect to the transactions contemplated by the Agreement shall have been obtained by the Company, the Seller Parties and the Target Group; and

(h) the conduct of a due diligence investigation covering, among other things, the business, affairs, operations, assets, liabilities, financial condition, prospects and records of the Target Group having been completed and the results of such due diligence investigation being satisfactory to the Company at its sole discretion.

Pursuant to the Agreement, the Company may, in its discretion, waive any of the Conditions other than the Condition set out in paragraph (f) above.

As at the date of this announcement, the Company has no present intention to waive any of the Conditions and will only exercise its right to waive such Conditions if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Seller Guarantor

The Seller Guarantor irrevocably and unconditionally guarantees to the Company the due and punctual performance of each obligation of the Seller. The Seller Guarantor shall pay to the Company from time to time on demand any sum of money which the Seller is at any time liable to pay to the Company which has not been paid at the time the demand is made. The Seller Guarantor's obligations are primary obligations and not those of a mere surety.

Completion

Completion shall take place remotely via electronic exchange of documents and signatures on the Completion Date.

The Seller shall deliver a copy of share certificate in the name of the Company showing the Company as registered holder of the shares of the Target Company on the Completion Date.

The Acquisition is not conditional on the completion of the Disposal. As the Company proposes to proceed with the Acquisition first and the Target Group should be free of any encumbrance before the Acquisition is completed, the Company decides to slow down the completion of the Disposal before the Shareholders' meeting of the Company has considered and approved the Acquisition (if applicable).

Pursuant to the Indonesia SPA, the pledge of 99% equity interests of Ginseng & Iron is a condition precedent to safeguard the Company get the Disposal consideration from Tuochuan Capital. If Tuochuan Capital fails to pay such consideration, the Company could exercise its right of pledge to get the consideration of RMB350 million (rather than RMB1,020 million). Under the current arrangement, if the Shareholders approve the Acquisition, Tuochuan Capital will pay the Disposal consideration directly to the Seller pursuant to the Agreement which, on the one hand, represents a fulfillment of its payment obligation to the Company under the Indonesia SPA, on the other hand, offsets a portion of the Company's payable amount of the Consideration. As at the Completion Date, the Company is deemed to receive the Disposal consideration of RMB350 million, it therefore no longer needs the pledge as a safeguard to get the Disposal consideration. Also, the Company will get the share certificate from the Seller showing the Company as registered holder of the shares of the Target Company. Such share transfer will occur prior to the Company's payment of Adjusted Payable Price. Moreover, the Company can get the Disposal consideration to complete the Disposal at an earlier stage and release its pressure to pay a large amount of money to the Seller.

If the Completion fails to take place for whatever reasons, without prejudice to any remedy available to the parties, the Seller Parties shall procure the Target Company to pledge all equity interests of Ginseng & Iron held by it to the Company as soon as practicable. The Company, Tuochuan Capital and Mr. Yang will proceed the Disposal to completion.

As at the date of this announcement, the Company will not waive the condition precedent of the pledge of 99% equity interests of Ginseng & Iron for the Disposal. If the Acquisition does not proceed, the Company will continue to proceed the Disposal and use the pledge as a safeguard for getting the Disposal consideration. If the Acquisition is completed, the Company will directly hold the entire equity interests of the Target Company and indirectly hold 99% equity interest of Ginseng & Iron. As the Disposal consideration will have been paid at that time, the Company no longer needs the pledge as a safeguard of payment, it will waive the condition precedent of the pledge of 99% equity interest of Ginseng & Iron and complete the Disposal on the same day.

The Directors are of the view that such arrangement is a better safeguard to the Company's interest in respect of the Disposal and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Termination

If, at any time before Completion:

(a) there is a Material Adverse Change to the Target Group taken as a whole;

(b) any Government Authority issues, promulgates or enforces any law, regulation, rule, policy, order or notice that prohibits the completion of the transactions contemplated by the Agreement;

(c) there is a material breach of any of the Seller Parties' Warranties as given on the date of the Agreement, or any event occurs which would constitute a material breach of any of the Seller Parties' Warranties as if the Seller Parties' Warranties were repeated on each day before the Completion Date by reference to the facts and circumstances then existing, and for this purpose only any references in the Seller Parties' Warranties to the "date of the Agreement" shall be construed references to the relevant date; or

(d) the Seller is in material breach of any provision of the Agreement,

the Company may by notice in writing to the Seller elect to proceed to Completion or terminate the Agreement.

