

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in **China Qinfa Group Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**中國秦發集團有限公司**  
**CHINA QINFA GROUP LIMITED**

(Incorporated in the Cayman Islands)

(Stock Code: 00866)

**CONNECTED TRANSACTION**

**PROPOSED AMENDMENTS TO  
THE EXISTING NON-COMPLIANCE**

**Independent Financial Adviser to the Issuer  
the Independent**



**Alliance Capital Partners Limited**  
**同人融資有限公司**

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Due to the recent development of the COVID-19 pandemic, the Company will adopt the following special arrangements at the EGM:

- (a) If a Shareholder wishes to vote on any resolution at the EGM, Shareholder is encouraged to appoint the chairman of the EGM as his/her/its proxy to exercise his/her/its right to vote at the EGM. Shareholders should specifically indicate how they wish to vote for or vote against the resolutions set out in the notice convening the EGM. In any event, Shareholders will not be deprived of their rights of voting on the resolution(s) to be proposed at the EGM (or any adjourned meeting thereof);
- (b) Shareholders can submit questions relevant to the business of the EGM by email to [ir@qinfagroup.com](mailto:ir@qinfagroup.com) in advance. If considered appropriate by the Directors at their absolute discretion, the questions will be answered at the EGM;
- (c) Compulsory body temperature checks will be conducted. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue;

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“2009 Deed of Non-Competition”		the deed of non-competition dated 12 June 2009 entered into	by the Initial Covenantors in favour of the Company;			
“2022 Deed of Non-Competition”		the deed of non-competition dated 30 September 2022 (as	amended and supplemented by a supplemental deed of	non-competition dated 10 October 2022) entered into by the	Covenantors in favour of the Company;	
“Articles of Association”		means the articles of association of the Company;				
“Board”		the board of Directors of the Company;				
“Company”		China Qinfa Group Limited (中國秦發集團有限公司), an	exempted company incorporated in the Cayman Islands with	limited liability and the Shares of which are listed on the main	board of the Stock Exchange (stock code: 866);	
“Conditions Precedent”		the conditions precedent set out in the paragraph headed “3.	Proposed Amendments – (ii) Conditions Precedent” in the	letter from the Board in this circular;		
“controlling shareholder”		has the meaning ascribed to it under the Listing Rules;				
“Covenantors”		covenantors to the 2022 Deed of Non-Competition, namely	Fortune Pearl, Mr. Xu Jihua, and Mr. Xu Da;			
“Director(s)”		the director(s) of the Company;				
“EGM”		the extraordinary general meeting of the Company to be held	at which resolution(s) will be proposed to consider, and, if	thought fit, to approve the 2022 Deed of Non-Competition and	the transactions contemplated thereunder, or any adjournment	thereof;
“Existing Non-Competition Undertakings”		the non-competition undertakings given by the Initial	Covenantors under the 2009 Deed of Non-Competition;			
“Fortune Pearl”		Fortune Pearl International Limited, a company 7(the)-291.7(i)(tgs)-panr(the				

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## DEFINITIONS

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“Independent Board Committee”	means the independent board committee of the Company comprising the independent non-executive Directors formed to advise the Independent Shareholders in respect of the 2022 Deed of Non-Competition and the transactions contemplated thereunder;
“Independent Financial Adviser” or “Alliance Capital”	Alliance Capital Partners Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Deed of Non-Competition and the transactions contemplated thereunder;
“Independent Shareholders”	means the Shareholders, other than Mr. Xu Da, Mr. Xu Jihua, Fortune Pearl and their respective associate(s), if any;
“Initial Covenantors”	covenantors to the 2009 Deed of Non-Competition, namely Fortune Pearl, Mr. Xu Jihua, Ms. Wang Jianfei, Mr. Xu Da, Mr. Weng Li, Mr. Liu Jingwei, Ms. Zhou Lusha and Ms. Liu Xiaomei;
“Latest Practicable Date”	11 October 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC” or “China”	the People’s Republic of China, for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Proposed Amendments” or “Proposed Amendments to the Existing Non-Competition Undertakings”	means the proposed amendments to the Existing Non-Competition Undertakings, details of which are set out under the section headed “Letter from the Board – 3. Proposed Amendments”;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	holder(s) of Share(s);
“Shares”	shares of HK\$0.10 each in the capital of the Company;

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“%”	per cent.



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further information on the 2022 Deed of Non-Competition; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the 2022 Deed of Non-Competition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Deed of Non-Competition; and (iv) a notice convening the EGM.

### 2. BACKGROUND

For the purpose of the listing of the Company's shares on the Stock Exchange, the Initial Covenantors entered into the 2009 Deed of Non-Competition dated 12 June 2009, pursuant to which each of the Initial Covenantors jointly and severally, irrevocably and unconditionally, has undertaken with the Company that each of the Initial Covenantors shall not, and shall procure that none of their respective associates shall, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of the Group or be in competition with the Group in any business activities which the Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Initial Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other international stock exchange.

Under the 2009 Deed of Non-Competition, the Initial Covenantors have undertaken to the Company that, if any new business opportunity relating to any products and/or services of the Group ("**Business Opportunity**") is made available to any of the Initial Covenantors or their respective associates (other than members of the Group), it or he or she shall direct or procure the relevant associate to direct such Business Opportunity to the Group with such required information to enable the Group to evaluate the merits of the Business Opportunity, and none of the Initial Covenantors and their respective associates (other than members of the Group) shall pursue any such Business Opportunity even if the Group decides not to pursue such Business Opportunity for commercial reasons.

Over 13 years have passed since the 2009 Deed of Non-Competition was executed, the Board considers that the practice in Hong Kong in connection with managing competition between a Hong Kong listed issuer and its controlling shareholder(s) has been evolving ever since. At present, it is not uncommon that a controlling shareholder of a company listed on the Stock Exchange be permitted, under the non-competition arrangement between itself and the listed issuer, to pursue the Business Opportunity after certain procedures are followed and certain conditions are satisfied.

In view of the above and for the purposes of (i) safeguarding the interests of the future development of the Company; (ii) re-defining each party's rights and duties; and (iii) enhancing the procedures of referral of Business Opportunities by the Covenantors, the Directors consider it desirable to amend the Existing Non-Competition Undertakings by entering into the 2022 Deed of Non-Competition, which reflects the Proposed Amendments to the Existing Non-Competition Undertakings and will supersede the 2009 Deed of Non-Competition upon the satisfaction of the Conditions Precedent.



Moreover, as certain Initial Covenantors, namely Ms. Wang Jianfei, Mr. Weng Li, Mr. Liu Jingwei, Ms. Zhou Lusha and Ms. Liu Xiaomei (collectively, the “**Then Initial Covenantors**”), have ceased to be the controlling shareholders of the Company or executive Director, their obligations under the 2009 Deed of Non-Competition have ceased on the date on which he/she ceased to be a controlling Shareholder, or in the case of any executive Director who was not a controlling Shareholder, 90 days from the date of his/her resignation pursuant to the terms of the 2009 Deed of Non-Competition. As such, the Then Initial Covenantors are not covenantors to the 2022 Deed of Non-Competition.

