



25 June 2025

To the Independent Board Committee and
the Independent Shareholders of
China Qinfu Group Limited

Dear Sirs,

**(1) VERY SUBSTANTIAL DISPOSAL AND
CONNECTED TRANSACTION AND
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO FINANCIAL GUARANTEE**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the independent board committee (the **"Independent Board Committee"**) and the independent shareholders (the **"Independent Shareholders"**) of China Qinfu Group Limited (the **"Company"**) in relation to the entering into a sale and purchase agreement (the **"Sale and Purchase Agreement"**) and a corporate guarantee agreement (the **"Corporate Guarantee Agreement"**). The details of the Sale and Purchase Agreement and the Corporate Guarantee Agreement are disclosed in the announcement of the Company dated 5 June 2025 (the **"Announcement"**) and in the letter from the Board (the **"Letter from the Board"**) set out on pages 7 to 32 of the circular of the Company dated 25 June 2025 (the **"Circular"**) to its shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

On 5 June 2025, the Vendor, which is a wholly-owned subsidiary of the Company, and the Purchaser, which is directly and wholly-owned by Mr. XU, a controlling shareholder of the Company, entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Shares, representing the entire issued share capital of the Disposal Company, at a Consideration of RMB30 million, which shall be settled in cash by the Purchaser on the Completion Date.

As one or more of the applicable percentage ratios for the Disposal exceed 75%, the Disposal constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As the Purchaser is directly and wholly -owned by a controlling shareholder of the Company, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Prior to the entering into the Sale and Purchase Agreement, certain members of the Remaining Group (i.e. the Company and Qinfu Logistics), as guarantors, entered into the Maximum Guarantee Agreements with certain banks, pursuant to which the guarantors shall guarantee the repayment obligations of the Disposal Group.

On 5 June 2025, the Company entered into the Corporate Guarantee Agreement with the Disposal Company, pursuant to which the Company conditionally agreed to provide, and procure Qinfu Logistics to provide, continued corporate guarantees for the repayment obligations of the Disposal Group under the Existing Bank Loans. In return, the Disposal Company has undertaken to provide an interest-free loan of RMB417,000,000 to the Company as security upon Completion, of which the amount is equivalent to the aggregate principal amount under the Corporate Guarantee Agreement and the Maximum Guarantee Agreements.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Corporate Guarantee Agreement and the provision of corporate guarantee contemplated thereunder exceeds 5% but is less than 25%, the corporate guarantees, will constitute a discloseable transaction of the Company, which shall be subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules. The corporate guarantees also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Corporate Guarantee Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the Corporate Guarantee Agreement and the Maximum Guarantee Agreements exceeds three years, the Company must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

The EGM will be held for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement, the Corporate Guarantee Agreement and the transactions contemplated thereunder. The voting at the EGM will be conducted by way of a poll whereby Mr. Xu and his associates, Mr. Xu Da, which together, directly or indirectly hold 1,704,974,861 Shares, representing approximately 67.19% of the issued shares of the Company as at the Latest Practicable Date, shall abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement, and Corporate Guarantee Agreement and the transactions contemplated thereunder. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, other than Mr. Xu and his associates, no other Shareholders are required to abstain from voting on the relevant resolutions to be proposed at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Prof. SHA Zhenquan, Mr. Jing Dacheng, and Mr. HO Ka Yiu Simon, has been established to advise the Independent Shareholders as to whether (1) the terms of the Sale and Purchase Agreement, and (2) the terms of the Corporate Guarantee Agreement, and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole, and as to voting in respect thereof at the EGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, the Purchaser and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, we were not aware of any relationships between Astrum Capital Management Limited and the Company, and there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Disposal and the corporate guarantees, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal and corporate guarantees.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the Sale and Purchase Agreement, the Corporate Guarantee Agreements, the Maximum Guarantee Agreements, and the annual reports of the Company for the two years ended 31 December 2023 and 31 December 2024 (the “**2023 Annual Report**” and the “**2024 Annual Report**”, respectively). We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations and prospects of the Group and the Disposal Group. In addition, we have reviewed the valuation report (the “**Valuation Report**”) prepared by an independent professional valuer, namely BMI Appraisals Limited (the “**Valuer**”), in respect of the valuation of the Disposal Group as at 31 December 2024 (the “**Valuation**”), including the methodology of, and the bases and assumptions adopted for, the Valuation. Based on the foregoing steps, we consider that we have taken all the reasonable endeavors, which are applicable to the Disposal and the Corporate Guarantees, as referred to and required under Rule 13.80(2)(b) of the Listing Rules (including its annex notes) in forming our opinion. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussion with the Management regarding the terms of the Sale and Purchase Agreement, the Corporate Guarantee Agreements, and the transactions contemplated thereunder. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the Sale and Purchase Agreement, and Corporate Guarantee Agreement and the transactions contemplated thereunder and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. This letter is issued to provide information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the entering into of the Sale and Purchase Agreement, the Corporate Guarantee Agreement and the transactions contemplated thereunder. Except for the inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the entering into of the Sale and Purchase Agreement, and Corporate Guarantee Agreement and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

I. Information of the Group

A. *Principal business of the Group*

According to the Letter from the Board, the Group is principally engaged in coal operation business involving coal mining, purchase and sales, filtering, storage, blending of coal in the PRC and Indonesia.

B. Financial information of the Group

Set forth below is the audited consolidated financial information of the Group for the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 (“FY2022”, “FY2023” and “FY2024”, respectively) as extracted from the 2023 Annual Report and the 2024 Annual Report:

	FY2022 <i>RMB'000</i> (audited)	FY2023 <i>RMB'000</i> (audited)	FY2024 <i>RMB'000</i> (audited)
Revenue	3,794,039	3,449,182	2,600,933
Cost of sales	(2,520,756)	(2,571,162)	(2,086,390)
Gross Profit	1,273,283	878,020	514,543
Profit before taxation	766,781	352,137	588,799
Profit attributable to equity shareholders of the Company for the year	456,543	200,346	501,944
	As at 31 December 2022 <i>RMB'000</i> (audited)	As at 31 December 2023 <i>RMB'000</i> (audited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Non-current assets	5,845,437	6,011,127	6,553,745
Current assets	2,005,094	1,846,446	2,075,584
Current liabilities	6,160,933	5,171,208	4,170,532
Net current liabilities	4,155,839	3,324,762	2,094,948
Non-current liabilities	876,387	2,367,447	972,552
Equity/(deficit) attributable to equity shareholders of the Company	13,105	(472,869)	1,971,799

Sources: the 2023 Annual Report and the 2024 Annual Report

(i) For the year ended 31 December 2023 (i.e. FY2023)

In FY2023, the revenue of the Group decreased by approximately 9.1% from approximately RMB3,794.0 million in FY2022 to approximately RMB3,449.2 million in FY2023. Such decrease in revenue was mainly attributable to combined effect of (i) the decrease in average coal selling price by approximately 20.6% from RMB838/ton in FY2022 to RMB665/ton in FY2023; and (ii) the increase in average monthly coal handling and trading volume by 14.6% from 377,000 tons in FY2022 to 432,000 tons in FY2023. The gross profit of the Group decreased by approximately 31.0% from approximately RMB1,273.3 million in FY2022 to approximately RMB878.0 million in FY2023. Such decrease in gross profit was mainly attributable to (i) the decrease in revenue mainly driven by the decrease in average coal selling price in FY2023; and (ii) the increase in cost of sales primarily driven by the increase in the coal handling and trading volume in FY2023. The gross profit margin of the Group decreased from approximately 33.6% in FY2022 to approximately 25.5% in FY2023. Such decrease in gross profit margin was mainly attributable to the decrease in average selling price of thermal coal.

