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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold or transferred** all your shares in China Qinfa Group Limited (the “**Company**”), you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00866)**

**MAJOR TRANSACTION**  
**IN RELATION TO THE DISPOSAL OF A VESSEL**

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A letter from the Board is set out on pages 4 to 11 of this circular.

30 April 2021

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## DEFINITIONS

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

“Banking Day(s)”	a day or days on which banks are open in USA, PRC, Hong Kong and Macau
“Board”	the board of Directors
“Company”	China Qinfu Group Limited, a company incorporated in the Cayman Islands with limited liabilities, the Shares of which are listed on main board of the Stock Exchange (Stock Code: 866)
“Completion”	completion of the Disposal pursuant to the terms and conditions under the MOA on or before 20 June 2021 (or as the Vendor and the Purchaser may otherwise agree in writing)
“Consideration”	the aggregate consideration in the sum of US\$14.9 million for the Disposal
“Deposit Holder Account”	the bank account of an international reputable law firm in Hong Kong nominated by the Vendor which shall hold the funds in trust on behalf of the parties in accordance with the MOA
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Vessel by the Vendor to the Purchaser pursuant to the terms and conditions under the MOA
“Fortune Pearl”	Fortune Pearl International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. XU
“Group”	the company and its subsidiaries
“Guaranteed Nominee”	Zhong Yuan Limited, a company incorporated in the Marshall Islands with limited liability, which was nominated by the Purchaser to take up the Vessel
“HK\$”	Hong Kong Dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Third Party(ies)”	any person(s) or other company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors knowledge, information and belief, are third party(ies) independent of the Company and its core connected persons (as defined in the Listing Rules)
“Latest Practicable Date”	28 April 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“MOA”	the memorandum of agreement dated 10 March 2021 entered into between the Vendor and the Purchaser in respect of the Disposal
“Mr. XU”	Mr. XU Jihua, a substantial Shareholder and a controlling Shareholder (as defined under the Listing Rules)
“Mr. Xu Da”	Chairman and an executive director of the Board and the son of Mr. XU
“Ms. WANG”	Ms. WANG Jianfei, an executive director of the Board
“PRC”	the People’s Republic of China
“Purchaser”	Dia Yuan International Shipping Co., Limited, a company incorporated in the British Virgin Islands with limited liability or its guaranteed nominees
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	the United States Dollar(s), the lawful currency of the USA
“USA”	The United States of America

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## DEFINITIONS

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“Vendor”	Super Grace Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability whose sole business is shipping transportation and holding and operation of the Vessel
“Vessel”	the bulk carrier named “SUPER GRACE”, being the subject of the Disposal, which is 100% beneficially owned by the Vendor
“%”	per cent

*In this circular, for illustration purpose only and unless otherwise specified, amounts quoted in US\$ have been converted into RMB at the rate of US\$1 to RMB6.5068. Such exchange rate has been used, where applicable, for illustration purpose only and does not constitute a representation that any amounts were or may have been exchanged at these or any other rates or at all.*

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## LETTER FROM THE BOARD

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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00866)**

*Executive Directors:*

Mr. XU Da (*Chairman*)

Mr. BAI Tao (*Chief Executive Officer*)

Ms. WANG Jianfei

Mr. TAN Yingzhong (*Chief Financial Officer*)

(appointed on 1 April 2021)

*Independent Non-executive Directors:*

Mr. LAU Sik Yuen

Prof. SHA Zhenquan

Mr. JING Dacheng

*Registered Office:*

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head Office and*

*Principal Place of Business:*

Unit Nos. 2201 to 2208, Level 22

Poly International Plaza Tower B

No.1 Pazhou Avenue East

Haizhu District

Guangzhou, The PRC

30 April 2021

*To the Shareholders*

Dear Sir or Madam,

### MAJOR TRANSACTION IN RELATION TO THE DISPOSAL OF A VESSEL

#### INTRODUCTION

Reference is made to the announcement published by the Company on 10 March 2021 in relation to the Disposal. The Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to approval by the Shareholders. So far as the Directors are aware of after making reasonable enquiries, none of the Shareholders would have been required to abstain from voting if the Company were to convene a general meeting for the approval for the Disposal. As such, written shareholders' approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44(2) of the Listing Rules. On 12 March 2021, Mr. XU, Fortune Pearl, Mr. Xu Da and Ms. WANG, who beneficially own in aggregate approximately 51.83% of the total issued share capital of the Company, have given their written approval on the Disposal. Accordingly, no extraordinary general meeting of the Company will be convened for the purpose of approving the Disposal as a major transaction. The purpose of this circular is to provide you with further information relating to the Disposal together with other information of the Group as required by the Listing Rules.

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## LETTER FROM THE BOARD

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On 10 March 2021 (after trading hours), the Vendor entered into the MOA with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Vessel at a total cash consideration of US\$14.9 million (equivalent to approximately RMB96,951,000).

### THE DISPOSAL

#### Date

10 March 2021 (after trading hours)

#### Parties

Vendor:	Super Grace Enterprises Limited
Purchaser:	Dia Yuan International Shipping Co., Limited or its guaranteed nominees pursuant to the MOA
Guaranteed Nominee:	Zhong Yuan Limited

The Purchaser is a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in shipping transportation. As at the Latest Practicable Date, the ultimate beneficial owners of the Purchaser are Peng Shen, Zhang Zhi and Xu Zhi Qiang.