Further, pursuant to the service agreement entered into between the Company and each of the current executive Directors, each of the executive Directors has undertaken to the Company that he shall not at any time during the term of his respective service agreements engage in any activities in competition, directly or indirectly, with the business of the Group or carry out any activities detrimental to the interests of the Group. In addition, the executive Directors shall not (except with the prior sanction of a resolution of the Board (the “**Prior Sanction of the Board**”)) at any time during the

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## LETTER FROM THE BOARD

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- (b) upon receiving notice of the Business Opportunity pursuant to sub-paragraph (a) above, the Company shall seek opinions and decisions from the Board (other than the Directors who have a material interest in the matter) (the “**Independent Board**”) as to whether (i) such Business Opportunity would constitute competition with the Company’s core business; and (ii) it is in the interest of the Company and its Shareholders as a whole to pursue or decline the Business Opportunity (any Director who has actual or potential material interest in the Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting or part of a meeting convened to consider such Business Opportunity);
- (c) the Independent Board shall take into account factors including (i) the prevailing business, legal, regulatory and contractual landscape of the Group; (ii) results of feasibility study; (iii) counterparty risks; (iv) contemplated profitability; (v) the financial resources required for such Business Opportunity; and (vi) where necessary, any opinion from experts on the commercial viability of the same, in relation to such Business Opportunity (“**New Business Evaluation Mechanism**”);
- (d) if the Company decides not to pursue the Business Opportunity pursuant to the decision of the Independent Board above, the Company shall notify the Offeror in a timely manner and in any case within 20 business days after receiving the notice of the Offeror made pursuant to sub-paragraph (a) above. If the Company expressly declines the Business Opportunity, the Offeror is allowed to take up the Business Opportunity (“**New Business**”) on the condition that the major terms of such investment shall not be more favourable than those made available to the Company, and such terms have been fully disclosed by the Offeror to the Company in a timely manner before the Company declines such Business Opportunity, provided however that if the Independent Board considers that the taking up of such Business Opportunity by the Offeror will result in Material Conflict (as defined in sub-paragraph (f)), the Offeror shall unconditionally forgo such Business Opportunity upon the request of the Company pursuant to the decision of the Independent Board even if the Company decides not to pursue such Business Opportunity;
- (e) if there is any material change in the nature, terms or conditions of such Business Opportunity pursued by the Offeror, it shall refer such revised Business Opportunity to the Company as if it were a new Business Opportunity;

- (f) in view of the New Business invested by the Offeror pursuant to sub-paragraph (d) above and subject to applicable laws and regulations, the Offeror will grant a call option (the “**Call Option**”), which is exercisable at any time during the term of the 2022 Deed of Non-Competition, to the Company such that the Company is entitled to purchase the shares or equity in relation to the New Business from the Offeror when the Company considers appropriate. The Independent Board shall review and evaluate the viability to exercise the Call Option on an annual basis based on the materials in relation to the performance of the New Business provided by the Covenantors. The Independent Board shall also review on an annual basis if the undertaking of the New Business by the Offeror results in material conflict of interests between the Company and the Offeror that would materially affect the Group (the “**Material Conflict**”). If Material Conflict arises and the Independent Board considers it is not viable to exercise the Call Option, the Company and the Offeror shall negotiate with each other to adopt measures, including but not limited to referral of clients of the New Business to the Group, temporary suspension of the operation of the New Business or transfer of the New Business to independent third party(ies);
  
- (g) in view of the New Business invested by the Offeror pursuant to sub-paragraph (d) above and subject to applicable laws and regulations, if the Offeror proposes to dispose of the shares or equity acquired in relation to the New Business, it shall first notify the Company the conditions of the proposed disposal in advance and grant the right of first

With respect to Mr. Xu Da, who is a Covenantor and an executive Director, to the extent that the Independent Board expressly declines the Business Opportunity and does not request the Offeror to forgo such Business Opportunity, or does not elect to exercise the Call Option or the Right of First Refusal (as the case may be) pursuant to the 2022 Deed of Non-Competition, such decision by the Independent Board shall constitute a valid Prior Sanction of the Board as required under the non-competition clause in the service agreement entered into between Mr. Xu Da and the Company. Please refer to the paragraph headed “2. Background” above for details.

**(ii) Conditions Precedent**

The 2022 Deed of Non-Competition shall become effective subject to and conditional upon the satisfaction of the following conditions precedent:

- (a) the independent non-executive Directors having approved the 2022 Deed of Non-Competition and the transactions contemplated thereunder; and
- (b) the Independent Shareholders having approved the 2022 Deed of Non-Competition and the transactions contemplated thereunder at the EGM.

If any of the above conditions precedent is not fulfilled on or before 30 November 2022, the 2022 Deed of Non-Competition shall not come into effect and the 2009 Deed of Non-Competition shall remain in full effect.

**(iii) Termination of the 2022 Deed of Non-Competition**

The 2022 Deed of Non-Competition and the undertaken undertaken u(2022)undertakedfulfETfedof theto fe

#### **4. CORPORATE GOVERNANCE MEASURES**

While there may be a risk of potential competition between the Group and a Covenantor after such Covenantor pursues a Business Opportunity that the Independent Board decides not to pursue and before the Call Option is exercised, the Directors consider that there would not be material conflict of interests between the Company and the Covenantors that would have material adverse impact on the Group for the following reasons:

**(i) Size and diversity of the market**

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## LETTER FROM THE BOARD

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**(ii) Benefits outweighing the risk of potential competition**

Moreover, in light of the large number of market players, there would always be another market player to pursue the business opportunity that the Group decided not to pursue even if the Covenantors opt out of such business opportunity. On the other hand, the Proposed Amendments in fact provide the Group with an opportunity and the flexibility to subsequently take over such New Business if such business turns out to be profitable, which in turn enabling the Group to explore potential market opportunities by leveraging the resources of the Covenantors. In view of this, the Group will be able to capture profitable business opportunities at the right time and to better cope with the competition in the industry, which is commercially desirable and in the interest of the Company and its Shareholders as a whole. Coupled with the protective measures provided under the 2022 Deed of Non-Competition, including but not limited to the Call Option and the Right of First Refusal, the Directors are of the view that there would not be material conflict of interests between the Company and the Covenantors that would materially affect the Group. Based on the above, the Directors consider that the benefits that are expected to accrue to the Group as a result of the amendments outweigh the risk of potential competition between the Group and the Covenantors before the exercise of the Call Option. In the unlikely event that material conflict of interests materially affecting the Group arises, the Company may exercise the Call Option to acquire the New Business, or if it is not viable to do so, the Company and the Offeror shall negotiate with each other to adopt measures, including but not limited to referral of clients of the New Business to the Group, temporary suspension of the operation of the New Business or transfer of the New Business to independent third party(ies).