In FY2023, the profit attributable to the equity shareholders of the Company decreased by approximately 56.1% from approximately RMB456.5 million in FY2022 to approximately RMB200.3 million in FY2023. Such decrease was mainly attributable to the net effect of (i) the decrease in the average coal selling price in FY2023 as compared with FY2022; (ii) the increase in the coal handling and trading volume in FY2023 as compared with FY2022; and (iii) impairment losses on property, plant and equipment and coal mining due to decrease in average coal selling price.

As at 31 December 2023, the Group's total assets and total liabilities amounted to approximately RMB7,857.6 million and approximately RMB5,692.2 million, respectively. Equity attributable to the equity shareholders of the Company decreased from approximately RMB13.1 million as at 31 December 2022 to approximately RMB472.9 million in deficit as at 31 December 2023. The decrease in equity attributable to the equity shareholders of the Company was mainly due to a litigation initiated by the non-controlling shareholders against the Group to claim for their entitled benefits in respect of acquiring 20% of coal production from the year 2013 to 2020 at production cost prices as the distributions entitled to them as non-controlling shareholder, resulting in the provision of dividends to non-controlling shareholders of approximately RMB672.9 million recognised in FY2023.

(ii) For the year ended 31 December 2024 (i.e. FY2024)

In FY2024, the revenue of the Group decreased by approximately 24.6% from approximately RMB3,449.2 million in FY2023 to approximately RMB2,600.9 million in FY2024. Such decrease in revenue was mainly attributable to (i) the decrease in average coal selling price by approximately 24.2% from RMB665/ton in FY2023 to RMB504/ton in FY2024; and (ii) the average monthly coal handling and trading volume remained at similar level from 432,000 tons in FY2023 to 430,000 tons in FY2024. The gross profit of the Group decreased by approximately 41.4% from approximately RMB878.0 million in FY2023 to approximately RMB514.5 million in FY2024. Such decrease in gross profit was mainly attributable to (i) the decrease in revenue, which was mainly driven by the decrease in average coal selling price; and (ii) the decrease in gross profit margin in FY2024. The gross profit margin of the Group decreased from approximately 25.5% in FY2023 to approximately 19.8% in FY2024. Such decrease in gross profit margin was mainly attributable to the decrease in average selling price of thermal coal.

In FY2024, the profit attributable to the equity shareholders of the Company increased by approximately 150.6% from approximately RMB200.3 million in FY2023 to approximately RMB501.9 million in FY2024. Such increase was mainly attributable to the net effect of (i) an increase in other income, gains and losses of approximately RMB545.2 million in FY2024, mainly attributable to the gain on substantial modification upon loan restructuring in FY2024 (due to the full settlement of the loan for the year); (ii) the decrease in the average coal selling price; and (iii) impairment losses on property, plant and equipment and coal mining rights due to decrease in average coal selling price.

As at 31 December 2024, the Group's total assets and total liabilities amounted to approximately RMB8,629.3 million and approximately RMB5,143.1 million, respectively. Equity attributable to equity shareholders of the Company increased from approximately 472.9 million in deficit as at 31 December 2023 to approximately RMB1,971.8 million as at 31 December 2024. The increase in equity attributable to equity shareholders of the Company was mainly attributable to (i) the gain on the partial disposal of a subsidiary, namely Lead Far Development Limited during the year 2024, and (ii) the profit for the year of approximately RMB501.9 million.

II. Information of the Disposal Group

As at the Latest Practicable Date, the Group held the entire issued share capital of the Disposal Company. The Disposal Company was incorporated in Hong Kong and is a wholly owned subsidiary of the Group. The Disposal Company is an investment holding company and the principal activities of the Disposal Group are coal business in PRC. The principal assets of the Disposal Group include (i) three coal mines in Shuozhou Shanxi, the PRC, each of which are held by Huameiao Energy – Xingtao, Huameiao Energy – Fengxi and Huameiao Energy – Chongsheng, 80% shareholding interest of which are held by the Disposal Group; and (ii) two coal mines in Xinzhou Shanxi, the PRC, each of which are held by Shenda Energy – Xinglong and Shenda Energy – Hongyuan, which are wholly owned by the Disposal Group. Save as disclosed above, the Disposal Group does not possess any other coal mines.

Set out below are the coal reserves of the coal mines held by the Disposal Group:

	Huameiao Energy – Xingtao	Huameiao Energy – Fengxi	Huameiao Energy – Chongsheng	Shenda Energy – Xinglong	Shenda Energy – Hongyuan	Total
Reserves as of 31 December 2024 (Mt)	7.14	0.94	4.72	13.50	10.46	36.76
– Proved reserves	3.12	–	–	–	–	3.12
– Probable reserves	4.02	0.94	4.72	13.50	10.46	33.64
Operation status	Under operation	Under operation	Under operation	Under development (Temporarily suspended)	Under development (Temporarily suspended)	

In respect of the re-commencement of coal mine development of Shenda Energy – Xinglong and Shenda Energy – Hongyuan, there are a number of documents and licences required to be approved and/or obtained from the relevant government authorities, which include, but not limited to, business and mining licenses, environmental and safety assessments, geological and resource verification, design and construction approvals, cultural relic protection plan and various compliance reports related to water use, fire protection, energy conservation, etc. Details of which are set out in the Letter from the Board.

Shenda Energy – Hongyuan has commenced the processes for two years and completed the Documents Required, which enable it to re-commence the development of coal mine. However, Shenda Energy – Xinglong is still under the process to complete and obtain the Documents Required.