BASIS OF THE VALUATION REPORT

In making the valuation report, the independent valuer has applied the discounted cash flow ("**DCF**") method under income approach and based on certain assumptions, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, and the requirements under Rule 14.62 of the Listing Rules are therefore applicable.

Valuation Method

In selecting the valuation approach appropriate for the Target Group, the valuer has considered the most appropriate practice in valuing business entities that are similar in nature and the information available for its analysis. Market Approach is not adopted as publicly listed companies with similar business as the Target Group usually conduct both upstream and downstream activities, while the Company is the main upstream supplier to the Target Group, therefore implied trading multiples of those companies are not comparable to the Target Group. The valuer is also not aware of any appropriate comparable transaction available for market approach valuation. Cost Approach is not adopted as it cannot reflect the future economic benefits generated by the Target Group in its expansion plan. Income Approach is adopted as the management of the Target Company can provide a set of long-term financial projections of the Target Group with supporting analysis and that the value of the Target Group is primarily driven by the expected future economic benefit to be generated.

The DCF method values the business entity by discounting all future cash flows to present value. The discount rate is determined by the then prevailing risk-free rate, required market return, estimated beta of the Target Group and specific risk factors prevailing as at 31 December 2018.

Valuation Assumptions

Extract of the key assumptions of the valuation report are as follows:

General Assumptions

(a) There will be no major changes in existing political, legal, tax, fiscal or economic conditions in the country or district where the business is in operation;

(b) The inflation rate, interest rates and currency exchange rate will not differ materially from those then prevailing;

(c) The Target Group will retain their key management and technical personnel to maintain their ongoing operations;

(d) There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

(e) The Target Group will remain free from claims and litigation against the business or its customers that will have a material impact on value;

(f) The Target Group is unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements;

(g) The businesses of the Target Group are not subject to any unusual or onerous restrictions or encumbrances; and

(h) The potential bad debt of the Target Group will not materially affect their business operations.

Specific Assumptions

(a) The financial forecast of the Target Group can be achieved according to the projection of the Target Company's management from 2019 to 2023, in particular the timely completion of the manufacturing capacity expansion within the budgeted cost and the subsequent increase in sale at the projected margin.

(b) The Target Group will grow at the long term expected inflation rate in China after 2023 into perpetuality.

Financial Forecast Adopted

The five-year financial forecast is prepared by the Target Company, reviewed by the Directors and adopted by the valuer. The valuer has assessed the risk underlying the financial forecast and adopted an appropriate discount rate as at 31 December 2018 in their valuation based on market parameters. The Directors consider the financial forecast to be fair and reasonable based on their investigations and analyses. Key preparation basis and major assumptions are set out below:

(1) Revenue

(a) The financial forecast is prepared based on sale prices and sales volume of products.

(b) The average growth rate of the revenue of the Target Group from 2016 to 2018 is around 22%.

(c) The Target Group will transform and upgrade in 2019 to achieve the expansion of manufacturing capacity, which will be increased from 560,000 ton in 2019 to 660,000 ton in 2023. However, the blast furnace will be suspended of production for four months in 2019 in order to get overhauled and modified with an additional capital expenditure of approximately RMB116 million, which has been calculated into the future cash flow. Due to factors such as the stability of the blast furnace after resumption of production, the tentative effective production period of the Target Group is assumed to be six months in 2019. Based on the original manufacturing capacity in 2018, the volume of production for 2019 is expected to be approximately 50% of that in 2018.

(d) Since the sales volume of products and growth rate in 2019 will be affected by the above-mentioned transform plan, based on the average sale price in 2018 and the basic inflation rate of 3%, the revenue in 2019 is expected to decrease by 48% as compared with that in 2018. The revenue will increase with the recovery of sales volume in 2020. Based on the growth rate of average sale price per ton which is estimated to be 3% in 2019 to 2023, same as the inflation rate, the growth rate of revenue after 2023 will be stable at 3%.

(e) The growth rate of revenue of each year from 2019 to 2023 is -48%, 131%, 5%, 5% and 3%, and it will maintain a steady growth rate of 3% after 2023. Such change in revenue is mainly due to: (i) the growth rate of production volume from 2020 to 2022 being respectively 125%, 2% and 2% due to the reasons mentioned in Item (c) above and the anticipated production volume remaining unchanged after 2023; and (ii) the sale price being calculated based on a year-on-year increase of 3% in inflation rate.

(2) Cost

(a) The cost includes raw material for iron, labour cost, depreciation and amortization, electric charge, spare parts cost and others.

