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Kinetic Development Group Limited

力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

MAJOR AND CONNECTED TRANSACTION LOAN AGREEMENT

THE LOAN AGREEMENT

Reference is made to the Company's announcement dated 6 December 2021, where ZGE Fuliang, IM Fuliang and IM Kinetic entered into an agreement, pursuant to which, ZGE Fuliang and IM Fuliang agreed to sell, and IM Kinetic agreed to purchase, 100% of the equity interest in Wuhai Fuliang for a consideration of RMB15,000,000.

Reference is also made to (i) the Company's announcement dated 24 December 2021 in relation to, among others, the acquisition of the 75% equity interest in the Target Company from Guizhou Energy for the consideration of RMB1,100,000,000 and (ii) the Company's subsequent announcement dated 30 March 2022 in relation to the delay in dispatch of circular on the Guizhou Acquisition.

The Board announces that on 28 June 2022, after trading hours, Guizhou Mining, as the Lender, and Guizhou Energy, as the Borrower, entered into the Loan Agreement, pursuant to which Guizhou Mining agreed to provide the Loan to Guizhou Energy in the principal amount of up to RMB200 million for a term of 2 years commencing from the Interest Calculation Date.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Borrower is ultimately 100% owned by Mr. Zhang Li, a former Director in the last 12 months and a substantial shareholder of the Company. As such, the Borrower is an associate thus a connected person of the Company, and the Loan constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Given the Loan is proposed to be made by the Group to Guizhou Energy, a vendor in respect of the Guizhou Acquisition, and that Guizhou Energy as the Borrower under the Loan is a wholly-owned subsidiary of ZGE Fuliang, a vendor in respect of the Dikuang Acquisition, taking into account the fact that the Loan is proposed to be made within a 12-months period of the consummation of these acquisitions, the Relevant Transactions are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Relevant Transactions, on an aggregate basis, is more than 25%, the Loan and the Guizhou Acquisition constitute major transactions of the Company, and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, approve the Loan and the Guizhou Acquisition. Mr. Zhang Li, Mr. Zhang Liang, Johnson and their respective associates will abstain from voting at the EGM. An Independent Board Committee of the Company will be formed to advise the Independent Shareholders in respect of the Loan and the Guizhou Acquisition. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

A circular containing, among other things, (i) further details of the Loan Agreement and the Guizhou Acquisition Agreement; (ii) further details of the Target Company and the Target Mine; (iii) the financial information of the Group and the Target Company; (iv) the valuation report and competent person's report of the Target Mine; (v) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Loan and the Guizhou Acquisition; (vi) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Loan and the Guizhou Acquisition; and (vii) a notice to convene the EGM, will be dispatched to the Shareholders as soon as possible and is currently intended to be on or before 30 September 2022 (as extended by the Delay Announcement), to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

As the Loan and the Guizhou Acquisition are subject to, among other conditions, Independent Shareholders' approval, these transactions may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

Reference is made to the Company's announcement dated 6 December 2021, where ZGE Fuliang, IM Fuliang and IM Kinetic entered into an agreement, pursuant to which, ZGE Fuliang and IM Fuliang agreed to sell, and IM Kinetic agreed to purchase, 100% of the equity interest in Wuhai Fuliang for a consideration of RMB15,000,000.

Reference is also made to (i) the Company's announcement dated 24 December 2021 in relation to, among others, the acquisition of the 75% equity interest in the Target Company from Guizhou Energy for the consideration of RMB1,100,000,000 and (ii) the Company's subsequent announcement dated 30 March 2022 in relation to the delay in dispatch of circular on the Guizhou Acquisition.

The Board announces that on 28 June 2022, after trading hours, Guizhou Mining, as the Lender, and Guizhou Energy, as the Borrower, entered into the Loan Agreement, pursuant to which Guizhou Mining agreed to provide the Loan to Guizhou Energy in the principal amount of up to RMB200 million for a term of 2 years commencing from the Interest Calculation Date.

THE LOAN AGREEMENT

The principal terms of the Loan Agreement are set out below.

Date:	28 June 2022
Parties:	(i) Guizhou Mining, as the Lender; (ii) Guizhou Energy, as the Borrower.
Subject matter:	Pursuant to the Loan Agreement, the Lender agreed to provide the Loan to the Borrower.
Principal amount of the Loan:	Up to RMB200 million.
Terms of the Loan:	2 years commencing from the Interest Calculation Date.
Interest:	The Loan shall bear interest from and including the Interest Calculation Date at an annual interest rate calculated by adding 1.5% on top of the one year loan prime rate (LPR) in PRC in effect during the terms of the Loan.

**Purpose and Drawdown
Mechanism:**

The Loan shall be used by the Borrower for the construction and operation of the Target Mine. To access the Loan, the Borrower shall give the Lender three business days' prior written notice specifying, to the satisfaction of the Lender, details such as the amount requested under the Loan Agreement and the bank account to which such amount shall be remitted.

**Payment of interest and
Repayment of Principal:**

The principal amount of the Loan and the interest accrued thereunder shall be repayable in full upon expiration of the term of the Loan.

During the term of the Loan, the Borrower may make prepayment of any portion of the principal amount and/or interest accrued under the Loan provided that the Borrower shall give the Lender five business days' prior notice. In such case, the interest accrued on the relevant principal amount so prepaid shall be calculated based on the actual time period during which the principal amount was lent to the Borrower.

Liability for Breach:

If the Borrower fails to repay any principal amount or outstanding interest pursuant to the terms of the Loan Agreement, the Borrower shall be liable to pay the Lender default interest at the rate of 150% of the interest rate specified in the Loan Agreement, until all such outstanding amount(s) has been repaid by the Borrower.

The Borrower would be deemed to be in breach of the Loan Agreement and would be liable for liquidated damages payable to the Lender, which are calculated as an amount equivalent to 10% of all outstanding amounts owed to the Lender, if any of the following circumstances occurs:

- 1) The Borrower uses the Loan for purposes other than those stipulated in the Loan Agreement, or fails to make any repayment on time and such failure lasts for more than 5 days;
- 2) The Borrower provides any false information to, conceals any material fact from, or breaches any representation or warranty which it has made to, the Lender;

- 3) The Borrower fails to inform the Lender in writing and to take adequate safeguard measures to ensure its ability to make repayments to the Lender, upon the occurrence of circumstances including the Borrower (i) materially breaching any of its contracts with third parties, (ii) facing any material debt liability or financial difficulty, or (iii) being involved in any material dispute and/or any other circumstances that may impair the Borrower's ability to make repayments under the Loan Agreement;
- 4) The Borrower dissipates or disposes of its assets, or its reputation, credit status or financial standing has significantly worsened;
- 5) The Borrower cannot be contacted through the contact information provided by it to the Lender; and
- 6) Any other circumstances that may adversely impact the Lender's rights under the Loan Agreement.

If the Borrower fails to repay any outstanding amount and such failure lasts for more than 5 days, the Lender may declare all outstanding amounts under the Loan Agreement due and payable with immediate effect, including the outstanding principal amount, accrued interest, liquidated damages and other fees and expenses incurred pursuant to the Loan Agreement.

The Loan will be provided by the Lender using the Group's internal resources.

INFORMATION OF PARTIES INVOLVED

The Group principally engages in the extraction and sales of coal products.

The Lender is an indirect wholly-owned subsidiary of the Company. It principally engages in the investment, management and sales of coal products, and manufacturing and sales of mining equipment.

The Borrower is a limited liability company established in the PRC on 27 September 2011. The Borrower principally engages in the management of mining assets investment, sales of mining products and manufacturing and sales of mining machineries. The Borrower is ultimately 100% owned by Mr. Zhang Li, a director of the Company in the last 12 months and a substantial shareholder. As such, the Borrower is a connected person of the Company and the Loan constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LOAN AGREEMENT

Whilst the Group's proposed acquisition of 75% of the shares of the Target Company, the sole operator of the Target Mine, is still progressing, the provision of the Loan will facilitate the construction and development of the Target Mine with a view to achieve operation stage (and therefore start generating revenue) as early as possible.

In addition, the Directors consider that the Loan (i) represents a good opportunity for the Group to generate an additional income stream in the form of interest income pursuant to the terms of the Loan Agreement and (ii) would allow the Group to utilize its surplus cash more efficiently to generate an additional return, and thus maximise the Group's return on its available cash reserves.

The terms and conditions of the Loan Agreement (including the interest rate) are negotiated on an arm's length basis between the Lender and Borrower with reference to the prevailing commercial lending rate. The Directors (excluding the independent non-executive Directors, being members of the Independent Board Committee, who reserve their views pending receipt of advice from the Independent Financial Adviser) consider that the Loan Agreement is entered into on normal commercial terms, fair and reasonable, and in the interest of the Shareholders as a whole.

Ms. Zhang Lin, a non-executive Director, being an associate to Mr. Zhang Li who has material interest under the Loan Agreement, had abstained from voting at the Board meeting approving the Loan Agreement and the transactions thereunder in accordance with the articles of association of the Company.

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Given the Loan is proposed to be made by the Group to Guizhou Energy, a vendor in respect of the Guizhou Acquisition, and given that Guizhou Energy as the Borrower under the Loan is a wholly-owned subsidiary of ZGE Fuliang, a vendor in respect of the Dikuang Acquisition, taking into account the fact that the Loan is proposed to be made within a 12-months period of the consummation of these acquisitions, the Relevant Transactions are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Relevant Transactions, on an aggregate basis, is more than 25%, the Loan and the Guizhou Acquisition constitute major transactions of the Company, and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, approve the Loan and the Guizhou Acquisition. Mr. Zhang Li, Mr. Zhang Liang, Johnson and their respective associates will abstain from voting at the EGM. An Independent Board Committee of the Company will be formed to advise the Independent Shareholders in respect of the Loan and the Guizhou Acquisition. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

A circular containing, among other things, (i) further details of the Loan Agreement and the Guizhou Acquisition Agreement; (ii) further details of the Target Company and the Target Mine; (iii) the financial information of the Group and the Target Company; (iv) the valuation report and competent person's report of the Target Mine; (v) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Loan and the Guizhou Acquisition; (vi) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Loan and the Guizhou Acquisition; and (vii) a notice to convene the EGM, will be dispatched to the Shareholders as soon as possible and is currently intended to be on or before 30 September 2022 (as extended by the Delay Announcement), to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

As the Loan and the Guizhou Acquisition are subject to Independent Shareholders' approval, these transactions may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Baosen District”	Guizhou Liupanshui Baosen Exploration District* (貴州省六盤水市寶森勘查區);
“Company”	Kinetic Development Group Limited (formerly known as Kinetic Mines and Energy Limited), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the director(s) of the Company;
“Delay Announcement”	the announcement of the Company dated 30 March 2022 in relation to the delay in dispatch of circular in relation to the Guizhou Acquisition;
“Dikuang Acquisition”	the acquisition of 100% equity interest in Wuhai Fuliang;
“EGM”	the extraordinary general meeting to be convened to consider, and, if thought fit, approve the Loan and the Guizhou Acquisition;
“Guizhou Acquisition”	the proposed acquisition of the 75% equity interest of the Target Company from the Guizhou Energy;
“Guizhou Acquisition Agreement”	The acquisition agreement for Target Mine entered into between Guizhou Energy as vendor and Guizhou Mining as purchaser on 24 December 2021 in relation to the Guizhou Acquisition;
“Guizhou Mining” or the “Lender”	Guizhou Kinetic Mines Co., Ltd.* (貴州力量礦業有限公司), a limited liability company established in the PRC on 21 December 2020, and the Purchaser with respect to the Guizhou Acquisition;

“Guizhou Energy” or the “Borrower”	Guizhou Kinetic Energy Co., Ltd.* (貴州力量能源有限公司), a limited liability company established in the PRC on 27 September 2011, and the Vendor with respect to the Guizhou Acquisition;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IM Fuliang”	Inner Mongolia Fuliang Mining Co., Limited* (內蒙古富量礦業有限公司), a limited liability company established in the PRC and owned by Mr. Zhang Xiaolin as to 0.5% and ZGE Fuliang as to 99.5%, a vendor in Dikuang Acquisition;
“IM Kinetic”	Inner Mongolia Zhunge’er Kinetic Coal Limited* (內蒙古准格爾旗力量煤業有限公司), a PRC company incorporated on 22 December 2006 and the Company’s indirect wholly-owned subsidiary;
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors;
“Interest Calculation Date”	the date on which the Loan is remitted by the Lender;
“Independent Financial Adviser”	the independent financial adviser to be appointed to advise the Independent Board Committee in relation to the Loan Agreement and the transactions contemplated thereunder;
“Independent Shareholder(s)”	Shareholders other than (i) Mr. Zhang Li, who is considered to have a material interest in, are interested in or involved in the Loan Agreement and the transactions contemplated thereunder, (ii) Mr. Zhang Liang, Johnson, being an associate of Mr. Zhang Li and (iii) the connected person(s) and associate(s) of Mr. Zhang Li and Mr. Zhang Liang, Johnson;
“Loan”	an amount of RMB200 million to be lent by the Lender to the Borrower pursuant to the Loan Agreement;
“Loan Agreement”	the loan agreement entered into between the Lender and the Borrower on 28 June 2022;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“Mining Licence”	the mining licence (licence number: C520000201111120120278) issued by the Department of Natural Resources of Guizhou Province of the PRC* (貴州省自然資源廳) with a validity period from December 2017 to August 2040;
“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;
“Relevant Transactions”	the Dikuang Acquisition, the Guizhou Acquisition and the transactions contemplated under the Loan Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Share(s)”	ordinary share(s) with a nominal value of US\$0.001 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of share(s) of US\$0.001 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Tailin Mine”	Guizhou Luzhong Mining Co., Ltd Shuicheng County Tailin Coal Mine* (貴州魯中礦業有限公司水城縣猴場鄉泰麟煤礦);
“Target Company”	Liupanshui Changlin Real Estate Development Co., Ltd* (六盤水昌霖房地產開發有限公司), a limited liability company established in the PRC on 27 June 2002;
“Target Mine”	Guizhou Daxinan Mining Co., Ltd. Shuicheng County Tailin Coal Mine* (貴州大西南礦業有限公司水城縣猴場鄉泰麟煤礦), located in southwestern part of Guizhou Province, PRC, inclusive of the Mining Licence, the mineral assets and exploration rights consolidated from the Tailin Mine, Zhenxing Mine, the Xiaoyuantian Mine and Baosen District;
“US\$”	United States dollar, the lawful currency of United States;
“Wuhai Fuliang”	Wuhai Fuliang Real Estate Development Co., Ltd.* (烏海富量房地產開發有限公司), a limited liability company established in the PRC on 22 December 2017;

“Xiaoyuantian Mine”	Zhijin County Zhenxing Coal Mine* (織金縣官寨鄉小圓田煤礦);
“ZGE Fuliang”	Zhunge’er Fuliang Coal Co., Limited* (准格爾旗富量礦業有限公司), a limited liability company established in the PRC;
“Zhenxing Mine”	Guizhou Luzhong Mining Co., Ltd Zhijin County Zhenxing Coal Mine* (貴州魯中礦業有限公司織金縣城關鎮振興煤礦);
“%”	per cent.

* *The English translation 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
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

Hong Kong, 28 June 2022

As at the date of this announcement, the Board comprises seven directors, of whom three are executive Directors, namely Mr. Ju Wenzhong (Chairman), Mr. Li Bo (Chief Executive Officer) and Mr. Ji Kunpeng; one is a non-executive Director, namely Ms. Zhang Lin and three are independent non-executive Directors, namely Ms. Liu Peilian, Mr. Chen Liangnuan and Ms. Xue Hui.