Set forth below is the financial information extracted from the unaudited combined financial statements of the Disposal Group as at each of the years ended 31 December 2022, 2023 and 2024:

	As at 31 December 2022 RMB'000	As at 31 December 2023 RMB'000	As at 31 December 2024 RMB'000
Revenue	2,768,575	2,182,657	1,672,258
Gross profit	603,256	367,447	204,029
Profit/(loss) before taxation	305,020	(42,646)	496,640
Profit/(loss) after taxation	153,673	(81,855)	499,664
Total assets	8,291,097	8,933,600	10,535,308
Total liabilities	8,636,520	10,036,697	9,850,640
Net assets/(liabilities)	(345,423)	(1,103,097)	684,668
Total equity/(deficit) attributable to equity shareholders of the Company	(1,145,526)	(1,894,881)	(169,492)

The financial performance of the Disposal Group has declined over the past three years, including in both revenue and gross profit. This was primarily due to the significant decrease in the average coal selling price in the PRC, which fell from RMB838/ton in 2022 to RMB504/ton in 2024. Furthermore, for the year ended 31 December 2023, the Disposal Group recorded a loss after taxation of RMB81,855,000. For the year ended 31 December 2024, the Disposal Group reported a profit after taxation of RMB499,664,000. However, after excluding the one-off gains, the RMB476,356,000 gain from the substantial modification upon loan restructuring (due to the full settlement of the loan for the year) and the RMB85,677,000 gain from the non-substantial modification upon loan restructuring (resulting from the revised repayment schedule with the relevant asset management company), the Disposal Group actually incurred a loss after taxation of RMB62,369,000.

III. Background of, reasons for and benefits of the Disposal and the Corporate Guarantee

Disposal of Coal Business in PRC

As stated in the section headed Letter from the Board contained in the Circular, the Disposal Group is primarily engaged in coal business in the PRC.

As further set out in the Letter from the Board, in the past few years, the performance of the coal business in PRC was deteriorating, which was mainly attributable to the decrease in the average selling price in the PRC, which fell from RMB838/ton in 2022 to RMB504/ton in 2024.

In order to assess the industry performance in recent years, we have identified on best effort basis an exhaustive list of comparable companies (the “**Comparable Companies**”) of the Group for our comparison analysis, based on the selection criteria that these companies (i) are primarily engaged in coal production in the PRC, (ii) had a market capitalisation ranged between HK\$100 million to HK\$10,000 million as at the date of the Announcement of which the Group’s market capitalisation (i.e. HK\$3,121 million) lies between HK\$1,000 million to HK\$10,000 million, but there would only be two comparable companies be observable in this range, whereas the extended range of market capitalisation from HK\$100 million to HK\$10,000 million could result in five comparable companies that is considered to be more representable for the purpose of our analysis, and (iii) the shares of which are listed on the Stock Exchange. The selection criteria have provided us with reasonably sufficient samples for comparison purpose.

Set out below are the revenue growth and profit growth for year 2023 and year 2024, and the respective compounded annual growth rate (“CAGR”) over year 2022 to year 2024, of the Group, the Disposal Group, and the Comparable Companies, namely Kinetic Development Group Limited (stock code 1277, “Kinetic”), Perennial Energy Holdings Limited (stock code: 2798, “Perennial”), Nan Nan Resources Enterprise Limited (stock code: 1229, “Nan Nan”), Feishang Anthracite Resources Limited (stock code: 1738, “Feishang”), and Kaisun Holdings Limited (stock code: 8203, “Kaisun”):

	The Group	Disposal Group	Kinetic	Perennial	Nan Nan	Feishang	Kaisun
Revenue growth 2024	(24.6%)	(23.4%)	19.2%	(0.6%)	(51.6%)	(68.9%)	272.1%
Revenue growth 2023	(9.1%)	(21.2%)	(22.9%)	(3.8%)	(20.1%)	(38.2%)	12.1%
CAGR of revenue (2022-2024)	(17.2%)	(22.3%)	(4.2%)	(2.2%)	(37.8%)	(56.2%)	104.2%
Profit ⁽²⁾ growth 2024	150.5% ⁽⁴⁾	N/A ⁽¹⁾	1.5%	(12.7%)	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
Profit ⁽²⁾ growth 2023	(56.1%)	N/A ⁽¹⁾	(22.0%)	(32.2%)	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A ⁽¹⁾
CAGR of profit ⁽²⁾ (2022-2024)	4.9%	N/A ⁽¹⁾	(11.0%)	(23.1%)	(21.9%)	N/A ⁽¹⁾	N/A ⁽¹⁾
Market capitalisation ⁽³⁾ (HK\$ million)	3,121	N/A ⁽¹⁾	9,526	1,184	191	139	143
Percentage of revenue from coal production in the PRC in 2024	88.4%	100.0%	99.7%	100.0%	84.5%	100.0%	96.4%

Source: calculations were based on the figures disclosed in the annual reports of the Comparable Companies for the latest two years available from the website of the Stock Exchange; and the market capitalisations were calculated based on the market prices of the Comparable Companies as disclosed on the website of the Stock Exchange

Notes:

- (1) “N/A” refers to not applicable;
- (2) “Profit” refers to the profit attributable to owners/equity shareholders attributable to the company;
- (3) “Market capitalisation” as at the date of the Announcement; and
- (4) Such profit growth 2024 was primarily attributable to the net gain on substantial modification upon loan restructuring.

As set out in the above table, the Comparable Companies and the Group generally recorded negative CAGR of revenue from year 2022 to year 2024, except for Kaisun recorded CAGR of revenue of 104.2%, mainly attributable to its significant increase in revenue derived from its Xinjiang mine operation. Further, three out of five Comparable Companies recorded negative CAGR of profit from year 2022 to year 2024, whereas the remaining two could not calculate the growth rate due to (i) for Feishang, it recorded loss attributable to owners of the company for year 2023 and 2024, and (ii) for Kaisun, it recorded turnaround profit attributable to owners of the company in 2024 after two consecutive years of loss in year 2022 and year 2023. According to the relevant annual reports of the Comparable Companies, their financial performances were in general negatively affected by the macroeconomic factors including falling selling prices of the coal in the PRC and decreasing selling volume in the PRC which are consistent with the challenges faced by the Group.

The recent tightening policies and regulations of the PRC government have further brought long-term negative impact to the coal mining industry in the PRC. On 23 May 2024, the State Council of the PRC issued “Action Plan for Energy Conservation and Carbon Reduction in 2024-2025” (2024-2025年節能降碳行動方案, the “**Action Plan**”). This policy is an indication of the government’s commitment to accelerate the transition from traditional fossil fuels to cleaner and more sustainable energy sources, which implies certain insight in the develop of the coal industry in China. The Action Plan sets forth a series of ambitious goals and measures aimed at reducing carbon emissions and improving energy efficiency across various sectors of the economy. For the coal industry in the PRC, this means facing stricter environmental regulations, higher energy efficiency standards, and increased pressure to adopt cleaner technologies. The Action Plan stipulates a reduction in the proportion of coal to total energy consumption and promotes the development of renewable energy sources such as wind, solar, and hydroelectric power. This shift is expected to lead to a gradual decline in the demand for coal in the PRC, as more emphasis is placed on low-carbon and zero-carbon energy alternatives.