(b) The percentage of total cost to revenue ranged between 73%-75% from 2016 to 2018. In 2019, the percentage of total cost to revenue will be 81%, primarily due to the decrease of output by 50% and the increase of fixed cost-to-revenue ratio. The average growth rate of total cost will be 3% for each year from 2020 to 2023, and the percentage of total cost to revenue for each year from 2020 to 2023 will be 76%.

(3) Gross Profit

(a) The average gross profit margin from 2016 to 2018 is around 26%.

(b) The gross profit margin will increase gradually from 19% in 2019 to 24% during 2020 to 2023.

(4) Operating Expense

(a) The main operating expense includes selling and marketing expense, general and administrative expense and research and development expense.

(b) The selling and marketing expense is mainly daily cost of sales. The average selling and marketing expense as percentage of revenue from 2016 to 2018 is around 5.8%. With the increase of revenue, selling and marketing expense as percentage of revenue will decrease from 5.7% in 2019 to 5.0% in 2023.

(c) The general and administrative expense is mainly utilities and management salary. The general and administrative expense as percentage of revenue from 2016 to 2018 is around 2.4%. With the increase of revenue, general and administrative expense as percentage of revenue will decrease from 3.8% in 2019 to 1.9% in 2023.

(d) The research and development expense is mainly applied in determination of trace elements of products. The research and development expense as percentage of revenue from 2016 to 2018 is around 4.1%. In the forecast period from 2019 to 2023, research and development expense as percentage of revenue will maintain at 3%.

(5) Income Tax

Fushun Hanking D.R.I. obtained the certification of high-tech enterprises in October 2017. 15% income tax rate will be applied in 2019 and the 25% income tax rate will be applied from 2020.

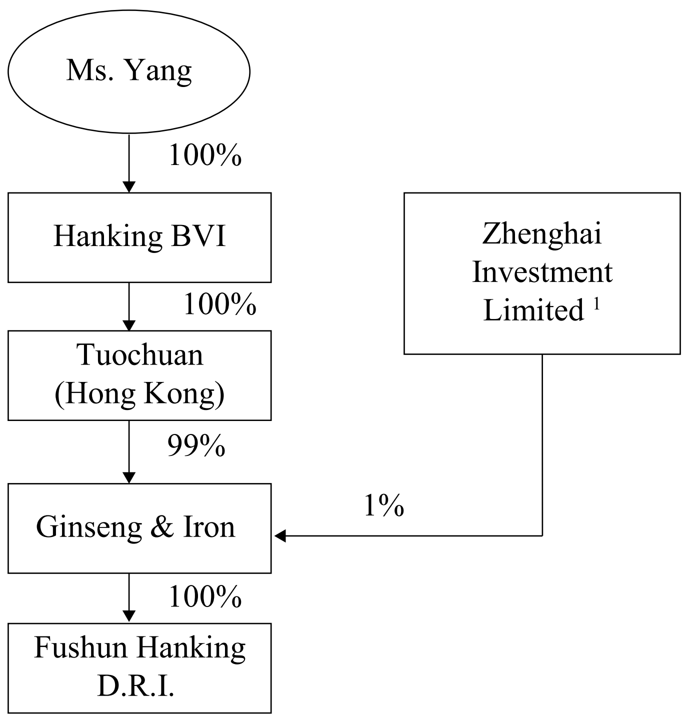
INFORMATION ON THE TARGET GROUP

Information on the Target Company

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015 and its equity interests held by Tuochuan Capital were transferred to the Seller on 17 December 2018. As at the date of this announcement, it is a wholly-owned subsidiary of the Seller. The Target Group is principally engaged in production and sale of high purity casting pig iron and ductile pig iron.

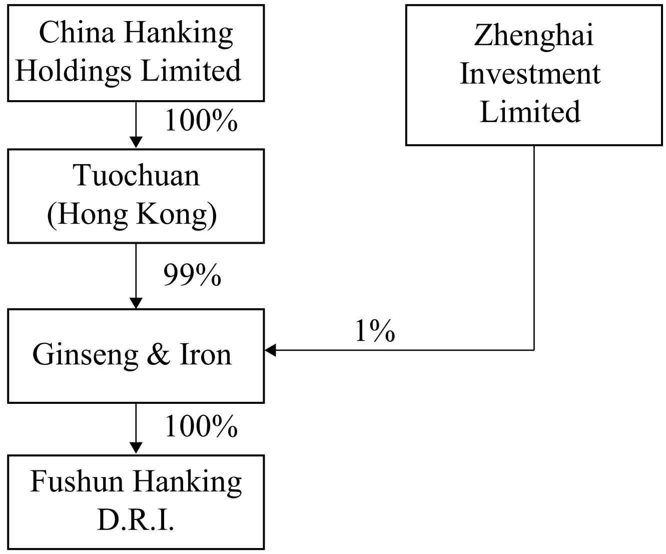
Shareholding Structure of the Target Group

