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中國秦發集團有限公司
CHINA QINF A GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 00866)

MAJOR TRANSACTION

**ACQUISITION OF 60% EQUITY INTEREST IN
ORDOS BAYIN MENGKE NAYUAN COAL
AND
DELAY IN DESPATCH OF THE CIRCULAR**

THE ACQUISITION

The Board is pleased to announce that Jinfa Materials entered into the Acquisition and Debt Restructuring Agreement on 30 December 2009. Pursuant to the Acquisition and Debt Restructuring Agreement, Jinfa Materials has agreed to acquire from the Vendors 60% equity interest in Ordos Bayin Mengke Nayuan Coal for an aggregate consideration of RMB857.3 million (equivalent to approximately HK\$974.2 million). The aggregate consideration is divided into two parts: (1) an amount of RMB752.14 million (equivalent to approximately HK\$854.7 million) is to be received by the Vendors and (2) an amount of RMB105.16 million (equivalent to approximately HK\$119.5 million) will be applied by Ordos Bayin Mengke Nayuan Coal for the full settlement of the Debts. Upon Completion, Ordos Bayin Mengke Nayuan Coal will become a 60% non-wholly owned subsidiary of the Company.

The Directors believe that the Acquisition will enable the Group to strengthen its strategic position in sourcing quality coal from the coal mines in the Inner Mongolia Autonomous Region. Pursuant to the Acquisition and the Debt Restructuring Agreement, Jinfa Materials will have a right of first refusal to procure other members of the Group to purchase all coal extracted by Ordos Bayin Mengke Nayuan Coal for a period of five years commencing from the Completion Date.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction (as such term is defined under the Listing Rules) for the Company as one or more of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) exceed 25% but do not exceed 75%, and are subject to approval by the Shareholders. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Acquisition, written shareholders' approval will be accepted in lieu of the general meeting on the condition that the Accountants' Report 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 Acquisition. The Company will make a further announcement at the time of despatch of relevant circular to its Shareholders.

DELAY IN DESPATCH OF THE CIRCULAR

Pursuant to Rule 14.38A of the Listing Rules, the Company is required to send a circular to its Shareholders within 21 days from the date of this announcement. The contents of the circular are required under Rule 14.66 of the Listing Rules, and one of which is the updated financial information on Ordos Bayin Mengke Nayuan Coal and the Group following Completion. As Completion is expected to take place in May 2010 and the Directors intend to include in the circular the updated financial information based on the audited results of the Group for the year ending 31 December 2009, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 14.38A of the Listing Rules on the conditions that (i) the circular for the Acquisition will need to be dispatched to the Shareholders by no later than 31 May 2010 and (ii) the contents of the circular shall be in full compliance with content requirements of Rules 14.66 and 18.09 of the Listing Rules (as applicable hereto under Rule 18.07(1) of the Listing Rules).

BACKGROUND INFORMATION

The Board is pleased to announce that Jinfa Materials entered into the Acquisition and Debt Restructuring Agreement on 30 December 2009. Pursuant to the Acquisition and Debt Restructuring Agreement, Jinfa Materials has agreed to acquire from the Vendors 60% equity interest in Ordos Bayin Mengke Nayuan Coal for an aggregate consideration of RMB857.3 million (equivalent to approximately HK\$974.2 million). The aggregate consideration is divided into two parts: (1) an amount of RMB752.14 million (equivalent to approximately HK\$854.7 million) is to be received by the Vendors and (2) an amount of RMB105.16 million (equivalent to approximately HK\$119.5 million) will be applied by Ordos Bayin Mengke Nayuan Coal for full settlement of the Debts. Upon Completion, Ordos Bayin Mengke Nayuan Coal will become a 60% non-wholly owned subsidiary of the Company.

INFORMATION ON ORDOS BAYIN MENGKE NAYUAN COAL

Ordos Bayin Mengke Nayuan Coal has a fully-paid registered capital of RMB102.0 million with the principal business of providing technical upgrades to coal mine and exploration of the relevant coal resources from the coal mine which it has been granted the relevant approvals for mining. Ordos Bayin Mengke Nayuan Coal has been selling the coal extracted from the coal mine since the date of its establishment. As of the date of the Acquisition and Debt Restructuring Agreement, Ordos Bayin Mengke Nayuan Coal was owned as to 90.2% by Bayin Mengke Investment, 8.82% by Mr. LI Shan and 0.98% by Ms. WANG Liying, all of them are Independent Third Parties prior to Completion.