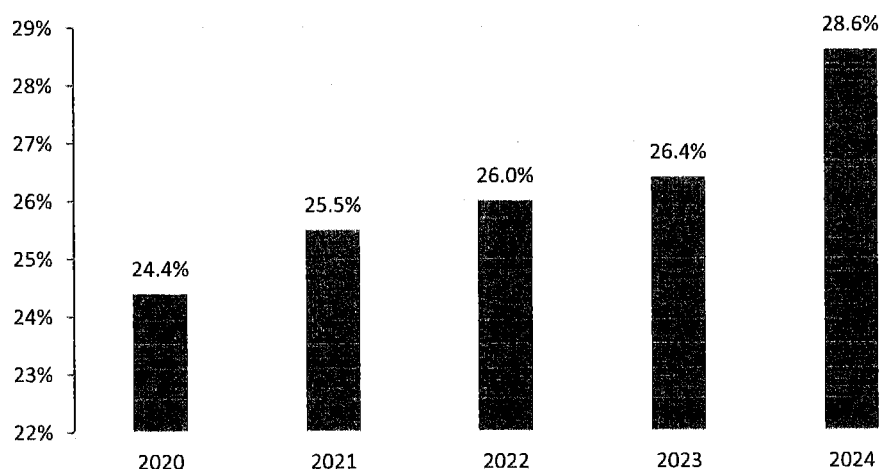
According to the China Statistical Yearbook 2024 published by the National Bureau of Statistics of China, the consumption of coal gradually declined from 56.9% in 2020 to 53.2% in 2024, representing compounded annual growth rate of negative 1.7%. Set out below is the proportion of consumption of coal in total energy consumption from 2020 to 2024:

	2020	2021	2022	2023	2024
The proportion of coal to total energy consumption	56.9%	55.9%	56.0%	55.3%	53.2%

Source: National Bureau of Statistics of China

According to the Statistical Communiqué of the People's Republic of China on the 2024 National Economic and Social Development (中華人民共和國2024年國民經濟和社會發展統計公報) issued by the National Bureau of Statistics of China on 28 February 2025, the proportion of consumption of clean energy, such as hydropower, wind power, nuclear power and natural gas, in total energy consumption increased from 24.4% in 2020 to 28.6% in 2024, representing a compound annual growth rate of approximately 4.1%. Set out below is the proportion of consumption of clean energy, from 2020 to 2024:

The Proportion of Clean Energy Consumption in Total Energy Consumption 2020 - 2024



Source: Statistical Communiqué of the PRC on the 2024 National Economic and Social Development

With an increasing trend of clean energy consumption and government policies towards coal industry in the PRC, we are of the view that the business environment of coal industry in the PRC remains challenging.

As set out in the Letter from the Board, the Group is of the view that acquisition of new coal mines in China has becoming economically unworthy, and thus lacks economic justification. In addition, recent coal mine auction results in China demonstrated the substantial investment costs involved, further discouraging the Group from pursuing additional investment in coal business in the PRC. Therefore, without new mine to drive revenue growth and having considered the low reserves of the current mines, the Group expects the revenue of the Disposal Group will continue to decrease in the future.

Further, the Group's profitability has also been adversely impacted by substantial depreciation and amortisation expenses related to coal mining rights and assets in the PRC. These costs are calculated based on the book value of fixed assets and mining rights divided by the volume of coal reserves. As a result, the depreciation and amortisation expenses are relatively higher for the Group's coal mines in the PRC, as the acquisition cost was relatively high when the Group acquired the coal business in PRC in 2011. Consequently, depreciation and amortisation expenses of the Disposal Group are expected to remain high, thereby continuing to constrain the Group's overall profitability in the foreseeable future.

Moreover, since 2018, the Group has been engaged in ongoing legal disputes with the non-controlling shareholders of Huameiao Energy. Retaining these assets leads to a prolong exposure to legal uncertainties, potentially undermining operational stability and diverting attention of the Management and resources from the Group's core growth initiatives in Indonesia. A disposition of the Disposal Group would effectively transfer these risks to the buyer, and thus safeguard the interests of the Remaining Group from further legal and financial exposure.

However, despite attempts made in 2024, the Group was unable to successfully dispose the coal business in PRC to a third-party buyer.

In view of the above, we concur with the Director's view that it is reasonable to dispose the coal business in PRC (i.e. the Disposal Group) to the Purchaser.

According to an article titled "International coal price: higher-for-longer"¹ by Paolo Agnolucci (Senior Economist, Prospects Group, World Bank), Matias Guerra Urzua (Research Analyst, Prospects Group, World Bank) and Nikita Makarenko (Research Analyst, World Bank), published on the Data Blog of World Bank (a platform for the bank to share insights, research, and discussions) on 3 December 2024, global coal prices are projected to fall in 2025 and 2026, and this anticipated decline is due to robust supply, as reductions in global consumption weigh on the market. Thus, we do not anticipate the coal selling prices in the PRC or Indonesia to increase in the foreseeable future.

Having considered that the coal selling prices are expected to remain constrained, the profitability would highly depend on the cost of sales, where the lower cost implies the higher profitability. The following table summarise (i) the revenue, gross profit, profit before tax and profit after tax of the coal business in Indonesia for FY2024, as extracted from "Appendix IV - Management Discussion and Analysis of the Remaining Group"; and (ii) the revenue, gross profit, profit before tax and profit after tax of the Disposal Group (i.e. coal business in the PRC) as extracted from "Appendix II - Financial Information of the Disposal Group", adjusted by excluding the one-off gains, the RMB476,356,000 gain from the substantial modification upon loan restructuring (due to the full settlement of the loan for the year) and the RMB85,677,000 gain from the non-substantial modification upon loan restructuring (resulting from the revised repayment schedule with the relevant asset management company):

<i>FY2024</i> <i>(RMB' million, unless otherwise specified)</i>	Coal business in Indonesia	Coal business in the PRC
Revenue	302.2	1,672.3
Gross profit	64.4	204.0
Gross profit margin	21.3%	12.2%
Profit/(loss) before taxation	7.8	(92.8)
Profit/(loss) after taxation	8.0	(89.8)

¹ URL: <https://blogs.worldbank.org/en/opendata/international-coal-price--higher-for-longer>

Based on the above historical performance of the Group, the coal business in Indonesia recorded a gross profit margin of 21.3%, which is higher than the gross profit margin of the coal business in the PRC of 12.2%. Further, the coal business in Indonesia recorded a profit before tax of RMB7.8 million and a profit after tax of RMB8.0 million for FY2024, while the coal business in the PRC incurred a loss before tax of RMB92.8 million and loss after tax of RMB89.8 million for FY2024 (excluding the abovementioned one-off gains).