On 26 March 2021, pursuant to the MOA, the Purchaser notified the Vendor that it had nominated Zhong Yuan Limited, a company incorporated in the Marshall Islands with limited liability, as the Guaranteed Nominee to take up the Vessel. As at the Latest Practicable Date, the ultimate beneficial owner of the Guaranteed Nominee is Peng Shen.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Purchaser, the Guaranteed Nominee and their respective ultimate beneficial owners are Independent Third Parties.

The Vendor is a company incorporated in the British Virgin Islands with limited liability, which is solely engaged in shipping transportation and holding and operation of the Vessel. As at the Latest Practicable Date, the Vendor is an indirect wholly-owned subsidiary of the Company and the Vessel is the principal asset of the Vendor.

#### Assets to be disposed of:

Pursuant to the MOA, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Vessel named "SUPER GRACE" with the following particulars:

- (1) Flag and Place of Registration: Hong Kong, the PRC
- (2) IMO Number: 9576272
- (3) Classification Society: China Classification Society

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## LETTER FROM THE BOARD

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- (4) Class Notation: CSA Bulk Carrier
- (5) Year of Build: 2011
- (6) Gross Tonnage/Net Tonnage: 45,263/26,562

### Consideration

The Consideration for the Disposal is US\$14.9 million (equivalent to approximately RMB96,951,000), which shall be paid in cash by the Purchaser to the Vendor in the following manner:

- (i) a deposit in the sum of US\$1.49 million (equivalent to approximately RMB9,695,100), representing 10% of the Consideration, shall be payable by the Purchaser to the Deposit Holder Account within three (3) Banking Days after the signing of the MOA and setup of the Deposit Holder Account;
- (ii) the remaining balance of the Consideration in the sum of US\$13.41 million (equivalent to approximately RMB87,255,900), representing 90% of the Consideration, and all other sums shall be payable by the Purchaser to the Deposit Holder Account two (2) Banking Days prior to the Vessel's delivery date; and
- (iii) the full amount of the Consideration maintained at the Deposit Holder Account shall be released to the bank account of the Vendor in full and free of any bank charges on the Vessel's delivery date and not later than three (3) Banking Days after the date that notice of readiness for delivery has been given in accordance with the MOA.

The Consideration has been determined taking into account recent sale and purchase transactions of vessels of comparable size and year of build in the market, and after arm's length negotiations between the Purchaser and the Vendor, with reference to and/or after taking into consideration the following factors:

- (i) the net asset value of the Vessel attributable to the Vendor of approximately US\$16.61 million as per management accounts of the Vendor as at 28 February 2021; and
- (ii) the factors set out in paragraph headed "Reasons for and Benefits of the Disposal" and "Use of Proceeds".

The Consideration has a discount of approximately 11.48% to the net asset value of Vessel of approximately US\$16.61 million as at 28 February 2021. Such discount was made after arm's length negotiations with the Purchaser and also taking into account (i) the comparison of quotations for the Vessel provided by reputable brokers in the shipping industry; (ii) the comparison of the recent transactions of second-hand bulk carriers with similar comparables in the market which the size of the vessel, year of build, date of transaction and type of the vessel are similar to the Vessel; and (iii) the preliminary appraised valuation of US\$14.9 million assessed by independent valuer prior to the signing of the MOA.



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## LETTER FROM THE BOARD

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The Consideration meets the Vessel's final appraised value of US\$14.9 million as assessed by BMI Appraisals Limited, an independent valuer. For details of the valuation report, please refer to Appendix II attached to this circular.

As at the Latest Practicable Date, the Purchaser has paid the deposit to the Deposit Holder Account pursuant to the MOA.

### **Conditions Precedent to the MOA**

The Disposal shall be subject to Shareholders' approval in a general meeting of the Company, or if accepted by the Stock Exchange, by written shareholders' approval from Mr. XU, Fortune Pearl, Mr. Xu Da and Ms. WANG, which together hold approximately 51.83% of the issued share capital of the Company, approving the Disposal.

On 12 March 2021, upon the Company's application, the Stock Exchange has notified the Company of its agreement that Mr. XU, Fortune Pearl, Mr. Xu Da and Ms. WANG are "a closely allied group of shareholders" for the purpose of Rules 14.44 and 14.45 of the Listing Rules. Therefore, the Disposal has been approved by way of written shareholders' approval.

### **Completion and delivery**

Pursuant to the MOA, the Vessel shall be delivered and taken over safely afloat at a safe and accessible berth or anchorage in the PRC in the Vendor's option on or before 20 June 2021 following the condition above being satisfied in full, or such other date as the Purchaser and the Vendor may agree in writing. In the event that the Purchaser and the Vendor are unable to agree on an extension of the delivery date, the Purchaser shall have the option to cancel the MOA pursuant to its terms and conditions.

Prior to the intended delivery date, the Vendor shall keep the Purchasers well informed of the Vessel's itinerary and shall provide the Purchaser thirty (30), twenty (20), fifteen (15), ten (10), five (5) and three (3) days' notice of the date the Vendor intend to tender notice of readiness for delivery and of the intended place of delivery. The Purchaser shall take over the Vessel within three (3) Banking Days after the notice of readiness for delivery has been given.

### **INFORMATION ON THE GROUP AND THE VENDOR**

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

The Vendor is a company incorporated in the British Virgin Islands with limited liability, which is solely engaged in shipping transportation and holding and operation of the Vessel. The Vessel is the principal asset of the Vendor, which is an indirect wholly owned subsidiary of the Company. As a result, the net (loss)/profit (both before and after taxation and extraordinary items) attributable to the Vessel would be identical to such net (loss)/profit figures shown in the audited financial statements of the Vendor for the relevant financial year.

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## LETTER FROM THE BOARD

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Set out below is the audited financial information of the Vendor for the financial years ended 31 December 2019 and 31 December 2020:

	<b>For the years ended</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
	<i>US\$</i>	<i>US\$</i>
Total Assets	19,630,574	19,434,032
Total Liabilities	726,088	220,829
Net Asset Value	18,904,485	19,213,203
Net Current Assets	4,703,193	1,798,142
Turnover	4,210,973	4,111,190
(Loss)/Profit before taxation	(25,934)	1,433,042
Net (loss)/profit after taxation	(32,420)	1,433,042

### INFORMATION OF THE PURCHASER AND THE GUARANTEED NOMINEE

The Purchaser is a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in shipping transportation. As at the Latest Practicable Date, the ultimate beneficial owners of the Purchaser are Peng Shen, Zhang Zhi and Xu Zhi Qiang with shareholding of 60%, 20% and 20% in the Purchaser respectively. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

The Guaranteed Nominee is a Company incorporated in the Marshall Islands with limited liability, which is principally engaged in shipping business. As at the Latest Practicable Date, the ultimate beneficial owner of the Guaranteed Nominee is Peng Shen. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Guaranteed Nominee and its ultimate beneficial owner are Independent Third Parties. The Purchaser and the Guaranteed Nominee are controlled by Peng Shen in that he is a director and the majority shareholder of the Purchaser, and the sole director and sole shareholder of the Guaranteed Nominee.

### REASONS FOR AND BENEFITS OF THE DISPOSAL

As at the Latest Practicable Date, the Group is principally engaged in the coal operation business involving coal mining, purchase and sales, filtering, storage, blending of coal in the PRC and shipping transportation. The Group has been focusing its resource on the coal operation which accounted for the major portion of the Group's revenue.

As the second-hand bulk carrier market is gradually improving, the Directors consider that the Disposal represent an opportunity to dispose of the Vessel at a reasonable price which will enable the Group to improve its liquidity position and lower the gearing ratio thus enhancing the Group's overall financial position. The price is considered reasonable with reference to the recent reported market sales of second hand bulk carriers with similar class and size in the international market.

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## LETTER FROM THE BOARD

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The Disposal also enables the Group to reallocate the financial resources for and direct its focus on the coal business of the Group which the Directors consider has growth potential and its long-term prospects is expected to be promising.

In view of the above, the Directors are of the view that the terms of the Disposal are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### USE OF PROCEEDS

The Group intends to use the net sale proceeds from the Disposal to repay certain bank borrowings of the Group.

### FINANCIAL EFFECTS OF THE DISPOSAL

Based on the audited net assets value of the Vessel as at 31 December 2020, it is estimated that the Group recorded an impairment loss of approximately US\$1.76 million (before tax and expenses) for the year ended 31 December 2020. The above estimation is based on the difference between the net proceeds expected to be obtained from the Disposal in the amount of US\$14.74 million (being the Consideration less the estimated direct cost arising from the Disposal in the sum of approximately US\$0.16 million) and the unaudited net asset value of the Vessel in the amount of US\$16.5 million as at 31 May 2021, the date on which the Completion is expected to take place. After the impairment loss, the amount of the loss on the Disposal is estimated to be minimal for the year ending 31 December 2021.

Shareholders should note that the actual amount of the loss on the Disposal to be recognised in the consolidated financial statements of the Company for the year ending 31 December 2021 will be subject to the net asset value of the Vessel as at the Completion and therefore may be different from the amount estimated above.

Shareholders should note that the above figures are for illustrative purpose only. The actual impairment loss and loss on the Disposal may be different from the above and the accounting treatment of the Disposal will be subject to further review by the Group's auditors upon finalisation of the consolidated financial statements of the Group for the year ending 31 December 2021 in due course.