The unaudited total assets and net assets of Ordos Bayin Mengke Nayuan Coal (excluding the valuation of the relevant coal reserve) as of 30 November 2009 amounted to approximately RMB227.5 million and approximately RMB97.3 million, respectively (equivalent to approximately HK\$258.5 million and approximately HK\$110.6 million, respectively).

According to the unaudited management accounts of Ordos Bayin Mengke Nayuan Coal, it recorded a net profit of approximately RMB1.7 million before taxation and extraordinary items and a net profit of approximately RMB1.1 million after taxation and extraordinary items for the year ended 31 December 2007. Ordos Bayin Mengke Nayuan Coal also recorded a net profit of approximately RMB2.0 million before taxation and extraordinary items and a net profit of approximately RMB1.5 million after taxation and extraordinary items for the year ended 31 December 2008.

INFORMATION ON THE COAL MINE OF ORDOS BAYIN MENGKE NAYUAN COAL

Ordos Bayin Mengke Nayuan Coal holds the mining right on a coal mine with a site area of approximately 29.1 square kilometers. The coal mine is located at Dongsheng District of Ordos, the Inner Mongolia Autonomous Region, the PRC and is within 100 kilometers from the Group's coal loading stations in Baotou with easy access to railway and highway. According to a study endorsed and approved by the Land Resources Bureau and conducted by Longwang Geological Exploration in 2007, the coal reserve of the coal mine that Ordos Bayin Mengke Nayuan Coal has been granted the mining right amounts to approximately 158.76 million tonnes. The mining licence held by Ordos Bayin Mengke Nayuan Coal, which states that the relevant coal mine will have an annual coal output capacity of not less than 900,000 tonnes, is valid for three years from June 2008 to June 2011. As confirmed by the PRC Legal Advisers, the mining licence may be renewed by Ordos Bayin Mengke Nayuan Coal upon the expiration of the existing licence without any legal obstacle. Ordos Bayin Mengke Nayuan Coal is applying to the relevant PRC government authorities to increase the annual coal output capacity to 3,000,000 tonnes. Ordos Bayin Mengke Nayuan Coal has adopted the open cast method in coal mining in accordance with the Approval in Relation to Fire-fighting Measures Preliminary Design issued by the Administration of Coal Industry of Inner Mongolia Autonomous Region. The coal is thermal coal with low sulphur content, low to medium ash content and high calorific value that is suitable for use in thermal power generation, industrial furnace, steam locomotive, ships and for domestic fuels.

The construction of the underground mining tunnels of the coal mine has been completed. Ordos Bayin Mengke Nayuan Coal is in the process of purchasing the coal mining equipment. Upon completion of the installation of the equipment and the relevant production testing, Ordos Bayin Mengke Nayuan Coal will apply for the Coal Production Permit (煤炭生產許可證) and the Coal Production Safety Permit (安全生產許可證) from the relevant PRC government authorities for the commencement of commercial

production, which is expected to take place by the end of 2010. The capital expenditure required to be incurred for completion of these production facilities is estimated to be approximately RMB100.0 million.

PRINCIPAL TERMS OF THE ACQUISITION AND DEBT RESTRUCTURING AGREEMENT

The following table sets forth the detailed terms of the Acquisition and Debt Restructuring Agreement:–

Date: 30 December 2009

Parties: Purchaser: Jinfa Materials
Vendor: the Vendors

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the Vendors and the ultimate beneficial owners of Bayin Mengke Investment, i.e. Mr. LI Shan and Ms. WANG Liying, are Independent Third Parties. Following Completion, the Bayin Mengke Investment, which will continue to hold 40% equity interest in Ordos Bayin Mengke Nayuan Coal, will become a connected person (as such term is defined under the Listing Rules) of the Company and a controlling shareholder (as such term is defined under the Listing Rules) of a non-wholly owned subsidiary of the Company.

The equity interest to be acquired: Jinfa Materials shall acquire 60% equity interest in Ordos Bayin Mengke Nayuan Coal from the Vendors as follows:–

1. 50.2% equity interest owned by Bayin Mengke Investment;
2. 8.82% equity interest owned by Mr. LI Shan; and
3. 0.98% equity interest owned by Ms. WANG Liying.

Upon Completion, Ordos Bayin Mengke Nayuan Coal will be owned as to 40% by Bayin Mengke Investment and 60% by Jinfa Materials, and will thus become a 60% non-wholly owned subsidiary of the Company.