Having considered that (i) the global coal prices are anticipated to remain constrained, and (ii) the coal business in Indonesia has a higher profitability than the coal business in the PRC, primarily attributable to its lower cost as demonstrated by its higher gross profit margin in FY2024, we are of the view that the coal business in Indonesia present a more favourable outlook compared to those in the PRC.

Corporate Guarantees

Prior to entering into the Disposal Agreement, certain members of the Remaining Group, as guarantors, have already entered into the Maximum Guarantee Agreements with certain banks in the PRC. Pursuant to which, the guarantors shall guarantee the repayment obligations of the Disposal Group under its Maximum Loan Facilities Agreements with these PRC banks.

Following the Disposal, the Disposal Group will become a connected person to the Remaining Group, such that the guarantee provided under the Maximum Guarantee Agreements will constitute a connected transaction requiring independent shareholder approval. To comply with the Listing Rules requirements in this regard, the parties entered into the Corporate Guarantee Agreement whereby the Remaining Group conditionally agrees to continue providing the corporate guarantees for the Existing Bank Loans of the Disposal Group, in accordance with the terms of the Maximum Guarantee Agreements entered into prior to the Disposal.

To safeguard the interest of the Remaining Group, the Disposal Group has undertaken to provide the Loan, which is interest-free and equivalent to the aggregated principal guarantee amount of RMB 417,000,000 under the Maximum Guarantee Agreements, to the Remaining Group as security upon Completion. The maturity date of the Loan will be the date fully releasing the corporate guarantees provided by the Company under the Maximum Guarantee Agreements. In the event of a default, the Remaining Group shall have the rights to use the Loan to fully indemnify the Company for all liabilities and obligations which may be borne by the Company under the Maximum Guarantee Agreements. In this connection, any portion of the Loan used to indemnify the Company and Qinfal Logistics will be deemed to have been repaid.

The availability of the Loan could provide the Company with immediate access to the aggregate principal amount of RMB417 million without incurring interest costs. This enhances liquidity and ensures the Company can meet any sudden obligations under the Corporate Guarantee Agreement without disrupting operations or seeking emergency financing. With the Loan in place, the Company can also allocate internal resources more strategically without being constrained by the guarantee exposure.

According to the Letter from the Board, it is expected that the Loan will be funded by the net balance of the intragroup amount due from the Remaining Group, which is approximately RMB308 million as at the date of the Announcement, with the remaining RMB109 million to be funded by Mr. Xu.

On 20 June 2025, Mr. Xu has directed his wholly owned company to inject, and a member of the Disposal Group (namely 忻州秦發易盛貿易有限公司) has received, RMB109 million by way of bank transfer, of which such funding was originally provided by Mr. Xu in person, and the Disposal Group has undertaken that such funding will be solely applied as part of the Loan upon Completion.

The Terms of the Corporate Guarantee Agreement and the Maximum Guarantee Agreements

In assessing the reasons for the duration of the Corporate Guarantee Agreement and the Maximum Guarantee Agreements to be longer than three years, we have considered the following factors based on the information provided by the Management:

- (i) the corporate guarantees are intended to serve as security for the banks against potential defaults in loan repayment. Therefore, to be effective, the guarantees should cover at least the full term of the underlying bank loans; and
- (ii) given that the guarantee is expected to cover at least the full term of the underlying bank loan to be effective, it is reasonable for the term to exceed three years, provided that the corresponding term of bank loan is longer than three years.

In assessing whether it is a normal business practice for the agreement of similar nature to the Corporate Guarantee Agreement and the Maximum Guarantee Agreements to have a term of such duration, we have independently conducted research on the provision of corporate guarantee to commercial banks in PRC as disclosed by companies listed on the Stock Exchange within twelve months from the date of Announcement. The selection criteria for the identified transactions were as follows: (i) the relevant companies are listed on the Stock Exchange; (ii) the provision of financial guarantee was publicly disclosed through company's announcement; and (iii) the term of such financial guarantee exceeds a three-year period. The table below set out the exhaustive list of transactions (the “**Reviewed Transactions**”) we have identified:

	Announcement Date	Company Name (Stock Code)	Terms of the Guarantee	Guarantee Fee
1.	30 May 2025	E-Commodities Holdings Limited (stock code: 1733)	Commence from the date of announcement and will expire by three years commencing from the date of performance/fulfilment of the obligations	Not mentioned

	Announcement Date	Company Name (Stock Code)	Terms of the Guarantee	Guarantee Fee
2.	15 May 2025	Beijing Beida Jade Bird Universal Sci-Tech Co Ltd (stock code: 8095)	Commence from the date of drawdown and will expire on the date which is three years after the due date for fulfilment of all obligations	Not mentioned
3.	22 Apr 2025	Beijing Beida Jade Bird Universal Sci-Tech Co Ltd (stock code: 8095)	Commence from the date of drawdown and will expire on the date which is three years after the due date for fulfilment of all obligations	Not mentioned
4.	11 Apr 2025	E-Commodities Holdings Limited (stock code: 1733)	Commence from the date of announcement and will expire by three years commencing from the date of performance/fulfilment of the obligations	Not mentioned
5.	17 Mar 2025	Multifield International Holdings Limited (stock code: 898)	Commence on its execution date and will continue until all outstanding liabilities or obligations have been repaid in full, whereby the term of the loan is five years	No
6.	17 Jan 2025	E-Commodities Holdings Limited (stock code: 1733)	Commence from the date of announcement and will expire by three years commencing from the date of performance/fulfilment of the obligations	Not mentioned

	Announcement Date	Company Name (Stock Code)	Terms of the Guarantee	Guarantee Fee
7.	23 Dec 2024	Zall Smart Commerce Group Limited (stock code: 2098)	<p>Guarantees remained outstanding as at the announcement date:</p> <p>A: from 17 July 2015 to 12 June 2031; B: from 6 June 2014 to 12 September 2029; C: from 23 March 2024 to 22 March 2030; D: from 18 September 2023 to 17 September 2028; E: from 30 January 2024 to 29 January 2029; F: from 22 March 2023 to 21 March 2028; G: from 27 November 2016 to 31 December 2027;</p> <p>the above expiry dates have already reflected three years from the last date of repayment</p>	2.0% per annum of the outstanding loans balances of the guarantees and mortgages until the repayment date of the respective outstanding loans
8.	4 Dec 2024	China Risun Group Limited (stock code: 1907)	Commence from the date of announcement to three years from the expiry date of the term of the debt performance/fulfilment under the loan agreement with a term of 10 years till November 2034	Not mentioned
9.	29 Jul 2024	Seacon Shipping Group Holdings Ltd (stock code: 2409)	Commence from the date of announcement to three years from the expiration date of the performance period of the last due debt or the last installment of the debt	Not mentioned

We note from the Reviewed Transactions that, despite the term of the bank loan may not be all available in the announcements of the Reviewed Transactions, it is uncommon for the corporate guarantee to commence upon drawdown and to expire three years after the loan term, indicating the whole term of guarantee exceeding three years.