### LISTING RULES IMPLICATIONS OF THE DISPOSAL

As certain applicable percentage ratio set forth under Rule 14.07 of the Listing Rules in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

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## LETTER FROM THE BOARD

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As far as the Directors are aware after making all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the MOA and the transactions contemplated thereunder. Mr. XU, Fortune Pearl, Mr. Xu Da and Ms. WANG, who beneficially owns 14,229,610 Shares, 1,085,000,000 Shares, 93,135,251 Shares and 100,000,000 Shares respectively, represents approximately 0.57%, 43.51%, 3.74% and 4.01% in the issued share capital of the Company respectively as at the date of MOA and as at the Latest Practicable Date, and who have an aggregate interest of approximately 51.83% of the issued share capital of the Company, have provided the Company with written shareholders' approval for the Disposal on 12 March 2021. Fortune Pearl is wholly owned by Mr. XU. Mr. Xu Da is the son of Mr. XU. Ms. WANG is an executive Director of the Company and had worked with Mr. XU closely for more than twenty years. Mr. XU, Fortune Pearl, Mr. Xu Da and Ms. WANG, who constitute a closely allied group of shareholders under Rule 14.45 of the Listing Rules, are accepted under Rule 14.44 of the Listing Rules in lieu of holding a general meeting of the Company to approve the Disposal.

The closely allied group of Shareholders comprises the following Shareholders:

Name of the Shareholders	Number of Shares held	Percentage shareholding in the Company
Mr. XU	14,229,610	0.57%
Fortune Pearl <sup>(1)</sup>	1,085,000,000	43.51%
Mr. Xu Da <sup>(2)</sup>	93,135,251	3.74%
Ms. WANG	100,000,000	4.01%
<b>Total:</b>	<b>1,292,364,861</b>	<b>51.83%</b>

*Notes:*

(1) Fortune Pearl is wholly-owned by Mr. XU.

(2) Mr. Xu Da is the son of Mr. XU.

### RECOMMENDATIONS

The Directors believe the terms of the MOA are fair and reasonable and in the best interests of the Company and the Shareholders. Accordingly, if the Company were to convene a general meeting for the approval of the Disposal, the Directors recommend that all Shareholders to vote in favour of the Disposal.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular. The English text of this circular shall prevail over the Chinese in the event of inconsistency.

Yours faithfully,  
For and on behalf of  
**China Qinfu Group Limited**  
**Xu Da**  
*Chairman*

**1. FINANCIAL AND TRADING PROSPECTS OF THE GROUP****Business Review*****Coal Mining and Trading Business***

The Group's coal operation business covers a wide spectrum of the coal supply chain from the purchase, filtering, blending, storage and transportation, sales and shipping of coal. The Group owned and operated five coal mines in the PRC.

In early 2020, in response to the coronavirus disease 2019 ("COVID-19") outbreak, the Chinese government actively took a number of measures since late January. In line with the national epidemic prevention policy, the Group briefly suspended coal mine operations in February; however, with due regard to the safety of employees and as far as practicable, the Group gradually resumed coal mine production and coal sales in March and resumed work sooner than expected. For the year ended 31 December 2020, the production volumes of raw coal and commercial coal were 8.78 million tonnes and 5.71 million tonnes respectively, representing a decrease of 12.4% as compared with the Group's production volumes in 2019, but still at a relatively high level.

Overall, coal price had a drop in the first half of year 2020 followed by an upward trend for the most part of the year 2020. The average coal selling prices and the coal industry's earnings continued the upward trend in last year. During the first quarter, the coal industry was affected by the coronavirus disease 2019 pandemic and various industries continued to shut down, resulting in generally low coal consumption and weak support from demands of coal downstream industries. In addition, the completion of the de-capacity task and the gradual release of advanced capacity contributed to the overall easing of supply and demand in the coal industry, resulting in a significant downward trend in coal prices. However, with the pandemic under control, the domestic economy improved and coal downstream enterprises resumed work and production. As a result, raw coal prices picked up in the third quarter and rose to a high level for the year in the fourth quarter.

For the year ended 31 December 2020, the turnover of the coal mining and trading business were approximately RMB2,190 million, representing a decrease of 19.5% as compared to RMB2,720 million for the year ended 2019. The financial performance of the Coal Business was affected by lower coal consumption due to the COVID-19 outbreak.

The Board expects that there will remain a stable stream of income from the Coal Mining and Trading Business in the future as the global market condition is expected to recover gradually in 2021 from the deep recession caused by COVID-19.

***Shipping Transportation Business***

The Group's vessel is also engaged in the provision of dry bulk cargo transportation services to other customers.

For the year ended 31 December 2020, the turnover of the Shipping Transportation Business were approximately RMB57.3 million, representing an decrease of 27.2% as compared to RMB78.7 million for the year ended 2019. The decrease in turnover of the Shipping Transportation Business was primary due to disposal of vessel in 2019 and decrease in freight rates.

#### **Financial and trading prospects**

In year 2021, the pandemic will begin to ease and the global economy is expected to demonstrate gradually recovery thanks to the widespread vaccination gradually rolling out. The domestic demand for coal is expected to increase significantly, and the downstream industries demand for coal will provide a rigid support for coal price. With the release of new production capacity, the domestic supply and demand of coal will be balanced in the coming year. The Group expects that the coal market will stabilise as the global economy is gradually recovering. The Group expects that the coal production volume and coal price will be stable in 2021.

As a result of the Disposal, the Group is expected to recognize an impairment loss of approximately US\$1.76 million (before tax and expenses) for the year ended 31 December 2020. The above estimation is based on the difference between the net proceeds expected to be obtained from the Disposal in the amount of US\$14.74 million (being the Consideration less the estimated direct cost arising from the Disposal in the sum of approximately US\$0.16 million) and the unaudited net asset value of the Vessel in the amount of US\$16.5 million as at 31 May 2021. After the impairment loss, the amount of the loss on the Disposal is estimated to be minimal for the year ending 31 December 2021.

The gain or loss to be recorded in the Group's consolidated financial statements is subject to audit. Save for the gain on disposal mentioned above arising from the Disposal, the Disposal does not have any material effect on the earnings of the Group.

# APPENDIX I FINANCIAL INFORMATION OF THE GROUP

## 2. INDEBTEDNESS STATEMENT

### Indebtedness

As at the close of business on 31 March 2021, being the latest practicable date for ascertaining information regarding this indebtedness statement, the Group had the following indebtedness:

	Secured		The Group Unsecured		Total RMB'000
	Guaranteed RMB'000	Non- guaranteed RMB'000	Guaranteed RMB'000	Non- guaranteed RMB'000	
Interest-bearing					
bank borrowings	–	–	901,240	–	901,240
Other borrowings	3,604,905	–	50,870	–	3,655,775
Lease liabilities	–	–	–	2,753	2,753
Amount due to ultimate controlling shareholder	–	–	–	161	161
Amount due to ultimate holding company	–	–	–	5,798	5,798
Amount due to directors of the Company	–	–	–	1,338	1,338
Amount due to related party	–	–	–	141	141
Amount due to a related company	–	–	–	100	100
	<u>3,604,905</u>	<u>–</u>	<u>952,110</u>	<u>10,291</u>	<u>4,567,306</u>



**Interest-bearing bank borrowings**

The amounts of interest-bearing bank borrowings of approximately RMB901 million are unsecured.

**Other borrowings**

The Group's other borrowings of approximately RMB3,605 million are secured by:

- (i) certain property, plant and equipment of the Group of RMB462 million;
- (ii) certain coal mining rights of the Group of RMB1,901 million;
- (iii) certain vessels of the Group of RMB103 million;
- (iv) certain inventories of the Group of RMB1.0 million;
- (v) pledged bank deposits of the Group of RMB2.1 million;
- (vi) equity interest in certain subsidiaries of the Company;
- (vii) equity interest in the Company of Fortune Pearl International Limited, the ultimate holding company of the Group;
- (viii) other receivables of a related company of which Mr. Xu is the shareholder; and
- (ix) a property held by Mr. Xu.

The amount of other borrowings of approximately RMB51 million are unsecured.

**Contingent liabilities**

For the contingent liabilities relating to outstanding litigations, please refer to Appendix III note 6 of this circular.

As at the date of this circular, the Group has issued the guarantees to certain banks and other borrowing creditor in respect of borrowings made by Tongmei Qinfa, an associate of the Group. Under the guarantee, the Group that is a party to the guarantee are jointly and severally liable for any of the borrowings of Tongmei Qinfa from those banks and an other borrowing creditor. The maximum liability of the Group at 31 March 2021 under the guarantees issued is a portion of the outstanding amount of the borrowings of Tongmei Qinfa amounting to approximately RMB270 million.

The Settlement Agreement entered into between the Group and an asset management company contained a default clause which the Group will be required to repay the outstanding balance of the original borrowings and interest payable if the Group fails to repay the new borrowings by instalments in accordance with the respective repayment schedule.

Save as aforesaid, the Group did not have any material contingent liabilities as at 31 March 2021.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into RMB at the approximate exchange rates prevailing at close of business on 31 March 2021.

### **MATERIAL ADVERSE CHANGE**

As disclosed above, 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 2020, being the date to which the latest published audited financial statements of the Group were made up.

### **WORKING CAPITAL**

As at 31 March 2021, the Group's current liabilities exceeded its current assets by approximately RMB4,343.6 million. In order to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress but not limited to, the followings:

- (i) For borrowings which will be maturing before 31 March 2022, the Group is actively negotiating with banks/lenders before they fall due to secure their renewals so as to ensure that the necessary funds will be in place to meet the Group's working capital and financial requirements in the future will continue to be met;
- (ii) In relation to those borrowings that have been past due or those borrowings that became immediately repayable due to cross-default clauses set out in the respective loan agreements, which are classified as current liabilities, the Group is in the process of negotiating with the relevant banks and other lenders to extend the repayment dates and to obtain waivers from banks;
- (iii) The Group will actively obtain additional new sources of financing as and when needed;
- (iv) Given the stability of coal market and uprising coal prices, the Group will accelerate the coal production of those coal mines currently under production and apply for the renewal of those expired coal mining rights of coal mines not yet commenced production, together with applying cost control measures in cost of sales, administrative expenses and capital expenditures, to increase the Group's internally generated funds and operating cash inflows in coming years continuously; and
- (v) The Group has appointed external lawyers and/or assigned internal lawyers to handle the outstanding litigations, and to mitigate the risk exposure from any legal claims. In respect of some of the litigations, the directors of the Company are of the opinion that the Group has valid grounds to defend against the claims.

If the Group fails to successfully implement the above measures, the Group will not have sufficient working capital for at least 12 months from the date of this circular.

Except for the potential impacts of the matters described above, in the absence of unforeseen circumstances, on the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, the directors of the Company are optimistic that the Group will be able to meet in full the Group's financial obligations as they fall due for the twelve months from the date of this circular.

*The following is the text of a letter and opinion of value prepared for the purpose of incorporation in this circular, received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 10 March 2021 of a bulk carrier to be disposed of by the Group.*

## **BMI APPRAISALS**

BMI Appraisals Limited 中和邦盟評估有限公司

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30 April 2021

The Directors

**China Qinfu Group Limited**

Suite 5706, 57<sup>th</sup> Floor

Central Plaza

No. 18 Harbour Road

Wan Chai, Hong Kong

Dear Sir,

### **INSTRUCTIONS**

We refer to the instructions from China Qinfu Group Limited (the “**Company**”) for us to value a bulk carrier named “SUPER GRACE” (the “**Vessel**”) held by Super Grace Enterprises Limited (referred to as “**Super Grace Enterprises**” which is an indirect wholly owned subsidiary of the Company). We confirm that we have conducted an inspection, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market value of such Vessel as at 10 March 2021 (the “**valuation date**”).

### **SCOPE OF INVESTIGATION**

We have conducted an inspection of the Vessel via instant electronic communication, reviewed the information provided, investigated market conditions and interviewed with relevant personnel in order to familiarize ourselves with the conditions, utilities and histories of the Vessel.

We have been provided by the Company a list of information regarding the specification, capacity, built year of the Vessel and so on. During our valuation, list of documents/certificates, such as Certificate of Class, Certificate of Registry, Deadweight Statement, maintenance records, photographs of the Vessel and so on were provided by the Company.

**DESCRIPTION OF THE VESSEL**

As advised by the Company, the Vessel is a steel bulk carrier which was built in 2011 by CSSC Guangzhou Longxue Shipbuilding Co. Ltd. in the Peoples' Republic of China and the Vessel was located in Brazil as at the valuation date.

Descriptions of the technical specifications of the Vessel are tabulated as follows:

Name of Marine Vessel	:	SUPER GRACE
IMO Number	:	9576272
Type	:	BULK CARRIER
Date of Construction	:	2011/12/22
Flag	:	HONG KONG
Port of Registry	:	HONG KONG
Owner	:	SUPER GRACE ENTERPRISES LIMITED
Material of Hull	:	STEEL
Builder	:	CSSS GUANGZHOU LONGXUE SHIPBUILDING CO., LTD
Gross Tonnage (Ton)	:	45,263
Net Tonnage (Ton)	:	26,562

**BASIS OF VALUATION**

We have valued the Vessel on the basis of market value (the “**Market Value**”), which is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

**EXCLUSIONS**

This valuation exercise excludes raw materials, inventory, semi-finished and finished products, spare parts and any current or intangible assets.

**VALUATION METHODOLOGIES**

We have considered all generally accepted approaches for this valuation and market approach has been adopted to ascertain the Market Value of the Vessel.

**The Market Approach**

The Market Approach considers transaction prices recently paid for similar vessels, with adjustments made to the indicated market prices to reflect the conditions and utilities of the appraised Vessel relative to its market comparables. The value of Vessel for which there are established secondhand market comparables may be appraised by this approach.

This opinion of Market Value is not intended to represent the amount that might be realized from piecemeal disposition of the Vessel held by the Super Grace Enterprises in the market or from alternative use of the Vessel.

It must be noted that the valuation is dated as at the valuation date. We take no responsibility for the condition, continued existence and/or operational abilities of the Vessel after this date. We must advise that the valuation is not suitable for insurance purposes.

**VALUATION CONSIDERATIONS**

Due to outbreak of COVID-19, inspection of the Vessel had been conducted on 22 March 2021 via instant electronic communication and its contents were confirmed by the Company. The Company advised us that regular maintenance has been carried out to the Vessel and the Vessel is capable of operating the purpose for which it was designed and produced.

We have been advised by the Company that the Vessel is in good condition. Our assessment is based on the premise that the Vessel is in a condition commensurate with its respective age and usage. Should we receive any updated information that will have material impact on our reported value, we would amend our opinion of value accordingly.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Company has also advised us that no material facts have been omitted from the information for us to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Vessel or for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Vessel is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

We have not investigated the title or any liabilities affecting the Vessel appraised. No consideration was made for any outstanding amount owned under financing agreements, if any.

Unless otherwise stated, it is assumed that all necessary procedures, licenses, permits and other relevant documents have been obtained by the Company in accordance with relevant legislations and regulations for utilization of the Vessel which can be freely disposed of in the market.

**REMARKS**

We hereby certify that we neither have any present nor any prospective interest in the Company, Super Grace Enterprises, the Vessel appraised or the value reported.

Unless otherwise specified, all money amounts stated herein are in United States Dollars (US\$) and no allowances have been made for any exchange transfers.

**OPINION OF VALUE**

We are of the opinion that the Market Value of the Vessel based on the aforesaid basis, assumptions and considerations, as at 10 March 2021, was **US\$14,900,000 (UNITED STATES DOLLARS FOURTEEN MILLION AND NINE HUNDRED THOUSAND ONLY)**.

Yours faithfully,

For and on behalf of

**BMI APPRAISALS LIMITED**

**Dr. Tony C.H. Cheng**

*BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),  
FSOE, FIPlantE, CEnv, SIFM, FCIM, FIPA, FAIA, MCI Arb,  
MASCE, MIET, MIEEE, MASME, MIISE, MHKIE  
Managing Director*

*Note:*

Dr. Tony C. H. Cheng has various engineering qualifications. He is currently the Chairman of Institute of Mechanical Engineers, a Fellow member of The Society of Operations Engineers (SOE), Institution of Plant Engineers (IPlantE) and a member of The Institute of Industrial & Systems Engineers (IISE) and the American Society of Mechanical Engineers (ASME). He has extensive experience in machinery valuations in different industries in Hong Kong and the PRC.

**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's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (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 for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in Appendix 10 to the Listing Rules were as follows:

Name of Director	Capacity	Number of Shares	Percentage of issued capital
Ms. WANG Jianfei	Beneficial Owner	100,000,000	4.01%
Mr. Xu Da*	Beneficial Owner	93,135,251	3.74%
Mr. BAI Tao	Beneficial Owner	50,000,000	2.01%
Mr. LAU Sik Yuen	Beneficial Owner	50,000 (Note 1)	0.02%

\* Mr. Xu Da, being a Director, is also acting as the Chairman of the Board.

*Note:*

- The beneficial interest represents Shares that may be issued pursuant to the full exercise of the options granted to Mr. LAU Sik Yuen under the share option scheme of the Company on 30 April 2015.



### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company

As at the Latest Practicable Date, so far as known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) who had interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interest	Number of Shares	Percentage of issued capital
Mr. XU Jihua	Beneficial owner	14,229,610	0.57%
(Note 1)	Interest in a controlled corporation	1,203,000,000	48.25%
Fortune Pearl	Beneficial owner	1,203,000,000	48.25%
Yangyuan Jintong Transportation Corp. Ltd.	Beneficial owner	215,000,000	8.62%

*Note:*

1. Mr. XU Jihua is the father of Mr. Xu Da. Mr. Xu Da is the chairman and an executive Director of the Group. Mr. XU Jihua is interested in 100% shareholding of Fortune Pearl, which in turn is interested in 1,085,000,000 Shares and 118,000,000 Shares which may be allotted and issued upon full conversion of the perpetual subordinated convertible securities ("PSCS") 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.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or the chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

No contract, commitment or agreement of significance in relation to the Company's business, in which any of the Directors had a material interest, subsisted as at the Latest Practicable Date.

None of the Directors had any interest, direct or indirect, in any asset which, since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up, has been acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

**3. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and his/her respective close associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses to which a Director and his/her close associate were appointed to represent the interests of the Company and/or the Group.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group which is not determinable by the Group within one year without payment of any compensation, other than statutory compensation.

**5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up, 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.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

**6. LITIGATION****(i) Litigation claims relating to repayment to non-controlling shareholders of Xingtao Coal Mine, Fengxi Coal Mine and Chongsheng Coal Mine**

During the year ended 31 December 2018, there were litigation claims initiated by the non-controlling shareholders of Xingtao Coal Mine, Fengxi Coal Mine and Chongsheng Coal Mine against the Group to demand immediate repayment of funds provided to the Group in 2011 with an aggregate amount of approximately RMB134,414,000 before the acquisition of these coal mines by the Group. The amount of approximately RMB134,414,000 had already been recognised and offset with the amounts due from respective non-controlling shareholders in the consolidated statement of financial position as at 31 March 2021. The directors of the Company are of the opinion that the Group has a valid ground to defend against those claims. Up to the date of this circular, these litigation claims are still in progress.

On 17 July 2020, in an arbitration initiated by the Group against the non-controlling shareholders, non-controlling shareholders counterclaimed against the Group for refunds of construction payments of RMB40,723,000 previously paid by non-controlling shareholders for Fengxi Coal Mine and claim for related interest of RMB18,175,000. The directors of the Company are of the opinion that the Group has a valid ground to defend against those claims, and no provision for the litigation claims has been provided in the consolidated statement of financial position as at 31 March 2021. Up to the date of this circular, the arbitration is still in progress.

On 1 September 2020, there was an arbitration initiated by the non-controlling shareholders against the Group to claim for 20% of coal production of Xingtao Coal Mine, Fengxi Coal Mine and Chongsheng Coal Mine from the year of 2013 to 2019 as the distributions entitled to non-controlling shareholders of Xingtao Coal Mine, Fengxi Coal Mine and Chongsheng Coal Mine for the aforesaid period, which were equivalent to aggregate amount of approximately RMB584,410,000. The directors of the Company are of the opinion that the Group has a valid ground to defend against the claim, and no provision for the litigation claims has been provided in the consolidated statement of financial position as at 31 March 2021. Up to the date of this circular, the arbitration is still in progress.