Consideration: The aggregate consideration payable by Jinfa Materials shall be RMB857.3 million (equivalent to approximately HK\$974.2 million) comprising (1) an amount of RMB752.14 million (equivalent to approximately HK\$854.7 million) to be received by the Vendors and (2) an amount of RMB105.16 million (equivalent to approximately HK\$119.5 million) to be applied by Ordos Bayin Mengke Nayuan Coal for the full settlement of the Debts.

The Directors confirm that the amount of the consideration is determined after arm's length negotiations between Jinfa Materials and the Vendors with reference to the estimated market value of the coal reserve of the coal mine in which Ordos Bayin Mengke Nayuan Coal has been granted the mining right. In this regard, the Directors rely on the information of 158.76 million tonnes of coal reserve set forth in the study endorsed and approved by the Land Resources Bureau and conducted by Longwang Geological Exploration in 2007 as the Land Resources Bureau is the official authority in China to endorse the reserve of coal mine. The market price for the coal is agreed to be RMB9.0 (equivalent to approximately HK\$10.2) per tonne pursuant to the negotiations between the parties. The Directors consider that based on this price of coal and with reference to a valuation report on Ordos Bayin Mengke Nayuan Coal in December 2009 issued by an independent firm of accountants in China, Guang Shi Certified Public Accountants (廣實會計師事務所), which is qualified to provide valuation service on mining right in the PRC, the consideration for the Acquisition is fair and reasonable.

Payment schedule:

The consideration shall be payable by Jinfa Materials in three instalments as follows:–

- RMB61.2 million (equivalent to approximately HK\$69.5 million) shall be payable by Jinfa Materials to the Vendors within three days after the date of the Acquisition and Debt Restructuring Agreement;
- RMB600.0 million (equivalent to approximately HK\$681.8 million) shall be payable by Jinfa Materials to the Vendors within 30 days from the registration date of the transfer of the 60% equity interest in Ordos Bayin Mengke Nayuan Coal approved by the relevant PRC government authorities; and
- the remaining RMB196.1 million (equivalent to approximately HK\$222.8 million) shall be payable by Jinfa Materials to the Vendors and Ordos Bayin Mengke Nayuan Coal within 180 days from the registration date of the transfer of the 60% equity interest in Ordos Bayin Mengke Nayuan Coal by the relevant PRC government authorities.

Completion:

Completion is conditional upon the approval on the Acquisition by the Shareholders, and shall take place upon completion of the transfer of the 60% equity interest in Ordos Bayin Mengke Nayuan Coal as approved by the relevant PRC government authorities.

Restriction on disposal of the equity interest:

Within two years upon Jinfa Materials becoming a holder of the equity interest in Ordos Bayin Mengke Nayuan Coal (the “**Restriction Period**”), Jinfa Materials shall not transfer the equity interest in Ordos Bayin Mengke Nayuan Coal to any Independent Third Party.

Sales of coal: During a period of five years commencing from the Completion Date, all coal extracted by Ordos Bayin Mengke Nayuan Coal from its coal mine shall be sold to members of the Group in China at the prevailing market prices. However, if Jinfa Materials ceases to be interested in Ordos Bayin Mengke Nayuan Coal, such exclusive right of coal purchase shall be terminated immediately.

Other material obligations of the Vendors: Prior to Completion, the Vendors shall be responsible for settling (i) all the outstanding debts of Ordos Bayin Mengke Nayuan Coal save for the Debts and (ii) all liabilities due to coal production safety issues of the coal mine.

Breach of agreement: If the Acquisition is not approved for registered by the relevant PRC government authorities within 30 days from the date of the Acquisition and Debt Restructuring Agreement:–

1. due to any breach by the Vendors, the Vendors shall (a) refund all the consideration which shall have been paid by Jinfa Materials and (b) pay an additional 10% of the amount payable to Jinfa Materials within 10 days as the liquidated damages;
2. due to any breach by Jinfa Materials, the Vendors shall be entitled to forfeit 10% of the consideration paid by Jinfa Materials,

and the Acquisition and Debt Restructuring Agreement shall be terminated accordingly.

FINANCING FOR THE ACQUISITION AND NO CHANGE IN THE USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

Jinfa Materials intends to arrange for bank borrowings to finance the payment of 65% of the consideration, i.e. approximately RMB557.2 million (equivalent to approximately HK\$633.2 million), for the Acquisition, with the remaining 35% of the consideration, i.e. approximately RMB300.1 million (equivalent to approximately HK\$341.0 million), to be funded by the internal financial resources of the Group. As of the date of this announcement, the Group has not entered into any agreement for the debt financing of the Acquisition.

The consideration payable by the Group will not affect the use of the net proceeds from the Global Offering.

REASONS FOR THE ACQUISITION

The Directors believe that the Acquisition will enable the Group to strengthen its strategic position in sourcing quality coal from the coal mines in the Inner Mongolia Autonomous Region. Pursuant to the Acquisition and the Debt Restructuring Agreement, Jinfa Materials will have a right of first refusal to procure other members of the Group to purchase all coal extracted by Ordos Bayin Mengke Nayuan Coal for a period of five years commencing from the Completion Date.

The PRC Legal Advisers have advised that the business operation of Ordos Bayin Mengke Nayuan Coal is lawful and that all the licences and approvals held by Ordos Bayin Mengke Nayuan Coal, i.e. business licence, enterprise code certificate, tax registration certificates and mining licence, are valid and subsisting. The PRC Legal Advisers also confirm that Ordos Bayin Mengke Nayuan Coal has the required mining right and can sell the coal to Jinfa Materials pursuant to the terms and conditions of the Acquisition and Debt Restructuring Agreement. The PRC Legal Advisers further confirm that Ordos Bayin Mengke Nayuan Coal has not breached any laws and regulations and that the Vendors are entitled to sell the 60% equity interest to Jinfa Materials upon Completion. The Acquisition and Debt Restructuring Agreement is valid and enforceable and, save for the approval and consent from the PRC government authorities on the transfer of the 60% equity interest, all other approvals and consents have been obtained.

Based on the confirmations by the PRC Legal Advisers, the Directors consider that Ordos Bayin Mengke Nayuan Coal does not have material liabilities which may adversely affect the Acquisition.

GENERAL INFORMATION

Information on the Vendors

Bayin Mengke Investment was established under the laws of the PRC as a limited liability company on 16 January 2007 with a registered capital of RMB200.0 million, and its principal business is investment holding in various industries such as real estate, construction, infrastructure, travel, entertainment, food and beverage, agriculture and mining. Bayin Mengke Investment is the registered owner of 90.2% equity interest in Ordos Bayin Mengke Nayuan Coal as of the date of the Acquisition and Debt Restructuring Agreement and will continue to hold 40% equity interest in Ordos Bayin Mengke Nayuan Coal following Completion.

Both Mr. LI Shan and Ms. WANG Liying are PRC nationals.

Information on Jinfa Materials and the Company

Jinfa Materials is a limited liability company established in the PRC on 5 November 2009 with a registered capital of RMB10.0 million and is a wholly-owned subsidiary of the Company. The scope of business of Jinfa Materials includes trading of metal and chemical materials.

The Company is an investment holding company with the Shares listed on the Stock Exchange. The Group is principally engaged in the coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction (as such term is defined under the Listing Rules) for the Company as one or more of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) exceed 25% but do not exceed 75%, and are subject to approval by the Shareholders. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Acquisition, written shareholders' approval will be accepted in lieu of the general meeting on the condition that the Accountants' Report 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 Acquisition. The Company will make a further announcement at the time of despatch of relevant circular to its Shareholders.

The Directors (including the independent non-executive Directors) confirm that the terms and conditions of the Acquisition and Debt Restructuring Agreement are fair and reasonable and negotiated on an arm's length basis upon normal commercial terms. Having considered the terms and conditions of the Acquisition and Debt Restructuring Agreement and the benefits that may be obtained from the Acquisition, the Directors (including the independent non-executive Directors) further confirm that the Acquisition and Debt Restructuring Agreement and the Acquisition are in the interest of the Group and the Shareholders as a whole.

DELAY IN DESPATCH OF THE CIRCULAR

Pursuant to Rule 14.38A of the Listing Rules, the Company is required to send a circular to its Shareholders within 21 days from the date of this announcement. The contents of the circular are required under Rule 14.66 of the Listing Rules, and one of which is the updated financial information on Ordos Bayin Mengke Nayuan Coal and the Group following Completion. As Completion is expected to take place in May 2010 and the Directors intend to include in the circular the updated financial information based on the audited results of the Group for the year ending 31 December 2009, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 14.38A of the Listing Rules on the conditions that (i) the circular for the Acquisition will need to be dispatched to the Shareholders by no later than 31 May 2010 and (ii) the contents of the circular shall be in full compliance with content requirements of Rules 14.66 and 18.09 of the Listing Rules (as applicable hereto under Rule 18.07(1) of the Listing Rules).