Based on the above, we are of the view that the terms of the Corporate Guarantee Agreement and the Maximum Guarantee Agreements exceeding three years are normal business practices.

IV. Principal terms of the Sale and Purchase Agreement and the Corporate Guarantee Agreement

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date: 5 June 2025

Parties: (i) the Vendor; and
(ii) the Purchaser

Assets to be disposed of: Pursuant to the Sale and Purchase Agreement, the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Disposal Company, to the Purchaser (i) free from any Encumbrances and (ii) all rights attaching thereto, including all dividends and distributions declared, made or paid on or after the date of Completion.

As at the Latest Practicable Date, the Vendor is interested in the entire issued share capital of the Disposal Company. Upon Completion, the Vendor will cease to hold any shareholding interests in the Disposal Company, and the Disposal Company will cease to be subsidiary of the Group and the results of the Disposal Group will no longer be consolidated into the consolidated financial statements of the Group. The Disposal Company is not subject to any encumbrances as at the Latest Practicable Date.

Conditions precedent:

- (a) the Disposal Company and the Company having entered into the Corporate Guarantee Agreement, such that the Maximum Guarantee Agreements will remain effective and valid after the Disposal;
- (b) the approval of entering into the Sale and Purchase Agreement, the Corporate Guarantee Agreement and the transactions contemplated thereunder at the EGM; and
- (c) the Disposal Company and the Company having entered into the Loan Agreement.

The Consideration for the Disposal to be paid by the Purchaser to the Vendor is RMB30,000,000, which shall be settled in cash by the Purchaser on the Completion Date. The Consideration was determined based on normal commercial terms and after arm's length negotiations between the Purchaser and the Vendor, after taking into consideration of, among others, (i) the total deficit attributable to equity shareholders of the Disposal Group implied that any purchaser of the Disposal Group shall assume the liabilities, (ii) the Valuation of the Disposal Group is minimal, given that the net liabilities of the Disposal Group amounting to approximately RMB2,975 million exceeds the market value of the coal mines amounting to approximately RMB2,505 million, and (iii) the difference between the Consideration of RMB30 million and the Unused Export Tax Refund of approximately RMB33 million is the operating cost (other than the transportation cost from China to Indonesia) incurred by the Export Company on purchasing the goods.

Please refer to the Letter from the Board for more details in relation to the Sale and Purchase Agreement.

The principal terms of the Corporate Guarantee Agreement are set out as follows:

Date:	5 June 2025
Parties:	(i) the Company, as corporate guarantor; and (ii) the Disposal Company
Guarantee amount:	RMB417,000,000
Undertaking:	The Disposal Company agreed to provide an interest-free loan of RMB417,000,000 to the Company as security upon Completion. The loan will expiry upon fully release of the Maximum Guarantee Agreements.
Guarantee fee:	None
Term of guarantee:	Commence on the date of Completion and shall expire on the date falling three years after the date of fulfillment of the last repayment obligation under each of the loan agreements under the Existing Bank Loans.

As referenced in the list of Reviewed Transactions above, we note that, save and except for Zall Smart Commerce Group Limited (stock code: 2098) ("**Zall Smart Commerce**"), none of the Reviewed Transactions involved the charging or even mentioning of a guarantee fee. We further observed that in those cases, the borrower(s) or guarantee provider(s) were associates of the respective listed groups.

The case of Zall Smart Commerce is similar to that of the Group. Since 2022, Zall Smart Commerce has provided corporate guarantees and mortgages to the disposal group even after divesting its subsidiaries to third parties. In return, it charged an annual guarantee fee of 2.0% on the outstanding loan balances until repayment.

Based on the precedent set by the Reviewed Transactions, it appears that the absence of a guarantee fee under the Corporate Guarantee Agreement is not in line with normal commercial practice, particularly as the Disposal Group will no longer be part of the Group. The provision of such a guarantee to non-affiliated companies should reasonably come with appropriate compensation.

We understand that the Corporate Guarantee Agreement and the Maximum Agreements are conditions precedent to the Disposal. From a commercial standpoint, it is also understandable that the Purchaser would not proceed with the Disposal if the continuation of the bank loans and related guarantees could not be secured, particularly as the banks only accept guarantors with at least the Group's credit standing, likely due to its listing status.

Taking into consideration: (a) the downside outlook of the Disposal Group, including (i) anticipated revenue decline; (ii) high expected depreciation and amortization impacting profitability; and (iii) ongoing legal disputes that pose financial and legal risks to the Group; (b) the strategic benefits of the Disposal, namely (i) an estimated gain of approximately RMB195.9 million; (ii) the strengthening of the Group's net asset position from approximately RMB1,971.8 million to RMB2,197.7 million upon completion; and (iii) reallocation of resources to the Coal Business in Indonesia, which has a stronger growth outlook; (c) the provision of an interest-free loan from the Disposal Group equivalent to the principal guarantee amount of RMB417 million, enhancing liquidity and enabling the Company to meet obligations under the Corporate Guarantee Agreement without external financing; and (d) the Group's ongoing efforts to dispose of the Disposal Group since July 2023; we are of the view that, although it may not be in normal commercial term for the Group to enter into the Corporate Guarantee Agreement without a guarantee fee, the overall of the Disposal outweigh the lack of such fee. Accordingly, the entering into of the Corporate Guarantee Agreement remains fair and reasonable and in the interest of the Company and its shareholders as a whole.

Please refer to the Letter from the Board for more details in relation to the Corporate Guarantee Agreement.

V. Assessment of the Consideration

As stated in the Letter from the Board, the Consideration was determined based on normal commercial terms and after arm's length negotiations between the Purchaser and the Vendor. One of the primary factors considered was that the net liabilities of the Disposal Group exceeds the market value of the coal mines of the Disposal Group.

We have primarily made reference to the Valuation of the Disposal Group, which formed the primary basis of the Consideration.

Our work done on the Valuation Report

With a view to evaluate the basis of determination of the appraised value of the Disposal Group, we have reviewed and discussed the contents of the Valuation Report with the representatives of Valuer.

As part of our work performed, we have reviewed the key assumptions adopted by the Valuer as set out under the section headed “9 Valuation Assumptions” in the Valuation Report. We understand from the Valuer that these key assumptions are in line with other similar valuations conducted by the Valuer and are therefore considered to be reasonable.

We have discussed with representatives of the engagement team of the Valuer as to their expertise, valuation experience, their scope of work and valuation procedures conducted in relation to the valuation of the Disposal Group. We have reviewed and enquired into the qualifications and experience of the Valuer in relation to the preparation of Valuation Report, and noted that the Independent Valuer is a firm specialising in provision of valuation services for its clients engaging in different industries for various purposes.