As at the date of this announcement, the shareholding structure of the Target Group is as follows:



Note 1: Zhenghai Investment Limited is a company incorporated in the British Virgin Islands and it is wholly-owned by Mr. Lu Zhanfeng, an independent third party of the Company. Neither Zhenghai Investment Limited nor Mr. Lu Zhanfeng has any relationship with the Seller and its connected persons.

Upon Completion, the structure of the Target Group is as follows:



Ginseng & Iron was established by the controlling shareholders of the Company in 2011 and its then registered capital was RMB5 million. With its development, the registered capital was increased and as at the date of this announcement, the registered capital of Ginseng & Iron is RMB56,090,000.

Financial Information of the Target Group

Based on the unaudited consolidated financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards, the financial information of the Target Group for the three years ended 31 December 2018 are as follows:

	For the year ended 31 December 2016 *(RMB'000)*	**For the year ended 31 December 2017** *(RMB'000)*	**For the year ended 31 December 2018** *(RMB'000)*
Revenue	1,108,829	1,517,971	1,662,781
Profit before taxation	117,702	204,523	263,165
Profit after taxation	89,940	175,251	229,491

As a smelting plant, Fushun Hanking D.R.I. purchases raw materials and sells its products after smelting and processing. Its revenue and profits will be influenced by the price of raw materials and the sale price. The fluctuation trends of these two prices are basically the same, but the specific ranges are not. In 2018, the revenue of the Target Group increased by approximately RMB144,810,000 or 9.5%, mainly because the sale price of its principal products increased by 18% in 2018 as compared with that in 2017. Due to the Target Group's continuous improvement on technology, reduction on proportion of coke and increase of iron recovery rate, the sale cost has been efficiently saved and only increased by RMB77,624,000 or 6.8% in 2018 as compared with 2017. As the growth rate of the sale cost is lower than the one of the revenue, the net profits recorded a relatively higher growth rate.

The unaudited consolidated net asset value of the Target Group as at 31 December 2018 was approximately RMB14,666,000. The net asset value of the Target Group as at 31 December 2018 is lower than its fair value of shares because (i) the share capital of Tuochuan (Hong Kong), the subject of the unaudited consolidated financial statements, is only HK$1.00; and (ii) most profits of the Target Group were distributed to the shareholders every year and the total equity is only RMB15 million approximately.

INFORMATION ON THE SELLER

The Seller is a company incorporated with limited liability in British Virgin Islands having its registered office at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The Seller mainly engages in investment holding.

Mr. Yang, the chairman, an executive Director and a controlling shareholder of the Company, holding 60.19% of the Shares. He is the son of Ms. Yang. He holds 100% equity interests of Tuochuan Capital.

Ms. Yang, a controlling shareholder of the Company and the mother of Mr. Yang, holding 12.03% of the Shares. She holds 100% equity interests of Hanking BVI.

INFORMATION ON THE COMPANY

The Company is an investment holding company. The Company is a fast-growing international mining and metals group of companies, mainly engaging in exploitation, mining and processing of mineral resources and marketing of mineral products.

INFORMATION ON TUOCHUAN CAPITAL

Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, is a company established in British Virgin Islands and is principally engaged in investment holding.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Extend the Company's Industrial Chain

The iron ore concentrate produced by the Maogong Mining, which is a subsidiary of the Company, has high grade and low impurity content, especially almost having no titanium. By using the high-quality iron ore concentrate produced by Maogong Mining, the smelted pig iron can meet the requirement for producing high-end casting products including wind turbine castings. According to the industry report provided by Hatch Associates Ltd., Funshun Hanking D.R.I. is the largest wind power ductile pig iron manufacture enterprise in China with the sales volume of its main product, wind power ductile pig iron, accounting for over 50% of China's total amount and in accordance with the historical data, the sales price for wind power ductile pig iron is higher than that of steel making pig iron. Therefore, the Acquisition will help the Company to extend its industrial chain into the ductile pig iron area and increase the value of the high-quality iron ore concentrate produced by the Company.