DEFINITIONS

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

“Accountants’ Report” the accountants’ report to be prepared in respect of Ordos Bayin Mengke Nayuan Coal pursuant to Rule 14.33 of the Listing Rules;

“Acquisition”	the acquisition of 60% equity interest in Ordos Bayin Mengke Nayuan Coal by Jinfa Materials pursuant to the Acquisition and Debt Restructuring Agreement;
“Acquisition and Debt Restructuring Agreement”	the agreement dated 30 December 2009 and entered into between Jinfa Materials and the Vendors for the purpose of the Acquisition;
“Bayin Mengke Investment”	鄂爾多斯市巴音孟克投資集團有限公司 (Ordos Bayin Mengke Investment Group Company Limited*), a limited liability company established on 16 January 2007 under the laws of the PRC, an Independent Third Party and owned by Mr. LI Shan (李山), Ms. WANG Liying (王麗英) and their son Mr. LI Long (李龍);
“Board”	the board of Directors;
“China” or “PRC”	The People’s Republic of China which excludes, for the purpose of this announcement, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;
“Company”	China Qinfa Group Limited (中國秦發集團有限公司) (Stock code: 00866), a company incorporated on 4 March 2008 under the laws of the Cayman Islands with limited liability with all the Shares listed on the Stock Exchange;
“Completion”	completion of the Acquisition which is expected to take place around May 2010;
“Completion Date”	the date on which Completion takes place;
“Debts”	<p>the debts due by Ordos Bayin Mengke Nayuan Coal to various parties in an aggregate amount of RMB105.16 million (equivalent to approximately HK\$119.5 million) comprising:–</p> <ul style="list-style-type: none"> • RMB98,360,000 (equivalent to approximately HK\$111.8 million) to the Land Resources Bureau as the fee for the coal resources in the coal mine; • RMB2,000,000 (equivalent to approximately HK\$2.3 million) to Bayin Mengke Investment for repayment of advancement; and • RMB4,800,000 (equivalent to approximately HK\$5.5 million) for outstanding construction fees; and
“Directors”	the directors of the Company;

“Global Offering”	the global offering of Shares by the Company as set forth in the prospectus of the Company dated 19 June 2009;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	third party(ies) who is/are independent of the Company, the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules;
“Jinfa Materials”	鄂爾多斯市晉發物資有限公司 (Ordos Jinfa Materials Company Limited*), a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of the Company;
“Land Resources Bureau”	內蒙古自治區國土資源廳 (Inner Mongolia Autonomous Region Land Resources Bureau*);
“Listing Rules”	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;
“Longwang Geological Exploration”	內蒙古龍旺地質勘探有限責任公司 (Inner Mongolia Longwang Geological Exploration Company Limited*), a limited liability company established under the laws of the PRC;
“Ordos Bayin Mengke Nayuan Coal”	鄂爾多斯市巴音孟克納源煤炭有限責任公司 (Ordos Bayin Mengke Nayuan Coal Company Limited*), a limited liability company established on 13 September 2007 under the laws of the PRC and an Independent Third Party prior to Completion;
“PRC Legal Advisers”	Commerce & Finance Law Offices
“RMB”	Renminbi yuan, the lawful currency of China;
“Shares”	shares of HK\$0.1 each in the share capital of the Company;
“Shareholders”	holders of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and

“Vendors”

Bayin Mengke Investment, Mr. LI Shan (李山) and Ms. WANG Liying (王麗英), all being Independent Third Parties.

By Order of the Board
China Qinfra Group Limited
XU Jihua
Chairman of the Board

Hong Kong, 30 December 2009

* *English translation for identification only.*

Unless otherwise specified, translations of RMB into HK\$ in this announcement are based on the rates of HK\$1.0 = RMB0.88. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

As at the date of this announcement, the Board comprises Mr. XU Jihua, Ms. WANG Jianfei, Ms. LIU Xiaomei and Mr. WENG Li as the executive Directors, and Dr. CHEN Wenjing, Mr. HUANG Guosheng and Mr. LAU Sik Yuen as the independent non-executive Directors.