In relation to the expertise of the Valuer, we noted that the signor of the Valuation Report, Dr. Tony C.H. Cheng has extensive experience in the professional valuation field. In assessing the Valuer’s experiences, we have obtained information on the Valuer’s track records on other valuations and noted that the Valuer had acted as the valuer for a wide range of public companies listed in Hong Kong. In addition, we have also obtained the information relevant to the qualifications and credentials of the team members involved in this valuation exercise. As such, we are of the view that the Valuer is qualified, experienced and competent in performing business valuation in respect of the valuation exercise of the Disposal Group.

In relation to the scope of work, we noted from the engagement letter entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report. Having considered the above, we are of the view that the Valuer are qualified, experienced and competent in performing valuations of similar assets and providing a reliable opinion in respect of the Valuation of the Disposal Group.

We have also enquired with the Valuer as to its independence from the Company and the parties to the Disposal and were given to understand that the Valuer is an independent third party of the Company, the parties to the Disposal and their connected persons. The Valuer also confirmed to us that it was not aware of any relationship or interest between itself, the Company, any parties to this Disposal or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation, no arrangements exist whereby it will receive any fee or benefit from the Company, the parties to this Disposal and their associates. Given the above, we are of the view that the Independent Valuer is independent from the Company in respect of the valuation of the Disposal Group.

Valuation Methodology

In arriving at the appraised value of the Disposal Group, the Valuer has considered three generally accepted approaches, namely market approach, income approach and asset-based approach.

Based on our understanding from the Valuer, (i) the market approach was considered to be inappropriate as there was a lack of explicitly comparable companies or market transactions available as at the date of Valuation to derive an indicative value of the Disposal Group with sufficient level of accuracy; (ii) except for the five subsidiaries operate in mining that cash-flow forecast was provided by the Management and supported by the reserves and mine life estimated based on the Competent Person's Report, the income approach which requires significant level of unobservable and subjective assumptions may not accurately quantify or ascertain the market value of the Disposal Group, therefore the asset-based approach was considered to be most appropriate as each of the assets and liabilities is identifiable and the Valuer is able to conduct appropriate valuation for each item; and (iii) the income approach was considered to be most appropriate for the five subsidiaries operate in mining, as it takes the future growth potential and firm-specific issues into consideration, and thus the discounted cash flow method was adopted, given the cash-flow forecast was provided by the Management along with the reserves and mine life were supported by the Competent Person's Report.

Having considered the above, we concur with the Valuer that it is fair and reasonable to adopt (i) the asset-based approach in arriving at the market value of the Disposal Group except for the five subsidiaries operate in mining; and (ii) the discounted cash flow method under the income approach in arriving at the market value of the five subsidiaries operate in mining.

Valuation

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report and note that the market value of the Disposal Group was nominal, primarily due to the market value of the net liabilities as at 31 December 2024 exceeded the aggregated market value of the five subsidiaries that operate in mining, details of which are set out in Appendix VI to this Circular.

Based on our review of the Valuation Report and discussion with the Valuer, we note that the market value of the Disposal Group except mining subsidiaries was mainly based on its book values that we considered justifiable.

In respect of the mining subsidiaries, we note from the Valuation Report that the financial projection of the five subsidiaries that operate in mining is, among others, mainly based on the following:

- (i) the production schedule by referencing the reserves, mine life and planned annual production as outlined in the Competent Person's Report;
- (ii) the forecast coal prices ranged from RMB471/ton to RMB696/ton determined based on the best estimation on the respective types of the coal that the Disposal Group produces;
- (iii) forecast operating expenses of different types, including material and consumables, staff cost, utilities and overhead and others, were projected based on the production schedule of the respective mine; and
- (iv) the projected capital expenditure on each of the mines until the end of the mine life.

As part of our due diligence, we have obtained the Competent Person's Report and note that such report is prepared in accordance to the JORC Code 2012 and is in complied with Chapter 18 of the Listing Rules. In respect of the background of the Competent Person, we have reviewed the independence, qualification and experience of SRK and consider that the responsible competent person meets the requirements of a Competent Person as defined by Chapter 18 of the Listing Rules and the relevant project team members are capable in preparing the Competent Person's Report. In respect of the forecast production level of each of the mines, we noted from the Competent Person's Report that SRK is in the opinion that the five mines are designed, equipped and operated to achieve the planned and forecast production levels, as supported by the historical production rate. In respect of the valuation of the mines, we noted from the Competent Person's Report that SRK is of the opinion that the appraised results derived from the Valuation Report were conducted in a professional way and is sufficient to demonstrate the economic viability.

In view of the above and having considered the abovementioned reports as referenced by the financial projection, we have no doubt on the aforesaid basis of the financial projection.

In applying the DCF method, we understand that it is necessary to determine an appropriate discount rate to calculate the net present value of the appraised asset. Therefore, we have reviewed the parameters adopted in the calculation of the discount rate (i.e. weighted average cost of capital) and performed the following works in assessing the fairness and reasonableness of the discount rate:

- (i) in arriving the cost of equity, we note that the Valuer has adopted (a) the risk-free rate of 1.68%, which is determined with reference to the 10-year Central Government Bond yield of the PRC as at the date of valuation; (b) the beta coefficient, which is determined by the median of nine comparable companies selected by the Valuer, and (i) modified by the assumption that a security's beta moves toward the market average over time with the generally accepted formula of "Adjusted Beta = (1/3) + (2/3) * Raw Beta" (commonly known as "**Blume Formula**"), and (ii) adjusted by re-leveraging the beta, incorporating with corporate tax rates and debt-to-equity ratio (commonly known as "**Hamada Equation**"); (c) market risk premium, which is determined by the market risk premium of the United States plus the country risk premium of the PRC; (d) the size premium of 2.66%, which is consistent with the premium for small-cap of the "Kroll Cost of Capital Navigator", a global cost of capital tool and data delivery platform and is one of the most authoritative sources of equity risk premia, size premia and other critical data used in computing cost of capital; and (e) the company-specific risk premium of 2% for mines under operation and 4% for mines temporary suspended, which were determined by the Valuer with reference to the market practice to reflect the risk of uncertainty regarding the mining operations and financial projections.