Improve the Company's Revenue Scale and Profitability

In the past three years ended 31 December 2018, the revenue of the Target Group were RMB1,108,829,000, RMB1,517,971,000 and RMB1,662,781,000, respectively. And the ratio compared with the revenue of the Company's continuing operations were 137%, 144% and 143% respectively. The net profit of the Target Group in the past three years ended 31 December 2018 were RMB89,940,000, RMB175,251,000 and RMB229,491,000 respectively, and the ratio compared with the net (loss)/profit of the Company's continuing operations were (46)%, 135% and 124% respectively. The Acquisition will greatly enhance the Company's revenue scale and profitability, which lays a better foundation for the further development.

Reduce Connected Transactions Significantly

With the continuous increase of the iron ore concentrate production of Maogong Mining, the amount of iron ore concentrate sold by the Company to Fushun Hanking D.R.I. is also increasing. In the past three years, the transaction amount of the connected transactions between the Company and Fushun Hanking D.R.I. were RMB235,677,000, RMB413,700,000 and RMB452,456,000 respectively, accounting for 29%, 39% and 39% of the Company's sales revenue. In addition, Fushun Hanking D.R.I. planned to carry on a technological reform which would further increase its production in 2019. The amount of the connected transactions between the Company and Fushun Hanking D.R.I. will be expanded under this circumstance. In order to eliminate the connected transactions, the Company intends to complete the Acquisition to save the administrative cost for the Company.

Based on the foregoing, the Directors (other than the independent non-executive Directors who will express their views after receiving advice from the Independent Financial Adviser appointed by the Company) are of the view that the transactions contemplated under the Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Agreement and the transactions contemplated thereunder exceed 100%, the Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Mr. Yang, the son of Ms. Yang, and Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, are also connected persons of the Company. As such, the Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder.

In this connection, an Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder.

AGM

The AGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Meanwhile, Ms. Yang's sister owns 96.24% of Dengta Hanking Liuhe Iron Ore Co., Ltd. (燈塔市罕王柳河鐵礦有限責任公司), which is one of the major suppliers of the Target Group. Ms. Yang's sister does not have any Share of the Company but Ms. Yang's sister's son, Mr. Wang indirectly hold 2.35% shares of the Company. Mr. Yang, the son of Ms. Yang, and Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, are also connected persons of the Company. Ms. Yang, Mr. Yang and Mr. Wang are considered to have a material interest in the Agreement and the transactions contemplated thereunder and will be required to abstain from voting on the resolution in relation to the Agreement and the transactions contemplated thereunder. Save as disclosed above, there are no other associates of the controlling shareholders need to abstain from voting on the resolution in relation to the Agreement and the transactions contemplated thereunder.

DESPATCH OF CIRCULAR

A circular containing, among other things, (i) further information on the Agreement and the transactions contemplated thereunder; (ii) letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder; (iii) letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the Agreement and the transactions contemplated thereunder; (iv) the financial and other information on the Company; (v) the financial and other information on the Target Group; (vi) the pro forma financial information of the Enlarged Group upon the Completion; and (vii) the notice of the EGM, is expected to be dispatched to the Shareholders on or before 29 April 2019, which is more than 15 business days after the publication of this announcement as more time will be needed for the preparation of certain information to be included in the circular.

GENERAL

Completion of the Acquisition is subject to fulfillment of the Conditions set out in the Agreement, and the Acquisition may or may not proceed to Completion. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

"Acquisition"	the acquisition of 100% of the equity interests in the Target Company by the Company from the Seller pursuant to the Agreement
"AGM"	the annual general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Agreement and the transactions contemplated thereunder
"Agreement"	the Agreement for the Sale and Purchase of Tuochuan (Hong Kong) Limited, which dated 1 April 2019 entered into between the Company and the Seller in relation to the sale and purchase of 100% equity interests of the Target Company
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"Company"	China Hanking Holdings Limited (中國罕王控股有限公司)
"Completion"	the completion of the Acquisition pursuant to the terms of the Agreement
"Completion Date"	the date of the Completion
"Conditions"	the conditions precedent to Completion under the Agreement
"connected person"	has the meaning ascribed to it under the Listing Rules