**(ii) Litigation claims relating to repayment to a former shareholder of Xinglong Coal Mine and Hongyuan Coal Mine**

In February 2021, the Group received notice from the Shouzhou City Intermediate People's Court that a lawsuit was filed by one of the former shareholders of Xinglong Coal Mine and Hongyuan Coal Mine against the Group to claim for unsettled consideration payment amounting to RMB30,469,000 for acquisition of Xinglong Coal Mine and Hongyuan Coal Mine and related compensation amounting to RMB3,000,000. Up to the date of this circular, the litigation claim is still in progress. The directors of the Company are of the opinion that the provision for the above litigation is sufficient in the consolidated statement of financial position as at 31 March 2021.

**(iii) Litigation claims relating to repayment to default of repayment of bank borrowing**

Subsequently to the end of the reporting period, on 5 February 2021, a bank filed lawsuit against the Group to demand immediate repayment of the bank borrowing with carrying amount of approximately RMB247,200,000 and accrued interest of approximately RMB2,940,000 up to 5 February 2021. The principal of approximately RMB247,200,000 and respective interest charges of approximately RMB7,135,000 had already been recognised as borrowings and accrued expenses included in other payables respectively in the consolidated statement of financial position as at 31 March 2021. Up to the date of this circular, the litigation is still in progress.

**(iv) Litigation claims relating to the performance of the contract execution between Yu Lin Zhong Kuang Wan Tong Construction Limited Company ("Yu Lin Zhong Kuang") and Hongyuan Coal**

During the year ended 31 December 2019, Yu Lin Zhong Kuang initiated a litigation claim against the Group to demand for economic losses in relation to the suspension of construction project of coal mining infrastructure, of which amount are related to compensation to the staff costs and equipment costs incurred during the implementation of the project. The claim amount is approximately RMB19,899,000. The directors of the Company are of the opinion that the Group has a valid ground to defend against the claim, and no provision for the litigation claims has been provided in the consolidated statement of financial position as at 31 March 2021. Up to the date of this circular, the litigation is still in progress.

(v) **Litigation claims relating to the performance of the purchase contract execution between Shanxi Yunxin International Trade Co., Ltd (“Shanxi Yunxin”) and Huameiao Energy, Xingtao Coal, Fengxi Coal and Chongsheng Coal**

During the year ended 31 December 2019, there was a litigation claim initiated by Shanxi Yunxin against the Group to demand immediate repayment of overdue payable in relation to purchases of consumables and equipment by the Group. The overall claim amount of approximately RMB71,862,000, which including the aforesaid payable to this supplier of approximately RMB54,124,000 and late penalty interest of approximately RMB17,738,000. Up to the date of this circular, the litigation claim is still in progress. The directors of the Company are of the opinion that the provision for the above litigation is sufficient in the consolidated statement of financial position as at 31 March 2021.

## 7. MATERIAL CONTRACTS

The following material contracts were entered into by members of the Group within the two years immediately preceding the date of this circular:

- (a) the MOA;
- (b) PT Qinfu Mining Industri, a wholly-owned subsidiary of the Company, entered into the conditional sale and purchase agreement in relation to proposed acquisition of 70% equity shareholding of PT Sumber Daya Energi at an aggregate consideration of IDR385,000,000 (equivalent to approximately RMB190,000). Details are set out in the Company’s announcements dated 7 August 2020, 31 December 2020 and 31 March 2021; and
- (c) As set out in the Company announcement dated 22 December 2020, the Group and the Current Creditor agreed to a further revision on the Revised Repayment Schedule (the “**Revised Repayment Schedule 2020**”). According to the Revised Repayment Schedule 2020, the final instalment repayment due on 20 March 2022 was extended to 20 December 2023. The original remaining repayments of RMB326,936,200, RMB797,327,500 and RMB1,797,752,200 in year 2020, 2021 and 2022 were revised to RMB106,499,200, RMB345,728,700, RMB522,133,400 and RMB2,394,258,500 in year 2020, 2021, 2022 and 2023 respectively.

Save as disclosed above, no other material contracts have been entered into by the Group within two years immediately preceding the date of this circular.

**8. EXPERT'S QUALIFICATIONS AND INTERESTS**

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
BMI Appraisals Limited	Independent professional valuer

As at the Latest Practicable Date, BMI Appraisals Limited did not have any shareholding in any member of the Group nor did they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and they did not have any direct or indirect interest in any assets which had been, since 31 December 2020 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

**9. CONSENT**

BMI Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reports dated 30 April 2021 and references to its name in the form and context in which it appears.

**10. MISCELLANEOUS**

- (i) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the Company's principal place of business in Hong Kong is Room 5706, 57th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (ii) The branch registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (iii) The Secretary of the Company is OR Chun Wai Dennis, who is a member of Hong Kong Institute of Certified Public Accountants.
- (iv) The English text of this Circular will prevail over the Chinese text in the event of inconsistency.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours on Mondays through Fridays at the office of the Company at Room 5706, 57th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, up to and including the date which is 14 days from the date of this circular:

- (i) the memorandum and articles of association of the Company;
- (ii) the Company's annual reports for each of the two financial years ended 31 December 2020 and 31 December 2019;
- (iii) the valuation report of the Vessel prepared by BMI Appraisals Limited as set out in Appendix II to this circular;
- (iv) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;
- (v) the letter of consent referred to under the section headed "Expert's Qualifications and Interests" in this Appendix; and
- (vi) this circular.