As part of our due diligence, we have:

- (a) independently researched the valuation reports published on the website of Stock Exchange and note that abovementioned source of reference is commonly referred to by the market as a benchmark for valuation metrics and methodologies;
- (b) independently researched the 10-year Central Government Bond yield of the PRC as at the 31 December 2024 and noted that the yield is consistent with the risk-free rate of 1.68% adopted in the valuation model;

- (c) Independently researched on the use of Blume Formula and Hamada Equation and noted that Blume Formula is original proposed by Mark Blume in his papers “Betas and their regression tendencies” published in 1975 and commonly adopted in the industry nowadays to report the adjusted beta of individual stock and such methodology to report adjusted beta is currently used by Bloomberg, which is a global reputable and renowned data provider in finance industry, and Hamada Equation, originally introduced by Robert Hamada in his papers titled “The Effect of the Firm’s Capital Structure on the Systemic Risk of Common Stocks” published in the Journal of Finance, Vol. 27, No. 2, in May 1972, and is widely adopted in calculating the WACC to re-leverage the raw beta observed, of which the formula to re-leverage the beta is commonly adopted by renowned valuation experts nowadays, such as Professor Aswath Damodaran (Professor of Finance at the Stern School of Business at New York University) and the data of beta published on Damodaran Online, which is a commonly referred source of market risk data by valuation practitioners;
 - (d) independently researched the parameters used by the Valuer in arriving the market risk premium from Damodaran Online (a common source of market risk data referred by valuation practitioners, published and maintained by Professor Aswath Damodaran) and noted that the equity risk premium of U.S. is 6.26% and the country risk premium for China is 0.94%, such that the aggregated market risk premium is 7.2% and is consistent with the parameter adopted by the Valuer;
 - (e) independently researched the size premium and noted that the parameter of 2.66% adopted by the Valuer is consistent with the premium for small-cap of the “Kroll Cost of Capital Navigator”, a global cost of capital tool and data delivery platform and is one of the most authoritative sources of equity risk premia, size premia and other critical data used in computing cost of capital; and
 - (f) discussed with the Valuer regarding the basis and assumptions of the major factors considered in deriving the discount rate, which is in line with industry practice.
- (ii) In arriving the cost of debt, we note the Valuer has adopted 4.90% as the cost of debt, which is determined with reference to the expected lending rate of the Disposal Group. As the mine life varies between mines, we therefore consider the adoption of the expected lending rate of the Disposal Group itself is justifiable.
 - (iii) in arriving at the weight of equity and weight of debt, the Value has adopted the debt-to-equity ratio with reference to the median of the weight of equity and the median of the weight of debt of the comparable companies, and thus considered to be justifiable and in line with market practice.

In view of the above, we consider the discount rate adopted by the Valuer is fair and reasonable.

To assess the reasonableness of the valuation results, we considered the application of alternative valuation methodologies for cross-checking purposes.

With respect to the valuation of the coal mines, we determined that the asset-based approach is not appropriate. This is because the core value of coal mines is derived from their reserves, which are not reflected in the book values reported on their financial statements. Furthermore, due to the characteristics of the coal mines within the Disposal Group, including, but not limited to their geographic locations, reserve volumes, and operational status, there is a lack of sufficiently comparable recent market transactions available. As a result, the market approach is not applicable in this regard.

Given these considerations, the DCF method under the income approach, as adopted by the Valuer, is considered the only appropriate methodology for valuing the coal mines, and there is no alternative valuation method deemed suitable or available for cross-checking purpose.

For the remaining parts within the Disposal Group, which primarily consist of the assets and liabilities recorded in the Disposal Group, the asset-based approach is considered the only appropriate valuation methodology. Accordingly, there is no alternative valuation method deemed suitable for cross-checking purpose.

We noted that the sensitivity analysis on the key parameters (i.e. the discount rates and the coal price growth rate) adopted in the Valuation was conducted by the Valuer. Where the discount rates are changed by +/-1% and the coal price growth rate is changed by +/-0.5%, the market values of the Disposal Group (negative RMB470 million) will change as follows:

Market Value Change (RMB' million)	Coal price growth rate		
	+0.5%	No change	-0.5%
Discount rates			
+1%	-62	-126	-190
No change	+71	No change	-69
-1%	+218	+140	+70

According to the above sensitivity analysis, the highest positive change to the market value (increasing by RMB218 million from the negative RMB470 million to the negative RMB252 million) would still generate a minimal valuation of the Disposal Group.

In light of the above and having considered that (i) the valuer is qualified, experienced and competent in performing similar business valuation, (ii) the competent person meets the requirements of a Competent Person as defined by Chapter 18 of the Listing Rules, (iii) the appraised value of the Disposal Group is minimal, and (iv) the consideration reflects the results of the negotiation between the Company and the Purchaser with reference to the unused tax refund in a member of the Disposal Group, we are of the view that the Consideration is fair and reasonable as far as the Independent Shareholders are concerned.

VI. Financial effects of the Disposal

Upon Completion, the Company will cease to hold any shareholding interests in the Disposal Group, and the Disposal Group will cease to be subsidiary of the Group. The results of the Disposal Group will no longer be consolidated into the consolidated financial statements of the Group.

Based on our discussion with, and the representation from, the Management, we understand that the following factors have been taken into account when the Company considered the potential impact of the Disposal on the financial performance and position of the Group:

(i) Effect on net assets

Based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as set out in Appendix III to the Circular, which is prepared as if the Disposal had completed on 31 December 2024 to illustrate the effect of the Disposal, it is expected that the total assets of the Group would decrease from approximately RMB8,629.3 million to approximately RMB4,877.2 million and the total liabilities of the Group would decrease from approximately RMB5,143.1 million to approximately HK\$2,019.3 million. As a result, the net assets attributable to equity shareholders of the Company would increase from approximately RMB1,971.8 million to approximately RMB2,197.7 million.

(ii) Effect on liquidity

Based on the unaudited pro forma consolidated statement of cash flows of the Remaining Group as set out in Appendix III to the Circular, it is expected that the cash and cash equivalent of the Group will decrease from approximately RMB1,025.5 million to approximately RMB1,020.0 million. In addition, pursuant to the undertaking of the Disposal Group, an interest-free loan of RMB417 million will be provided by the Disposal Group to the Remaining Group upon Completion, of which approximately RMB308 million will be funded by the net balance of the intragroup amount due from the Remaining Group, and approximately RMB109 million will be funded by Mr. Xu. Therefore, the cash and cash equivalent is expected to increase by approximately RMB103.5 million upon Completion.

(iii) Effect on earnings

As set out in the Letter from the Board, it is expected that the Group will record a gain of approximately RMB196 million from the Disposal, primarily attributable to the net effect of (a) the disposition of the net liabilities of the Disposal Group of approximately RMB169.5 million; and (b) the receipt of the consideration of RMB30 million; partially offset with the estimated direct expenses in relation to the Disposal of approximately RMB3.6 million.

It should be noted that the analyses above are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be after Completion of the Disposal.

OPINION

Having taken into account the above principal factors and reasons, we are of the view that notwithstanding that the entering into of the Sale and Purchase Agreement and the Corporate Guarantee Agreement are not in the ordinary and usual course of business of the Group, the terms of the Disposal and the Corporate Guarantees are on normal commercial terms and are fair and reasonable and the Disposal and the Corporate Guarantee is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolution at the EGM to approve the Sale and Purchase Agreement, the Corporate Guarantee Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited



Hidulf Kwan
Managing Director

Note:

Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.