In order to ensure and facilitate compliance with the 2022 Deed of Non-Competition by the Covenantors, the Company has implemented the following measures:

- (i) the independent non-executive Directors shall review, at least once every year, the performance of the 2022 Deed of Non-Competition by the Covenantors;
- (ii) the Covenantors shall cooperate and provide and shall procure their associates (other than members of the Group) to cooperate and provide, on best endeavor basis, information necessary for the aforementioned annual review of the performance of the 2022 Deed of Non-Competition;
- (iii) the Covenantors shall cooperate and provide and shall procure their associates (other than members of the Group) to cooperate and provide, on best endeavor basis and upon request of the Company, information necessary for evaluating the viability to exercise the Call Option or the Right of First Refusal during the term of the 2022 Deed of Non-Competition;
- (iv) the Company will disclose the review results of the independent non-executive Directors relating to compliance and enforcement of the 2022 Deed of Non-Competition in the annual reports or the announcements of the Company pursuant to the applicable laws, rules and regulations (including the Listing Rules), and shall further disclose any decisions on matters reviewed by the Independent Board pursuant to the 2022 Deed of Non-Competition; and

- (v) in the event that any of the Directors and/or their respective associates has material interests in any matter to be discussed by the Board in relation to the compliance and enforcement of the 2022 Deed of Non-Competition, it/he/she shall not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the relevant voting.

## **5. REASONS FOR ENTERING INTO OF THE 2022 DEED OF NON-COMPETITION**

Given the change in economic and business environment in which the Group operates, coupled with the change in practice in Hong Kong in connection with managing competition between a Hong Kong listed issuer and its controlling shareholder(s) since the entering into of the 2009 Deed of Non-Competition, the Board considers that the restriction under the undertakings given by the Initial Covenantors pursuant to the 2009 Deed of Non-Competition, which unconditionally restricts the Initial Covenantors and their associates from pursuing any Business Opportunity, is unnecessarily burdensome

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## LETTER FROM THE BOARD

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### 6. INFORMATION ON THE PARTIES

#### Information relating to the Group

The Group is principally engaged in coal mining, purchase and sales, filtering, storage and blending of coal.

#### Information relating to the Covenantors

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Mr. Xu Da is the chairman of the Group and an executive Director of the Company. He is the son of Mr. Xu Jihua. Mr. Xu Da is the beneficial owner of 93,135,251 Shares, representing approximately 3.74% of the total issued share capital of the Company.

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Mr. Xu Jihua is interested in 100% shareholding of Fortune Pearl, which is in turn interested in 1,183,000,000 Shares and 118,000,000 Shares which may be allotted and issued upon full conversion of the perpetual subordinated convertible securities of the Company, representing approximately 52.18% of the total issued share capital of the Company. Mr. Xu Jihua is the beneficial owner of 14,229,610 Shares, representing approximately 0.57% of the total issued share capital of the Company. Mr. Xu Jihua is the father of Mr. Xu Da.

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Fortune Pearl, a company incorporated in the British Virgin Islands, is a company wholly owned by Mr. Xu Jihua. As at the Latest Practicable Date, Fortune Pearl is interested in approximately 52.18% of the total issued share capital of the Company. Fortune Pearl is an investment holding company. As at the Latest Practicable Date, save for its shareholding interests in the Company, Fortune Pearl was not interested in any business, which competes or is likely to compete, either directly or indirectly, with that of the Group.

### 7. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Fortune Pearl and Mr. Xu Jihua are the controlling shareholders of the Company, and Mr. Xu Da is an executive Director of the Company and thus each of them is a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the 2022 Deed of Non-Competition constitutes a connected transaction of the Company, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

An Independent Board Committee has been formed to advise the Independent Shareholders in respect of the 2022 Deed of Non-Competition. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Deed of Non-Competition.



Mr. Xu Da is an executive Director of the Company who also has a material interest in the 2022 Deed of Non-Competition, and therefore he has abstained from voting on the relevant resolution(s) at the meeting of the Board convened for the purpose of approving the 2022 Deed of Non-Competition. Save as disclosed, none of the Directors has a material interest in the 2022 Deed of Non-Competition.

Fortune Pearl, Mr. Xu Jihua, Mr. Xu Da, and their respective associates are interested in a total of 1,290,364,861 Shares, representing approximately 51.75% of the total issued share capital of the Company as at the Latest Practicable Date, and will abstain from voting on the resolution to approve the 2022 Deed of Non-Competition and the transactions contemplated thereunder at the EGM. Save for

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## LETTER FROM THE BOARD

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### 9. RECOMMENDATION

The Directors (including the independent non-executive Directors), having taken into account the advice of the Independent Financial Adviser, consider that the terms of the 2022 Deed of Non-Competition while not in the ordinary and usual course of business of the Group, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. In view of the foregoing, the Directors recommend the Independent Shareholders to vote in favour of the resolution set out in the notice convening the EGM.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 17 to 18 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM in relation to the 2022 Deed of Non-Competition; and (ii) the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2022 Deed of Non-Competition. The text of the letter from the Independent Financial Adviser is set out on pages 19 to 34 of this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that while the 2022 Deed of Non-Competition is not entered into in the ordinary and usual course of business of the Group, the terms of the 2022 Deed of Non-Competition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in relation to the 2022 Deed of Non-Competition and the transactions contemplated thereunder.

### 10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix I to this circular.

In the event of inconsistency, the English text of this circular and the enclosed form of proxy shall prevail over the Chinese text.

Yours faithfully,  
By order of the Board  
**China Qinfu Group Limited**  
**BAI TAO**

*E n d o r s e d a n d a u t h o r i z e d*

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# LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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中國秦發集團有限公司  
**CHINA QINFA GROUP LIMITED**  
(Incorporated in the Cayman Islands)  
(Stock Code: 00866)

14 October 2022

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Dear Sir or Madam,

## CONNECTED TRANSACTION

### PROPOSED AMENDMENTS TO THE EXISTING NON-COMPETITION UNDERTAKINGS

We refer to the circular of the Company dated 14 October 2022 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular have the same meaning when used in this letter.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the 2022 Deed of Non-Competition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Alliance Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Deed of Non-Competition. The text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 34 of the Circular. We also wish to draw your attention to the letter from the Board, as set out on pages 5 to 16 of the Circular.

Having considered the terms of the 2022 Deed of Non-Competition and taking into account the advice and recommendations of the Independent Financial Adviser, we are of the view that while the 2022 Deed of Non-Competition is not entered into in the ordinary and usual course of business of the Group, the terms of the 2022 Deed of Non-Competition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution in respect of the 2022 Deed of Non-Competition and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**China Qinfra Group Limited**

**Mr. Lau Sik Yuen**

**Prof. Sha Zhenquan**

**Mr. Jing Dacheng**

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# LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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## INDEPENDENT BOARD COMMITTEE

As at the Latest Practicable Date, the Independent Board Committee, consisting of all independent non-executive Directors of the Company, namely Mr. Lau Sik Yuen, Prof. Sha Zhenquan and Mr. Jing Dacheng, has been formed by the Company to advise the Independent Shareholders on whether the terms of the 2022 Deed of Non-Competition are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and are on normal commercial terms. We, Alliance Capital Partners Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

## OUR INDEPENDENCE

During the past two years immediately preceding and up to the Latest Practicable Date, we are independent from, and not associated with the Company, or its respective substantial shareholder(s) or other connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the 2022 Deed of Non-Competition. There was no engagement between the Company and Alliance Capital Partners Limited in the past two years as financial advisor. Apart from this normal professional fee for our services to the Company in connection with the engagement as the Independent Financial Adviser, no other arrangements exist whereby we will receive any fees and/or benefits from the Company or its respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

## BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and/or management of the Company (the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and will continue to be true, accurate and complete in all material respects up to the date of the despatch of the Circular. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquires, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We have no reasons to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or Directors, which have been provided to us.

We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation in compliance with Rule 13.80 of the Listing Rules. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, or subsidiaries or associates of any of them, nor have we carried out any independent verification of the information supplied. The Company will notify the Shareholders of any material changes as soon as practicable, if any.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### 1. Information on the Group

The Group is principally engaged in coal mining, purchase and sales, filtering, storage and blending of coal.

#### 1.1 Financial performance

Set out below is a summary of the consolidated financial information on the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 ("Annual Report 2021"):

	For the year ended		Changes
	31 December		
	2021	2020	
	B'000	B'000	%
<b>Revenue</b>	<b>4,559,180</b>	<b>2,247,363</b>	102.9
– Sales of coal	4,498,980	2,190,112	105.4
– Charter hire income	60,200	57,251	5.2
<b>Cost of sales</b>	<b>2,618,061</b>	<b>1,892,048</b>	38.4
– Cost of sales of the coal segment	2,583,800	1,845,900	40.0
– Cost of purchase	9,000	66,900	(86.5)
– Cost of coal transportation	890,300	723,600	23.0
– Cost of self-produced coal	1,684,500	1,055,400	59.6
– Depreciation, amortisation and impairment	162,800	131,800	23.5
– Fuel	340,600	256,500	32.8
– Depreciation and amortisation	723,600	461,700	56.7
– Depreciation	457,500	205,400	122.7
– Cost of charter hire income segment	34,261	46,148	(25.8)
<b>Profit/(loss) for the year</b>	<b>3,187,910</b>	<b>(3,436,870)</b>	192.8

# LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

As disclosed in the Annual Report 2021, there was a significant portion of revenue contributed by the sales of coal, which accounted for 98.7% and 97.5% of the total revenue of the Group for the two years ended 31 December 2021. The Group's revenue for the year ended 31 December 2021 ("FY2021") substantially increased by approximately 102.9% as compared to that for the year ended 31 December 2020 ("FY2020"), which was mainly attributable to the increase in coal selling prices, from the range between RMB192 per tonne and RMB586 per tonne for FY2020 to the range between RMB345 per tonne and RMB1,916 per tonne for FY2021. It is noted that even though the revenue for sales of coal business segment increased by approximately 105.4%, the relevant cost of sales was increased by approximately 40.0%. As discussed with the Management, coal mining is an industry that incurs a significant proportion of fixed costs. Therefore, the Group recorded a turnaround from loss of approximately RMB3,436.9 million in FY2020 to profit of approximately RMB3,187.9 million in FY2021.

## 1.2 Coal mining rights

As disclosed in Annual Report 2021, as of 31 December 2021, the Group owned and operated five coal mines in China and one coal mine in Indonesia. The table sets forth certain information about these coal mines.

Coal mine	Location	Ownership	Production		Reserves	Resources	Operation status
			Site area	capacity			
			( . )	( )	( )	( )	
Xingtao	Shuozhou Shanxi	80%	4.25	1.5	14.25	46.67	Under operation
Fengxi	Shuozhou Shanxi	80%	2.43	0.9	5.07	16.14	Under operation
Chongsheng	Shuozhou Shanxi	80%	2.88	0.9	5.17	17.48	Under operation
Xinglong	Xinzhou Shanxi	100%	4.01	0.9	13.50	35.08	Under development (Temporarily suspended)
Hongyuan	Xinzhou Shanxi	100%	1.32	0.9	10.46	20.87	Under development (Temporarily suspended)
SDE	Kalimantan, Indonesia	70%	185	N/A	293.00	589.22	Under development



As disclosed in the Annual Report 2021, the Group completed a discloseable transaction in relation to the proposed acquisition of 70% equity interest of PT SUMBER DAYA ENERGI (“SDE”). The Group has despatched technical teams to carry out exploration and planning in the region. The Group expects that its coal production will increase significantly when the coal mines under the SDE project are put into production.

In addition, the Group is in the progress of acquisition of 75% equity interest of four additional mining business licenses and 70% equity interest of one additional mining business license respectively. The Group and the sellers will establish new mining companies, which will be owned by the Group as to 75% and the respective sellers as to 25%, and the sellers will subsequently transfer their mining business licenses to the new mining companies within specific periods of time. The acquisition is in progress and the required government approvals are pending.

## **2. Information on the Covenantors**

### *Mr. Xu Da*

Mr. Xu Da is the chairman of the Group and an executive Director of the Company. He

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# LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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### 3. Background of the 2009 Deed of Non-Competition

For the purpose of the listing of the Company's shares on the Stock Exchange, the Initial Covenantors entered into the 2009 Deed of Non-Competition dated 12 June 2009, pursuant to which each of the Initial Covenantors jointly and severally, irrevocably and unconditionally, has undertaken with the Company that each of the Initial Covenantors shall not, and shall procure that none of their respective associates shall engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of the Group or be in competition with the Group in any business activities which the Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Initial Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other stock exchange.

Under the 2009 Deed of Non-Competition, the Initial Covenantors have undertaken to the Company that, if any new business opportunity relating to any products and/or services of the Group ("**Business Opportunity**") is made available to any of the Initial Covenantors or their respective associates (other than members of the Group), it or he or she shall direct or procure the relevant associate to direct such Business Opportunity to the Group with such required information to enable the Group to evaluate the merits of the Business Opportunity, and none of the Initial Covenantors and their respective associates (other than members of the Group) shall pursue any such Business Opportunity even if the Group decides not to pursue the such Business Opportunity for commercial reasons.

### 4. Reasons for and benefits of the Proposed Amendments to the Existing Non-Competition Undertakings

As set out in the Letter from the Board, the Directors consider that the restriction under the undertakings given by the Initial Covenantors pursuant to the 2009 Deed of Non-Competition, which unconditionally restricts the Initial Covenantors and their associates from pursuing any Business Opportunity, is unnecessarily burdensome and not able to cater for the needs of the Company for developing its business and coping with the competition in the industry. Enabling the Covenantors and their associates to participate in the Business Opportunity through compliance with procedures and conditions pursuant to the 2022 Deed of Non-Competition would present potential new business opportunities to the Group. In particular, in case where a new Business Opportunity is identified and rejected by the Group, the Call Option and Right of First Refusal allow the Group with an opportunity and the flexibility to subsequently take over such business from the Covenantors and their associates, if such business turns out to be profitable. Such mechanisms provide the Group with an opportunity to seize new and profitable business opportunity at a later and more appropriate time without having to encounter excessive initial financial costs and investment risks in investing in new projects.

As advised by the Management, a number of factors should be taken into consideration by the Independent Board when pursuing Business Opportunities, including (i) the prevailing business, legal, regulatory and contractual landscape of the Group, (ii) results of feasibility study, (iii) counterparty risks, (iv) contemplated profitability, (v) the financial resources required for such Business Opportunity, and (vi) where necessary, any opinion from experts on the commercial viability of the same, in relation to such Business Opportunity.

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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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In particular, from the experience of the acquisition of 70% equity interest in SDE completed in 2021, which is located in Indonesia, the Management advised that apart from initial acquisition cost paid to the vendor, development of coal mine would incur significant cost, including but not limited to construction for drift, shaft and roadway, surface civil engineering and equipment procurement. According to the announcement dated 2 March 2022, the construction contracts in relation to SDE amounted to RMB68 million and the capital expenditure for construction of SDE coal mine is expected to be approximately RMB2.6 billion. In addition, the risk for acquisition of coal mine should be carefully assessed, such as the feasibility of operation of coal mine, expected investment cost and investment period, capital expenditure, fixed and variable operating cost, coal reserve, location, accessibility of transportation and logistics, and change in government policy. Furthermore, a lengthy investment period may be required for the investment in coal mine. Take SDE as an example, the Management expected that the construction period would be around three to four years. In view of the factors to be considered, the financial resources, the risk and the long period of investment required, the Company might not be able to take up those Business Opportunities when they are presented to the Group.

However, we are of the view that the Proposed Amendments, allowing the Covenantors to participate in competing business of the Group and granting the Company the Call Option and the Right of First Refusal to acquire those potential Business Opportunities, would permit the Group to assess and evaluate the New Business (as defined below) and determine whether to take up the Business Opportunity at a suitable timing. It would provide flexibility to the Group in terms of pursuing business opportunities in order to implement its business strategies and achieve sustainable growth. The Proposed Amendments seek to achieve a balance between, limiting undue competition between the Company and its controlling shareholder and, providing flexibility in pursuing and incubating new business prospects by for the controlling shareholders and, eventually, the Company.

We have conducted research on the coal industry and noted that according to the Coal 2021<sup>1</sup>, published by the International Energy Agency (“IEA”) in December 2021 (“IEA Report”), with electricity demand outpacing low-carbon supply, and with steeply rising natural gas prices, global coal power generation is on course to increase 9% in 2021 to 10,350 terawatt-hours, which was a new all-time high globally. In China, although consumption at the beginning of the year declined when measures to contain the COVID-19 outbreak were imposed, quick economic recovery, supported by domestic stimulus and high industrial output to compensate for production losses elsewhere significantly boosted electricity demand for 2021. An unusually cold winter further increased electricity and heat demand. It is expected that the global coal consumption could reach approximately 8,031 million tonnes in 2024, which would further be a historical high compared to that of approximately 7,906 million tonnes in 2021. While strong demand growth has been the main driver of surging coal prices, supply issues have also played a role. In the second half of 2021, as coal production and logistics disruptions around the globe tightened coal supplies and made it difficult for suppliers to get their coal to market, prices rose sharply in the face of declining stocks and high demand. According to the China Coal Transport & Distribution Association, Bohai-Rim Steam-Coal Price Index<sup>2</sup>, a gauge of coal prices in north China’s major ports, increased from RMB593 per tonne as of 6 January 2021 to RMB848 per tonne as of 13 October 2021, and slightly dropped to RMB735 per tonne as of 28 September 2022. It indicates

<sup>1</sup> <https://www.iea.org/reports/coal-2021>

<sup>2</sup> <https://www.cctd.com.cn/index.php?m=content&c=index&a=lists&catid=520>

that the coal prices in China has been kept at high price level in the recent year. In view of the high demand and the high coal price experienced and foreseeable in the future, we concur with the Management that the Proposed Amendments, including the Call Option and the Right of First Refusal, enable the Group to leverage on the resources of the controlling shareholder to seize business opportunities in the coal industry that require significant investment or long investment period, and provide flexibility for its future development.

Having considered above, we concur with the Directors' view that the Proposed Amendments will allow the Group to capture business opportunities at the right time and therefore, the entering into of the 2022 Deed of Non-Competition is in the interest of the Company and its Shareholders as a whole.

## **5. Major amendments to the Existing Non-Competition Undertakings**

### ***5.1 Competing Business Opportunity***

Pursuant to the 2022 Deed of Non-Competition, the Covenantors will undertake to the Company that each of the Covenantors shall not, and shall procure that none of their respective associates shall, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of the Group or be in competition with the Group in any business activities which the Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other international stock exchange, with an exception that the Covenantors will be allowed to pursue such Business Opportunity itywir0.4(nge)2(its)-33h4(be)-280.6(Co)14.8(v)14.8(en

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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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- (c) the Independent Board shall take into account factors including (i) the prevailing business, legal, regulatory and contractual landscape of the Group; (ii) results of feasibility study; (iii) counterparty risks; (iv) contemplated profitability; (v) the financial resources required for such Business Opportunity; and (vi) where necessary, any opinion from experts on the commercial viability of the same, in relation to such Business Opportunity (“**New Business Evaluation Mechanism**”);
- (d) if the Company decides not to pursue the Business Opportunity pursuant to the decision of the Independent Board above, the Company shall notify the Offeror in a timely manner and in any case within 20 business days after receiving the notice of the Offeror made pursuant to sub-paragraph (a) above. If the Company expressly declines the Business Opportunity, the Offeror is allowed to take up the Business Opportunity (“**New Business**”) on the condition that the major terms of such investment shall not be more favourable than those made available to the Company, and such terms have been fully disclosed by the Offeror to the Company in a timely manner before the Company declines such Business Opportunity, provided however that if the Independent Board considers that the taking up of such Business Opportunity by the Offeror will result in Material Conflict (as defined in sub-paragraph (f)), the Offeror shall unconditionally forgo such Business Opportunity upon the request of the Company pursuant to the decision of the Independent Board even if the Company decides not to pursue such Business Opportunity;
- (e) if there is any material change in the nature, terms or conditions of such Business Opportunity pursued by the Offeror, it shall refer such revised Business Opportunity to the Company as if it were a new Business Opportunity;
- (f) in view of the New Business invested by the Offeror pursuant to sub-paragraph (d) above and subject to applicable laws and regulations, the Offeror will grant a call option (the “**Call Option**”), which is exercisable at any time during the term of the 2022 Deed of Non-Competition, to the Company such that the Company is entitled to purchase the shares or equity in relation to the New Business from the Offeror when the Company considers appropriate. The Independent Board shall review and evaluate the viability to exercise the Call Option on an annual basis based on the materials in relation to the performance of the New Business provided by the Covenantors. The Independent Board shall also review on an annual basis if the undertaking of the New Business by the Offeror results in material conflict of interests between the Company and the Offeror that would materially affect the Group (the “**Material Conflict**”). If Material Conflict arises and the Independent Board considers it is not viable to exercise the Call Option, the Company and the Offeror shall negotiate with each other to adopt measures, including but not limited to referral of clients of the New Business to the Group, temporary suspension of the operation of the New Business or transfer of the New Business to independent third party(ies);

- (g) in view of the New Business invested by the Offeror pursuant to sub-paragraph (d) above, if the Offeror proposes to dispose of the shares or equity acquired in relation to the New Business, it shall first notify the Company the conditions of the proposed disposal in advance and grant the right of first refusal (the “**Right of First Refusal**”) to the Company for acquiring such shares or equity; and
- (h) with respect to the Call Option and the Right of First Refusal pursuant to sub-paragraphs (f) and (g) above, the Independent Board shall be responsible for reviewing and conducting the New Business Evaluation Mechanism, with further consideration on various factors including, among others, (i) whether the New Business to be acquired accord with the then development strategy of the Company; and (ii) whether the New Business has reached a sufficiently mature stage that would be in the interest of the Company and its shareholders as a whole to exercise the Call Option or the Right of First Refusal. The Independent Board may, where necessary and at the Company’s cost, engage an independent adviser to advise it.

In connection with the Business Opportunity, the Call Option or the Right of First Refusal (as the case may be), the relevant Covenantor shall provide or procure the relevant associate to provide all materials in relation to the Business Opportunity, the Call Option or the Right of First Refusal (as the case may be) and such reasonable assistance to the Group to enable it to make an informed decision on whether to secure the Business Opportunity, or to exercise the Call Option or the Right of First Refusal (as the case may be).

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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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With respect to Mr. Xu Da, who is a Covenantor and an executive Director, to the extent that the Independent Board expressly declines the Business Opportunity and does not request the Offeror to forgo such Business Opportunity, or does not elect to exercise the Call Option or the Right of First Refusal (as the case may be) pursuant to the 2022 Deed of Non-Competition, such decision by the Independent Board shall constitute a valid Prior Sanction of the Board as required under the non-competition clause in the service agreement entered into between Mr. Xu Da and the Company.

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We are of the view that the above mechanism (the “**Mechanism**”) under the 2022 Deed of Non-Competition would provide flexibility to the Company to consider whether to pursue any Business Opportunities in the first place. If the Business Opportunity is rejected by the Independent Board after the assessment as mentioned in condition (c) as mentioned above, the Covenantors may capture such Business Opportunity on their own first and provide the Group an opportunity to seize new and profitable business opportunity at a later and more appropriate time without having to encounter excessive initial financial costs and investment risks in investing in new projects by exercising the Call Option after conducting proper due diligence and assessment of the New Business.

In addition, we consider that the Mechanism provides the Company with sufficient time to decide whether to acquire the New Business by exercise of the Call Option or the Right of First Refusal as long as the New Business being held by the Covenantors. With the full access of relevant material information including but not limited to the financial, business, operational information and assets of the New Business, the Company can conduct a thorough due diligence and research in assessing the financial and business aspects of the New Business, and conduct a more detailed analysis to estimate the expected investment return, investment period, possible benefits to the Group’s existing business. Moreover, as the decision on whether to acquire the New Business by exercising the Call Option or the Right of First Refusal was determined by Independent Board, such arrangement could ensure that an independent review could be conducted on the New Business in order to avoid conflict of interest when making decision. In view of the above, we consider that the Mechanism provides flexibility in pursuing new business opportunities at a later and more appropriate time after review and due diligence performed.

## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

As set out in the Letter from the Board, the 2009 Deed of Non-Competition was entered into over 13 years ago, and the practice in Hong Kong in respect of managing competition between a Hong Kong listed issuer and its controlling shareholder(s) has been evolving ever since. It is not uncommon that a controlling shareholder of a company listed on the Stock Exchange be permitted, under the non-competition arrangement between itself and the listed issuer, to pursue the Business Opportunity after certain procedures are followed and certain conditions are satisfied. In this connection, we have reviewed the terms of deed of non-competition as disclosed in the prospectuses of recent newly listed companies on the Main Board of the Stock Exchange (i.e. listed from 1 January 2022 to the date of the announcement dated 30 September 2022), which would reflect the most recent market practice and noted that it is not uncommon to have the mechanism similar to the Mechanism for the relevant controlling shareholders to present or offer any relevant new business opportunities to the listed companies as well as providing the controlling shareholders' right to pursue the new business opportunities while the issuer decided to decline such new business opportunities. The list of 17 identified comparable companies are set out below:

<b>Company name</b>	<b>Stock code</b>	<b>Date of listing</b>	<b>Days for company to notify after receiving the notice</b>
Vanov Holdings Company Limited	2260	11-Jan-2022	30
Semk Holdings International Ltd.	2250	17-Jan-2022	Not specified
Qingdao AInnovation Technology Group Co., Ltd	2121	27-Jan-2022	30
Huitongda Network Co., Ltd.	9878	18-Feb-2022	30
Jinmao Property Services Co., Ltd.	816	10-Mar-2022	30
Ferretti S.p.A.	9638	31-Mar-2022	15
Redco Healthy Living Company Limited	2370	31-Mar-2022	30
Dowell Service Group Co. Limited	2352	29-Apr-2022	10
Yunkang Group Limited	2325	18-May-2022	30
Yoho Group Holdings Limited	2347	10-Jun-2022	20
Mega Genomics Ltd.	6667	22-Jun-2022	30
WEIli Holdings Limited	2372	30-Jun-2022	30
Lushang Life Services Co., Ltd.	2376	8-Jul-2022	30
Readboy Education Holding Company Limited	2385	12-Jul-2022	30
Deewin Tianxia Co., Ltd.	2418	15-Jul-2022	30
Swang Chai Chuan Limited	2321	19-Aug-2022	30
Suxin Joyful Life Services Co., Ltd.	2152	24-Aug-2022	30



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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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We further noted that the Company shall notify the Offeror its decision whether or not to pursue the Business Opportunity within 20 business days, while the relevant notification period for comparable companies ranged from 15 days to 30 days. Therefore, we are of the view that the Mechanism allowing the Covenantors to pursue the Business Opportunity if the Company decides to decline the Business Opportunity is in line with market practice.

Furthermore, after discussion with the Management, we are of the view that the establishment of the Independent Board to consider whether to pursue the Business Opportunity or whether to allow the Covenantor to pursue the declined Business Opportunity with reference to various factors, and with the input from independent advisers when the Independent Board considered necessary, would enable the Company to assess the potential business opportunities, to accept or decline the Business Opportunity, to allow or reject the Covenantors to pursue the declined Business Opportunity in an independent and fair way and hence beneficial to the Company and the Shareholders as a whole.

Based on the above, we concur with the Directors' view that the Proposed Amendments to the Existing Non-Competition Undertakings are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **6. Corporate governance measures**

While there may be a risk of potential competition between the Group and a Covenantor after such Covenantor pursues a Business Opportunity that the Independent Board decides not to pursue and before the Call Option is exercised, the Directors consider that there would not be material conflict of interests between the Company and the Covenantors that would have material adverse impact on the Group for the following reasons:

#### ***(i) Size and diversity of the market***

Pursuant to IEA Report, China is the largest consumer, producer and importer in the world. Based on the available data, China's coal consumption hits all-time high in 2021 with 4,130 million tonnes, and is forecast to continue to rise through 2024. As driven by strong industrial growth and other unforeseen force majeure factors such as cold spell, IEA forecasts that the coal consumption in China in 2024 is expected to further increase to 4,266 million tonnes. For the year ended 31 December 2021, the coal handling and trading volume of the Group was 6.12 million tonnes, which only accounted for approximately 0.15% of the total coal consumption in China. As such, in view of the growing demand for coal in China, coupled with the Group's solid track record of over 14 years in the industry, the Group may be able to further expand the size of operation of the Company.

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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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Based on information collated from the public online search platform Qcc.com (企查查) maintained by Qichacha Technology Co., Limited\* (企查查科技有限公司), there are over 24,000 coal operators in China, among which more than 90% are non-state-owned coal operators. Coal is a bulk commodity and varies in terms of total moisture, ash, volatile matter, Sulphur and calorific value based on its source of origin, and as such, coal sourced from the same country is likely to have highly similar specifications. The pricing of coal is generally subject to applicable rules and regulations promulgated by governments from time to time, pursuant to which the coal operators in China can only set the selling price of coal within the authorised range. Under the same set of specifications, the price of coal is a key competing factor. Therefore, given the specific market nature of coal trading, the Group competes with all industry players including both state-owned and non-state-owned coal operators. Considering the Group's solid and long-term customer base, extensive domestic and overseas coal suppliers and solid track record, the Directors believe that the Group is able to compete effectively in the market. Based on the above and in light of the market size and diversity, the Directors consider that there would not be material conflict of interests between the Company and the Covenantors that would materially affect the Group.

*(ii) Benefits outweighing the risk of potential competition*

Moreover, in light of the large number of market players, there would always be another market player to pursue the business opportunity that the Group decided not to pursue even if the Covenantors opt out of such business opportunity. On the other hand, the Proposed Amendments under the 2022 Deed of Non-Competition in fact provide the Group with an opportunity and the flexibility to subsequently take over such New Business if such business turns out to be profitable, which in turn enabling the Group to explore potential market opportunities by leveraging the resources of the Covenantors. In view of this, the Group will be able to capture profitable business opportunities at the right time and to better cope with the competition in the industry, which is commercially desirable and in the interest of the Company and its Shareholders as a whole. Coupled with the protective measures provided under the 2022 Deed of Non-Competition, including but not limited to the Call Option and the Right of First Refusal, the Directors are of the view that there would not be material conflict of interests between the Company and the Covenantors that would materially affect the Group. Based on the above, the Directors consider that the benefits that are expected to accrue to the Group as a result of the amendments outweigh the risk of potential competition between the Group and the Covenantors before the exercise of the Call Option. In the unlikely event that material conflict of interests materially affecting the Group arises, the Company may exercise the Call Option to acquire the New Business, or if it is not viable to do so, the Company and the Offeror shall negotiate with each other to adopt measures, including but not limited to referral of clients of the New Business to the Group, temporary suspension of the operation of the New Business or transfer of the New Business to independent third party(ies).

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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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In light of the above, we have reviewed the IEA Report and noted that the increase of coal consumption in China from 4,130 million tonnes in 2021 to a forecast of 4,266 million tonnes in 2024, represents a CAGR of 1.1%. In addition, we have independently conducted search on the public online search platform Qcc.com (企查查) maintained by Qichacha Technology Co., Limited\* (企查查科技有限公司) with the selection criteria of operators in coal industry, and noted that there are over 24,000 coal operators in China, over 22,800 or 90% of which are non-state-owned enterprises. Hence, we concur with the view of the Directors that the market is large and diverse, and therefore there shall be no material conflict of interests between the Company and the Covenantors.

In order to ensure and facilitate compliance with the 2022 Deed of Non-Competition by the Covenantors, the Company has implemented the following measures:

- (i) the independent non-executive Directors shall review, at least once every year, the performance of the 2022 Deed of Non-Competition by the Covenantors;
- (ii) the Covenantors shall cooperate and provide and shall procure their associates (other than members of the Group) to cooperate and provide, on best endeavor basis, information necessary for the aforementioned annual review of the performance of the 2022 Deed of Non-Competition;
- (iii) the Covenantors shall cooperate and provide and shall procure their associates (other than members of the Group) to cooperate and provide, on best endeavor basis and upon request of the Company, information necessary for evaluating the viability to exercise the Call Option or the Right of First Refusal during the term of the 2022 Deed of Non-Competition;
- (iv) the Company will disclose the review results of the independent non-executive Directors relating to compliance and enforcement of the 2022 Deed of Non-Competition in the annual reports or the announcements of the Company pursuant to the applicable laws, rules and regulations (including the Listing Rules), and shall further disclose the reasons of the decisions made by the Independent Board pursuant to the 2022 Deed of Non-Competition; and
- (v) in the event that any of the Directors and/or their respective associates has material interests in any matter to be discussed by the Board in relation to the compliance and enforcement of the 2022 Deed of Non-Competition, it/he/she shall not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the relevant voting.

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## LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

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We are of the view that the above measures would facilitate the monitoring of the proper implementation of the 2022 Deed of Non-Competition. The annual review performed by the Independent Board to assess the compliance status of the 2022 Deed of Non-Competition can facilitate regular communication and reporting to the Company which shall enable the operational level and the Management to effectively monitor the compliance of the 2022 Deed of Non-Competition and accordingly safeguard the interests of the Company and its Shareholders. The disclosure requirement of the review results of the Independent Board and reasons of decisions made will enable the Shareholders to understand the basis of the business decision and hence increase the transparency in corporate governance. Abstain from voting from the Covenantors who has material interests in relation to the 2022 Deed of Non-Competition would eliminate the potential conflicts of interests between them and the Company.

In order to assess the effectiveness of the corporate governance of the Company, we have discussed with Management about the procedures and policies in relation to the communication of past connected transactions and enquired if there is any historical transaction between the Company and its controlling shareholders, so as to understand the communication procedure when there is potential connected transaction. We have discussed with the Management and reviewed including but not limited to (i) the internal board minutes of the Group for a notifiable and connected transaction between the Company and its controlling shareholders; (ii) the internal memorandum of the Company of the notice of potential connected transactions; and (iii) the training material in relation to the Listing Rules provided to the Directors and the internal training record.

According to the documents obtained, we are not aware any significant corporate governance failure to monitor the transactions between the Company and its controlling shareholders.

### OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the 2022 Deed of Non-Competition, though not in the ordinary and usual course of the business of the Company, are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and are on normal commercial terms. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the 2022 Deed of Non-Competition and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Alliance Capital Partners Limited**  
**Alyssa Ng**  
*D r a r*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be (a) recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:-

Name of Director	Nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company (%) ( 2)
Mr. Xu Da	Beneficial Owner	93,135,251 (L)	3.74
Mr. Bai Tao	Beneficial Owner	50,000,000 (L)	2.01
Mr. Lau Sik Yuen	Beneficial Owner ( 1)	500,000 (L)	0.02

(L) – Long position

:

- (1) The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. Lau Sik Yuen under the share option scheme adopted by the Company on 30 April 2015.
- (2) The calculation is based on the total number of 2,493,413,985 Shares in issue of the Company as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

#### Substantial Shareholders' interests and short positions in the share capital of the Company

As at the Latest Practicable Date, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of Shares ( 2)	Approximate percentage of issued share capital of the Company (%) ( 3)
Mr. Xu Jihua ( 1)	Beneficial Owner	14,229,610 (L)	0.57
	Interest in a controlled corporation	1,301,000,000 (L)	52.18
Fortune Pearl ( 1)	Beneficial Owner	1,301,000,000 (L)	52.18
Yangyuan Jintong Transportation Corp. Ltd.	Beneficial Owner	215,000,000 (L)	8.62

(L) – Long position

:

- (1) Mr. XU Jihua is interested in 100% shareholding of Fortune Pearl, which in turn is interested in 1,183,000,000 Shares and 118,000,000 Shares which may be allotted and issued upon full conversion of the perpetual subordinated convertible securities of the Company held directly by Fortune Pearl. By virtue of the SFO, Mr. Xu Jihua is deemed to have interests in the Shares so held by Fortune Pearl.
- (2) The shareholding information of the Shareholders of the Company as at the Latest Practicable Date are based on the information recorded in the register required to be kept by the Company under section 352 of the SFO.
- (3) The calculation is based on the total number of 2,493,413,985 Shares in issue of the Company as at the Latest Practicable Date.

Save as disclosed above, as at Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the Shares or underlying shares of the Company which are required to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

### **3. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

### **4. DIRECTORS' SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors has or is proposed to have any service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation other than statutory compensation.

### **5. INTEREST OF DIRECTORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors and his/her close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with that of the Group.

### **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated accounts of the Group were made up.

### **7. EXPERT'S QUALIFICATION AND CONSENT**

The qualification of the expert who has provided its advice which is contained in this circular is set out as follows:

<b>Independent Financial Adviser</b>	<b>Qualification</b>
Alliance Capital Partners Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Alliance Capital did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Alliance Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Alliance Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which they appear.

The letter is given by Alliance Capital as of the date of this circular for incorporation herein.

## **8. MISCELLANEOUS**

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in the PRC is at Unit Nos. 2201 to 2208, Level 22, South Tower, Poly International Plaza, No. 1 Pazhou Avenue East, Haizhu District, Guangzhou City, PRC and the principal place of business of the Company in Hong Kong is at Room 5706, 57th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (c) The Hong Kong share registrar is Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (d) The company secretary of the Company is Mr. Or Chun Wai Dennis, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (e) Unless stated otherwise, in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.



**9. DOCUMENTS ON DISPLAY**

Copy of the following documents will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.qinfagroup.com](http://www.qinfagroup.com) from the date of this circular up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee, as set out in this circular;
- (b) the letter from Alliance Capital, the Independent Financial Advisor, as set out in this circular;
- (c) the consent letter referred to in the section headed “7. Expert’s Qualification and Consent” in this Appendix;
- (d) the 2022 Deed of Non-Competition;
- (e) the supplemental deed of non-competition dated 10 October 2022 entered into among the Covenantors and the Company to amend certain terms of the 2022 Deed of Non-Competition; and
- (f) this circular.

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# NOTICE OF EGM

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中國秦發集團有限公司  
**CHINA QINFAPA GROUP LIMITED**  
(Incorporated in the People's Republic of China)  
(Stock Code: 00866)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of China Qinfafa Group Limited (the “Company”) will be held at Meeting Room One, Level 2, InterContinental Guangzhou Exhibition Center, No. 828, Yuejiang Middle Road, Haizhu District, Guangzhou City, the PRC on Monday, 31 October 2022 at 11:00 a.m. to consider and, if thought fit, to pass, with or without modifications, the following resolution as an ordinary resolution of the Company.

### ORDINARY RESOLUTION

1. “**THAT**

- (a) the deed of non-competition dated 30 September 2022 (as amended and supplemented by a supplemental deed of non-competition dated 10 October 2022) entered into by Mr. Xu Da, Mr. Xu Jihua and Fortune Pearl International Limited in favour of the Company (the “**2022 Deed of Non-Competition**”, a copy of which has been produced to the meeting and marked “A” and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one or more directors of the Company be and is/are hereby authorised to do all such acts and things as they consider necessary and to sign and execute all such documents, deed or instruments and to take all such actions as they may, in their opinion, deem necessary, desirable, appropriate or expedient to give effect to the 2022 Deed of Non-Competition and the transactions contemplated thereunder.”

By order of the Board  
**China Qinfafa Group Limited**  
**BAI TAO**

Executive Director

Guangzhou, 14 October 2022

A copy of this notice is being sent to the Board of Directors, the Chairman of the Board, the Executive Directors, the Independent Non-Executive Directors, the Supervisors, the Management, the Shareholders, the Creditors, the Regulators and the Public.

Cricket Square