"Consideration"	the purchase price of the Sale Share in the amount of RMB1,020 million payable by the Company to the Seller for the Acquisition under the Agreement
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Directors"	the directors of the Company
"Disposal"	the disposal of 70% equity interests of Hanking (Indonesia) by the Company to Tuochuan Capital pursuant to the Indonesia SPA
"Enlarged Group"	the Group and the Target Group
"Fushun Hanking D.R.I."	Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司), a limited liability company established in the PRC. It is principally engaged in production and sale of high purity casting pig iron and ductile pig iron, 99% of its interest is indirectly owned by Ms. Yang.
"Ginseng & Iron"	Fushun Hanking Ginseng & Iron Trading Company Limited (撫順罕王人參鐵貿易有限公司), a limited liability company established in the PRC
"Government Authority"	any nation or government, any state, municipality, or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory, administrative or other similar functions
"Group"	the Company and its subsidiaries
"Hanking BVI" or the "Seller"	China Hanking (BVI) Limited, holding 100% equity interest of the Target Company. The Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, holding 12.03% of the Shares
"Hanking Group"	Hanking Group Co., Limited (罕王實業集團有限公司), a limited liability company established in the PRC on 4 April 1996, whose shares are held as to 88.96% by Ms. Yang

"Hanking (Indonesia)"	Hanking (Indonesia) Mining Limited, a company incorporated in British Virgin Islands on 23 November 2012 with limited liability which was known as Northeastern Lion before 27 March 2013. As at the date of this announcement, it was held as to 70% and 30% by the Company and Evergreen Mining Limited respectively, of which Evergreen Mining Limited is an indirect wholly-owned subsidiary of Hanking Group
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder
"Independent Financial Adviser"	an independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders other than (i) Mr. Yang and Ms. Yang and (ii) any other Shareholders who have a material interest in the Agreement and the transactions contemplated thereunder
"Indonesia SPA"	the share sale and purchase agreement dated 5 July 2018, entered into among the Company (as the vendor), Tuochuan Capital (as the purchaser) and Mr. Yang (as the guarantor) in respect of the Disposal
"International Financial Reporting Standards"	The standard issued and/or adopted by the International Accounting Standards Board from time to time
"Liaoning Hanking"	Liaoning Hanking Investment Company Limited (遼寧罕王投資有限公司), a limited liability company established in the PRC and wholly owned by Mr. Yang and his spouse
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"Long Stop Date"	the last day by the end of three months after the passing of shareholders resolutions of the Company approving the execution of the Agreement, or such later date as the parties may agree
"Maogong Mining"	Fushun Hanking Maogong Mining Co., Ltd. (撫順罕王毛公鐵礦有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
"Material Adverse Change"	any event, matter or circumstance arising or occurring after the date of the Agreement which is, or is reasonably likely to be, materially adverse to the business, operations, assets, liabilities (including contingent liabilities), condition (financial, trading or otherwise), financial results or prospects of the Group Companies taken as a whole
"Mr. Yang" or the "Seller Guarantor"	Mr. Yang Jiye, who is (1) a Director of the Board, (2) a controlling shareholder of the Company, holding 60.19% of the Shares, (3) controlling shareholder, holding 100% of the shares of Tuochuan Capital and (4) the Seller Guarantor of the Agreement
"Ms. Yang"	Ms. Yang Min, a controlling shareholder of the Company, holding 12.03% of the Shares
"PRC" or "China"	the People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Advisers"	Jingtian & Gongcheng
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Share"	1 ordinary share in the issued share capital of the Target Company, being the entire issued share capital of the Target Company held by the Seller
"Seller Party(ies)"	the Seller and Mr. Yang
"Seller Parties' Warranties"	all the statement contained in schedule 3 of the Agreement
"Share(s)"	ordinary share(s) of par value HK$ 0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the shares of the Company from time to time

"Target Company" or "Tuochuan (Hong Kong)"	Tuochuan (Hong Kong) Limited, a private company limited by shares incorporated in Hong Kong having its registered office at 40th Floor, Sunlight Tower, No.248 Queen's Road East, Wanchai, Hong Kong
"Target Group"	the Target Company, together with its subsidiaries comprising Ginseng & Iron, Fushun Hanking D.R.I., and Lagu Branch of Fushun Hanking D.R.I. (撫順罕王直接還原鐵有限公司拉古分公司)
"Tuochuan Capital"	Tuochuan Capital Limited, a company established in British Virgin Islands and wholly-owned by Mr. Yang
"%"	per cent

By order of the Board
China Hanking Holdings Limited
Yang Jiye
Chairman and executive Director

Shenyang, the PRC, 1 April 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Yang Jiye, Mr. Zheng Xuezhi, Dr. Qiu Yumin and Mr. Xia Zhuo; the non-executive Director of the Company is Mr. Kenneth Jue Lee; and the independent non-executive Directors of the Company are Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan.