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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 stockbroker, licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in China XLX Fertiliser Ltd., you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**心连心**

**CHINA XLX FERTILISER LTD.**

**中國心連心化肥有限公司 \***

*(Incorporated in Singapore with limited liability)*

**(Company Registration No. 200610384G)**

**(Hong Kong Stock Code: 1866)**

**MAJOR TRANSACTION IN RELATION TO THE  
DISPOSAL OF TARGET EQUITY  
AND**

**NOTICE OF THE 2024 SECOND EXTRAORDINARY GENERAL MEETING**

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A notice convening the 2024 second extraordinary general meeting (“EGM”) of China XLX Fertiliser Ltd. to be held at 2nd Conference Room, 6th Floor, R&D Building, Gate No. 7, Xinlianxin Avenue, Xinxiang Economic Development Zone, Xinxiang City, Henan Province, PRC, on 9 August 2024 at 9 a.m. is set out on pages 68 to 70 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinaxlx.com.hk](http://www.chinaxlx.com.hk)).

If you are not able to attend the EGM in person, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for the holding of the EGM (i.e., not later than 9 a.m. on 7 August 2024) or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

19 July 2024

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## DEFINITIONS

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*In this circular, unless otherwise defined, the following expressions have the following meanings:*

“Anhui Lingtong” or “Guarantor 2”	Anhui Lingtong Group Holding Co., Ltd.* (安徽靈通集團控股有限公司)
“Board”	the board of Directors of the Company
“Business Day(s)”	a day on which banks in China are open for general commercial business, other than a Saturday, Sunday or public holiday in the PRC
“Company”	China XLX Fertiliser Ltd., a company incorporated in Singapore with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Closing”	completion of the Disposal
“Closing Date”	the date on which Xinjiang XLX registers the Target Equity in the name of the Purchasers
“Definitive Transaction Documents”	referred to as a series of transaction documents dated 28 May 2024 entered into between the Parties to the Framework Agreement, Henan XLX and the Target Company in relation to the Disposal, including the Equity Transfer Agreement, the Repayment Agreement, the Guarantee Agreement, the Share Pledge Agreement and the Equity Pledge Agreement, details of which are set out in the section headed “Definitive Transaction Documents” of this circular
“Director(s)”	the director(s) of the Company
“Disposal” or “Equity Transfer”	a transaction in which the Vendor sells the Target Equity to the Purchasers
“EGM”	an extraordinary general meeting to be held at 2nd Conference Room, 6th Floor, R&D Building, Gate No. 7, Xinlianxin Avenue, Xinxiang Economic Development Zone, Xinxiang City, Henan Province, PRC on 9 August 2024 at 9 a.m. or any adjournment thereof (as the case may be), to consider and approve the Disposal
“Equity Pledge Agreement”	the equity pledge agreement entered into among Xinjiang XLX, Xinjiang Blackstone and the Target Company on 28 May 2024, details of which are set out in the section headed “Definitive Transaction Documents” – “Equity Pledge Agreement” of this circular

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## DEFINITIONS

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“Equity Transfer Agreement”	the equity transfer agreement entered into among Xinjiang XLX, Anhui Lingtong, Xinjiang Blackstone and the Target Company on 28 May 2024, details of which are set out in the section headed “Definitive Transaction Documents” – “Equity Transfer Agreement” of this circular
“Framework Agreement”	the equity transfer framework agreement entered into by the Parties to the Framework Agreement on 10 May 2024, details of which are set out in the announcement of the Company dated 10 May 2024
“Group”	the Company and its subsidiaries from time to time
“Guarantee Agreement”	the guarantee agreement entered into among Xinjiang XLX, Mr. Xie Tongbao, Mr. Yu Xiao and the Target Company on 28 May 2024, details of which are set out in the section headed “Definitive Transaction Documents” – “Guarantee Agreement” of this circular
“Guarantors”	referred to as Guarantor 1 and Guarantor 2 under the Repayment Agreement
“Henan XLX”	Henan Xinlianxin Chemicals Group Co., Ltd.* (河南心連心化學工業集團股份有限公司), a subsidiary of the Company
“Henan XLX Shares”	65,400,000 shares in Henan XLX held by Lingtong Trade as the Latest Practicable Date
“Latest Practicable Date”	16 July 2024, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lingtong Trade”	Tongling Lingtong Trade Co., Ltd.* (銅陵市靈通貿易有限責任公司)
“Parties to the Framework Agreement”	the parties to the Framework Agreement, including Xinjiang XLX, Anhui Lingtong, Xinjiang Blackstone, Mr. Xie Tongbao, Mr. Yu Xiao and Lingtong Trade
“percentage ratio(s)”	has the meaning ascribed to it under Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China, which solely for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

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## DEFINITIONS

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“Purchasers”	referred to as Anhui Lingtong and Xinjiang Blackstone
“Repayment Agreement”	the repayment agreement entered into among Xinjiang XLX, Anhui Lingtong, Xinjiang Blackstone and the Target Company on 28 May 2024, details of which are set out in the section headed “Definitive Transaction Documents” – “Repayment Agreement” of this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Share Pledge Agreement”	the share pledge agreement entered into among Xinjiang XLX, Lingtong Trade and Henan XLX on 28 May 2024, details of which are set out in the section headed “Definitive Transaction Documents” – “Share Pledge Agreement” of this circular
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Manas Tianxin Coal CO., LTD* (瑪納斯縣天欣煤業有限公司)
“Target Equity”	the 100% of the equity interests of the Target Company held by Xinjiang XLX as at the date of this circular
“Total Consideration”	the total consideration payable by the Purchasers to Xinjiang XLX for acquiring the Target Equity pursuant to the Equity Transfer Agreement
“Valuation Date”	29 February 2024
“Xinjiang Blackstone” or “Guarantor 1”	Xinjiang Blackstone Energy Co., Ltd.* (新疆黑石能源有限公司)
“Xinjiang XLX” or “Vendor”	Xinjiang XLX Energy Chemicals Co., Ltd.* (新疆心連心能源化工有限公司)
“%”	per cent

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LETTER FROM THE BOARD

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**CHINA XLX FERTILISER LTD.**

**中國心連心化肥有限公司 \***

*(Incorporated in Singapore with limited liability)*

**(Company Registration No. 200610384G)**

**(Hong Kong Stock Code: 1866)**

*Executive Directors:*

Mr. Liu Xingxu (*Chairman*)

Mr. Zhang Qingjin

Ms. Yan Yunhua

*Registered office:*

9 Raffles Place, #26-01 Republic Plaza,  
Singapore 048619

*Independent non-executive Directors:*

Mr. Ong Kian Guan

Mr. Li Shengxiao

Mr. Ong Wei Jin

Mr. Li Hongxing

*Principal Place of Business in Hong Kong:*

Room 1903-04, 19/F.  
Hong Kong Trade Centre  
161 Des Voeux Road Central  
Sheung Wan  
Hong Kong

19 July 2024

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO THE  
DISPOSAL OF TARGET EQUITY  
AND  
NOTICE OF THE 2024 SECOND EXTRAORDINARY GENERAL MEETING**

Reference is made to the announcements of the Company dated 10 May 2024 and 28 May 2024 respectively, in relation to the Disposal. The purpose of this circular is (i) to provide the Shareholders with further information on the Disposal; and (ii) to give the Shareholders a notice of the EGM and other information in accordance with the requirements of the Listing Rules.

**I. THE DISPOSAL**

In connection with the Disposal, the Company have entered into the Framework Agreement and the Definitive Transaction Documents on 10 May 2024 and 28 May 2024.

*\* For identification purpose only*

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## LETTER FROM THE BOARD

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The Definitive Transaction Documents do not deviate from the principles and arrangements set forth in the Framework Agreement. Accordingly, the Framework Agreement is not required to be amended, re-stated or re-signed as a result of the execution of the Definitive Transaction Documents. The Framework Agreement and the Definitive Transaction Documents together collectively constitute all the binding legal agreements for the Disposal. The transaction structure of the Disposal as per the Framework Agreement and the Definitive Transaction Documents are as follows:

- (1) Xinjiang XLX agreed to sell, and the Purchasers agreed to acquire the Target Equity at the Total Consideration of approximately RMB1,374 million;
- (2) the Target Company agreed to settle its liabilities to Xinjiang XLX;
- (3) Mr. Xie Tongbao and Mr. Yu Xiao agreed to provide guarantees in support of the claims of Xinjiang XLX under the Framework Agreement and Definitive Transaction Documents;
- (4) Purchaser 1 agreed to pledge a 50% equity interests of the Target Company held by the Purchaser 1 after Closing in support of Xinjiang XLX's claims under the Framework Agreement and the Definitive Transaction Documents; and
- (5) Lingtong Trade agreed to pledge the Henan XLX Shares to secure the claims of Xinjiang XLX under the Framework Agreement and the Definitive Transaction Documents.

Principal Terms of the Framework Agreement and the Definitive Transaction Documents are as follows:

## II. FRAMEWORK AGREEMENT

### *Date*

10 May 2024

### *Parties*

- (1) Xinjiang XLX
- (2) Anhui Lingtong
- (3) Xinjiang Blackstone
- (4) Mr. Xie Tongbao
- (5) Mr. Yu Xiao
- (6) Lingtong Trade

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## LETTER FROM THE BOARD

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### *Assets to be disposed of*

Xinjiang XLX has conditionally agreed to transfer its 15% equity interest in the Target Company (the corresponding capital contribution is RMB119.1 million) to Anhui Lingtong and its 85% equity interest in the Target Company (the corresponding capital contribution is RMB674.9 million) to Xinjiang Blackstone.

### *Consideration and Terms of Payment*

1. The Total Consideration of the Disposal is RMB1.374 billion. The Total Consideration was arrived at after arm's length negotiation between the parties with reference to (i) valuation of the Target Equity as at the Valuation Date and (ii) the reasons for and benefits of the Disposal as set out below.
2. The total deposit for the Disposal is RMB50 million, of which RMB30 million shall be paid by the Purchasers within 2 Business Days upon the signing of the Framework Agreement, and the remaining RMB20 million shall be paid by the Purchasers within 5 days upon the signing of the Framework Agreement.

Within 10 Business Days from the effective date of the Definitive Transaction Documents for the Disposal, the Purchasers shall make an initial payment of RMB800 million (the "**Initial Payment**"). The deposit of RMB50 million already paid by the Purchasers will be applied to the Initial Payment with the remainder to be paid to Xinjiang XLX.

If either of the Purchasers delay the payment of the aforesaid amount, it shall be liable for a penalty of 0.05% of the unpaid amount for each day of delay. In the event of a delay in payment of more than 60 days, Xinjiang XLX shall have the right to unilaterally decide to terminate the transaction and require the Purchasers to bear the liability for breach of contract and any associated damages.

If Purchasers terminate the Disposal while Xinjiang XLX and the Company are in the process of performing necessary internal procedures and obtaining approval from the Stock Exchange regarding the Disposal, or if the Purchasers fail to make the full payment of the Initial Payment within 10 Business Days from the date on which the Definitive Transaction Documents come into effect, the Purchasers will be deemed to have voluntarily abandoned the acquisition of the Target Equity and the Disposal shall be terminated, in which case, Xinjiang XLX will be entitled to forfeit the deposits.



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## LETTER FROM THE BOARD

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3. Within 12 months from the effective date of the Definitive Transaction Documents, the Purchasers shall make the final payment of approximately RMB574 million (the “**Final Payment**”) in full to Xinjiang XLX. The Purchasers shall pay interest at an annualised rate of 4%\* to Xinjiang XLX on the sum of the outstanding amount of the Final Payment payable (if any). Relative to the Final Payment, the Purchasers shall pay at least RMB350 million in principal and the corresponding interest to Xinjiang XLX within 6 months from the effective date of the Definitive Transaction Documents, and the full amount of the Final Payment and the corresponding interest to Xinjiang XLX within 12 months of the effective date of the Definitive Transaction Documents. If there are material adverse changes in respect of the situations to the Purchasers, Xinjiang XLX may demand early payment of the remaining balance.

If either of the Purchasers delay the payment of the aforesaid amount, it shall be liable for a penalty of 0.05% of the unpaid amount for each day of delay. In the event of delay in payment of more than 60 days, Xinjiang XLX shall have the right to unilaterally decide to terminate the transaction and request the Purchasers to bear the liability for breach of contract and any associated damages. Xinjiang XLX has the right to reclaim all the equity interests in the Target Company, and the Purchasers shall assist Xinjiang XLX in completing the procedures for industrial and commercial changes within 5 days from the date of receipt of the written notice from Xinjiang XLX and the Purchasers shall be liable for a penalty of 15% of the Total Consideration and will return the relevant proceeds of the Target Company and assume any new debts (if any, excluding debts used in the production and operation of the Target Company that has generated significant value and are recognised by Xinjiang XLX) incurred after the Valuation Date, which will be deducted from the amount paid by the Purchasers in priority. Any balance remaining after the deductions will be refunded to the Purchasers and any shortfalls shall be paid by the Purchasers.

4. Before the full payment of the Total Consideration and the debts and interest owed to Xinjiang XLX by the Target Company, and during the period when Xinjiang XLX continues to assume the guarantee obligations in favor of the Target Company, the Purchasers shall not transfer the equity interests in the Target Company to any other party without the prior written consent of Xinjiang XLX. The relevant equity interests and the assets of the Target Company held by the Purchasers shall be free from and clear of any mortgages, pledges or any other encumbrances whatsoever except for those created to secure the payment of the Total Consideration and any debt owed to Xinjiang XLX. The Target Company shall not provide guarantees to any other entity or assume any non-operating liabilities externally.
5. After Closing, the revenue generated by the Target Company shall be applied by the Purchasers in priority to the payment of the Total Consideration.

\* Having considered the current one-year Loan Prime Rate (LPR) for RMB loans as published by the PRC National Interbank Funding Centre (authorised by the People’s Bank of China) being 3.45% per annum and the five-year LPR being approximately 3.95% per annum, the Board is of the view that the interest rate is approximate to and not less favourable than the market interest rate, which is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Loss and Profit During the Transition Period

The period from the Valuation Date (excluding that date) to the Closing Date of the Target Equity (including that date) is the transition period (“**Transition Period**”). During the Transition Period, the profits generated by the Target Company, or the net assets increased due to other reasons, as well as the losses incurred by the Target Company, shall be enjoyed or borne by the Purchasers. During the Transition Period, to avoid disrupting the usual operation and development of the Target Company, Xinjiang XLX will continue to advance the relevant funds to the Target Company. The advanced funds will be paid as debt by the Purchasers to Xinjiang XLX.

### Debt Repayment

1. As at the Valuation Date, the total debt of the Target Company owed to Xinjiang XLX amounted to approximately RMB285,147,600 which, together with any debt owed to Xinjiang XLX during the Transition Period, if any, as well as any interest calculated at an annualised rate of 4%\* on the sum of the outstanding debt shall be paid off by the Purchasers and Target Company within 18 months of the effective date of the Definitive Transaction Documents. If there are material adverse changes to the Purchasers or the Target Company, then Xinjiang XLX may demand early repayment of the remaining debt from the Purchasers and the Target Company.

If either of the Purchasers delays the payment of the aforesaid amount, it shall be liable for a penalty of 0.05% of the unpaid amount for each day of delay. In the event of a delay in payment of more than 60 days, Xinjiang XLX shall have the right to unilaterally decide to terminate the transaction and request the Purchasers to bear the liability for breach of contract and associated damages. In that case, Xinjiang XLX has the right to reclaim all the equity interest in the Target Company, and the Purchasers shall assist Xinjiang XLX in completing the procedures for industrial and commercial changes within 5 days from the date of receipt of the written notice from Xinjiang XLX. The Purchasers are liable for a penalty of 15% of the Total Consideration and shall return the relevant proceeds of the Target Company and assume any new debts (if any, excluding debts used for the production and operation of the Target Company that has generated significant value and are recognised by Xinjiang XLX) incurred after the Valuation Date, which will be deducted from the amount paid by the Purchasers in priority. Any balance remaining after the deductions will be refunded to the Purchasers and any shortfalls will be paid by the Purchasers.

\* Having considered the current one-year Loan Prime Rate (LPR) for RMB loans as published by the PRC National Interbank Funding Centre (authorised by the People’s Bank of China) being 3.45% per annum and the five-year LPR being approximately 3.95% per annum, the Board is of the view that the interest rate is approximate to and not less favourable than the market interest rate, which is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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2. As at the date of signing of the Framework Agreement, the aggregate amount of borrowings guaranteed by Xinjiang XLX and its related parties in favour of the Target Company is approximately RMB111 million. The Purchasers shall assist Xinjiang XLX and the Target Company to negotiate with the lending banks and enter into separate guarantee contracts with a change of guarantor, whereby the Purchasers and its related parties shall take over the guarantee obligations previously assumed by Xinjiang XLX and its related parties. In the event that the Purchasers are unable to undertake the guarantee obligation, the Purchasers shall provide sufficient guarantee measures to ensure that the interests of Xinjiang XLX will not thereby in any way be jeopardized.
3. The parties collectively guarantee that, following the signing of the Framework Agreement, no additional amount shall be incurred in respect of the borrowings or credit facilities guaranteed by Xinjiang XLX or its related parties in favour of the Target Company, and that no further application will be made for any lending in respect of the borrowings which have already been granted with credit facilities, and that relevant confirmation documents shall be signed with the lending banks. At the same time, the Purchasers shall guarantee that the Target Company shall not, after the Closing Date, delay the repayment of any loans guaranteed by Xinjiang XLX or its related parties or default on any other obligations which would in effect cause Xinjiang XLX or its related parties to assume guarantee obligations, otherwise Xinjiang XLX shall have the right to pursue any remedies against the Purchasers after assuming the guarantee obligations.

### **Guarantee**

1. Mr. Xie Tongbao and Mr. Yu Xiao agreed to assume unlimited joint and several liabilities for the payment obligations of either party of the Purchasers under the Framework Agreement to ensure that the Purchasers pay the Total Consideration and other payments under the Framework Agreement on time and in full, and to sign a guarantee agreement in accordance with the requirements of Xinjiang XLX.
2. The Purchasers agreed that, in order to ensure the timely and full performance of the payment obligations under the Framework Agreement, on the date of completion of the registration of the industrial and commercial changes in respect of the equity transfer from Xinjiang XLX to the Purchasers, the Purchasers will pledge an aggregate of 50% of the Target Company's total equity to Xinjiang XLX to guarantee Purchasers' performance of payment obligations under the Framework Agreement. Separate special agreements shall be signed and the equity pledge registration procedures will be completed as well.
3. Lingtong Trade agreed to pledge Henan XLX Shares (representing 3.36% of equity interest of Henan XLX) to guarantee the Purchasers' payment obligations under the Framework Agreement and will enter into separate special agreement(s) and complete relevant registration procedures in connection with the pledge within 5 days of the effective date of the Definitive Transaction Documents.

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## LETTER FROM THE BOARD

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4. The scope of guarantees to be provided by Mr. Xie Tongbao, Mr. Yu Xiao and Lingtong Trade covers all amounts payable by the Purchasers under the Framework Agreement, including but not limited to transaction price, liquidated damages, compensation, etc.
5. Mr. Xie Tongbao, Mr. Yu Xiao and Lingtong Trade jointly confirmed that if either of the Purchasers violates its obligations under the Framework Agreement, regardless of whether there are any other guarantee measures or whether Xinjiang XLX will pursue remedies against the Purchasers, Xinjiang XLX has the right to directly request Mr. Xie Tongbao, Mr. Yu Xiao and Lingtong Trade to undertake the guarantee obligations, and Mr. Xie Tongbao, Mr. Yu Xiao and Lingtong Trade shall not refuse to do so for any reason.
6. Without the written consent of Xinjiang XLX, Mr. Xie Tongbao, Mr. Yu Xiao and Lingtong Trade shall not release the guarantees or transfer the obligations under the Framework Agreement in part or in whole to third parties.

### **Closing**

1. Xinjiang XLX will cooperate with the Purchasers to complete the registration procedures in connection with the equity transfer, change of legal representative, directors and supervisors within 10 Business Days from the date of receiving the Initial Payment of RMB800 million.
2. From the Closing Date, the Purchasers will fully take over the coal mine, enjoy all the rights and interests of the coal mine, and assume all the obligations of the coal mine. Xinjiang XLX will cooperate with the Purchasers to submit information on changes in the Target Company's shareholders to the coal mine regulatory agency on the Closing Date. If it is necessary to register changes related to coal mine management, Xinjiang XLX will cooperate with the Purchasers to complete the procedures. From the Closing Date onwards, the relevant expenses, liabilities and obligations arising from the management of the Target Company and the coal mine shall be borne by the Purchasers. Xinjiang XLX shall have the right to recover from the Purchasers any expenses or losses incurred by Xinjiang XLX due to reasons not attributable to itself, for instance, a prolong period of time taken to complete relevant registration of change procedures. Xinjiang XLX shall hand over all relevant information, legal and valid certificates, etc. of the coal mine to the Purchasers upon the completion of change registration or after the registration authority confirms that it is aware of/accepts the changes involved in the Disposal.
3. The Parties to the Framework Agreement agree that before completing the relevant change procedures, Xinjiang XLX has the right to be informed of the Purchasers' management of the coal mine and the Target Company. In the event of any violation of laws and regulations or other matters that may cause losses or risks to the interests of Xinjiang XLX, Xinjiang XLX has the right to request the Purchasers to cease and desist and take remedial measures. Xinjiang XLX also has the right to terminate the Disposal and require the Purchasers to bear breach of contract and compensation liabilities.

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## LETTER FROM THE BOARD

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4. The Parties to the Framework Agreement agree that if the Purchasers begin to take over the Target Company and coal mine upon signing the Framework Agreement, the Purchasers shall not unilaterally terminate the Framework Agreement or cause any losses to Xinjiang XLX. Prior to the completion of the registration of industrial and commercial changes and coal mine-related information, if Xinjiang XLX discovers that the Purchasers have taken any action that may lead to penalties, safety accidents or any other adverse risks for the Target Company, Xinjiang XLX or the coal mine, Xinjiang XLX has the right to require the Purchasers to stop the relevant actions at any time and hand it over to Xinjiang XLX to continue to manage until all the procedures in connection with registration of changes under the Framework Agreement have been completed.

### III. DEFINITIVE TRANSACTION DOCUMENTS

The principal terms of the Definitive Transaction Documents are set out below.

#### (A) Equity Transfer Agreement

*Date*

28 May 2024

*Parties*

- (1) Xinjiang XLX (the Vendor);
- (2) Xinjiang Blackstone (Purchaser 1);
- (3) Anhui Lingtong (Purchaser 2); and
- (4) the Target Company.

*Assets to be Disposed of*

The 100% equity interest in the Target Company held by Xinjiang XLX.

*Total Consideration*

The Total Consideration was RMB1,374.0 million, comprising:

- (1) RMB1,167.90 million, representing consideration payable by Purchaser 1 for the acquisition of 85% equity interest in the Target Company; and
- (2) RMB206.1 million, representing consideration payable by Purchaser 2 for the acquisition of 15% equity interest in the Target Company.

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## LETTER FROM THE BOARD

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Please refer to section headed “Framework Agreement” – “Consideration and Terms of Payment” of this circular for the basis of determination of the Total Consideration.

### *Terms of Payment*

Each of the Purchasers shall pay the consideration payable under the Equity Transfer Agreement in cash. The specific payment terms are set out below:

- (1) Within 10 Business Days following the date of the signing of the Equity Transfer Agreement, the Purchasers shall pay a total of RMB800 million to Xinjiang XLX as the Initial Payment. After deducting the deposit of RMB50 million (The Company has confirmed the receipt of the RMB50 million deposit), which was paid within 2 Business Days after the signing of the Framework Agreement, the total remaining Initial Payment payable by the Purchasers amounts to RMB750 million, comprising RMB637.5 million payable by Purchaser 1 and RMB112.5 million payable by Purchaser 2. As at the Latest Practicable Date, the Initial Payment of RMB800 million has been fully settled by the Purchasers.
- (2) If either of the Purchasers delays the payment of the aforesaid amount, it shall be liable for a penalty of 0.05% of the unpaid amount for each day of delay. In the event of either of the Purchasers delays in payment of more than 60 days, Xinjiang XLX shall have the right to unilaterally decide to terminate the Disposal and require the Purchasers to bear the liability for breach of contract and any associated damages.
- (3) The Final Payment of the Total Consideration amounts to RMB574 million (consisting of RMB487.9 million payable by Purchaser 1 and RMB86.1 million payable by Purchaser 2), which will bear interest at an annualised rate of 4%\* from the date of the signing of the Equity Transfer Agreement. Relative to the payment of the Final Payment, the Purchasers shall pay a minimum principal amount of RMB350 million in total and corresponding interest to Xinjiang XLX within six months from the date of the signing of the Equity Transfer Agreement, comprising the minimum principal amount of RMB297.5 million and corresponding interest payable by Purchaser 1, and the minimum principal amount of RMB52.5 million and corresponding interest payable by Purchaser 2 respectively. Within 12 months following the date of the signing of the Equity Transfer Agreement, the Purchasers shall make the full payment of the Final Payment and the corresponding interest to Xinjiang XLX. In the event of any significant adverse event affecting the Purchasers, Xinjiang XLX may demand early payment of any outstanding balance of the Final Payment.

\* Having considered the current one-year Loan Prime Rate (LPR) for RMB loans as published by the PRC National Interbank Funding Centre (authorised by the People’s Bank of China) being 3.45% per annum and the five-year LPR being 3.95% per annum, the Board is of the view that the interest rate is approximate to and not less favourable than the market interest rate, which is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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If either of the Purchasers delays the payment of the aforesaid amount, it shall be liable for a penalty of 0.05% of the unpaid amount for each day of delay. In the event of delay in payment of more than 60 days, (1) Xinjiang XLX shall have the right to unilaterally decide to terminate the Disposal and request the Purchasers to bear the liability for breach of contract and any associated damages, and it shall have the right to reclaim all the Target Equity; (2) the Purchasers shall be liable for a penalty of 15% of the Total Consideration for breach of contract and return the relevant proceeds of the Target Company and clear any new debts the Target Company (if any, excluding debts used in the production and operation of the Target Company that have generated significant value and are recognised by Xinjiang XLX) incurred after the Valuation Date. The aforesaid penalties and obligations of the Purchasers will be deducted from the amount paid by the Purchasers. If there is any remaining balance after deduction, any balance remaining after the deductions will be refunded to the Purchasers without interest and any shortfalls shall be paid by the Purchasers.

Within 180 days following the date of the signing of the Equity Transfer Agreement, (a) in the event that the water inflow beyond 2,000 meters of the east wing of the Target Company is greater than 150 cubic meters/hour and is declining at more than 100 cubic meters/hour for 30 days, or there is a geological fault of more than 15 meters, the repayment time may be appropriately extended on the basis of the original agreed time (i.e., the time as agreed in the aforesaid payment method (3)), and the length of the extension shall not exceed 6 months in principle; or (b) in the event that the water inflow within 2,000 meters of the east wing of the Target Company is greater than 150 cubic meters/hour and is still declining at more than 100 cubic meters/hour for 30 days, or there is a geological fault of more than 15 meters, the repayment time may be appropriately extended on the basis of the original agreed time, with the extension period not exceeding 12 months in principle. The combined extension period shall not exceed 12 months in principle and the Purchasers are required to pay for the interest accrued during the extension period.

- (4) Before the full payment of the Total Consideration and interest thereon, the Purchasers shall not transfer the equity interests in the Target Company to any other party without the prior written consent of Xinjiang XLX. The equity interests and the assets of the Target Company held by the Purchasers shall be free from and clear of any mortgages, pledges or any other encumbrances whatsoever except for those created to secure the amount payable for the Equity Transfer and any debt owed to Xinjiang XLX. The Target Company shall not provide guarantees or assume any non-operating liabilities to any other entities.
- (5) Upon Closing, the revenue generated by the Target Company shall be applied by the Purchasers in priority to the payment of the relevant amount of the Disposal.

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## LETTER FROM THE BOARD

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### *Closing*

Xinjiang XLX shall deliver to the Purchasers all the assets of the Target Company as recorded in the books of the Purchasers up to and including the Valuation Date. If there are any inconsistencies between the physical assets as at the Valuation Date and those recorded in the book records, the difference shall either be made up by Xinjiang XLX per the book records, or directly deducted by the Purchasers from any outstanding balance of the Total Consideration. The Independent Valuer has verified the physical assets of the Target Company as at the Valuation Date based on the breakdown of asset declarations provided by the Target Company, and there were no material inconsistencies between the physical assets of the Target Company and the book entries as at the Valuation Date.

Xinjiang XLX will cooperate with the Purchasers in completing the registration of the relevant changes in the Target Equity within 60 days from the date of the signing of the Equity Transfer Agreement. The transfer of the Target Equity shall close on the date on which the Target Equity is registered under the Purchasers' name (the "**Closing Date**").

As at the Latest Practicable Date, the change registration procedures in relation to the transfer of the Target Equity has not yet been completed.

### *Loss and Profit during the Transition Period*

The period from the Valuation Date (excluding that date) to the Closing Date (including that date) is the Transition Period. During the Transition Period, the profits generated by the Target Company, or the net assets increased due to other reasons, as well as the losses incurred by the Target Company, shall be enjoyed or borne by the Purchasers. During the Transition Period, Xinjiang XLX will continue to advance funds to the Target Company during the Transition Period (the "**Transition Liabilities**") to avoid disruption to the usual operation and development of the Target Company. The Transition Liabilities shall be paid off by the Target Company and guaranteed by the Purchasers on a joint and several basis.

Within 5 days from the Closing Date, Xinjiang XLX and the Purchasers shall jointly confirm the financial statements of the Target Company for the Transition Period and sign a confirmation letter (the "**Confirmation Letter**") to confirm the profit and loss of the Target Equity during the Transition Period. The Target Company shall settle the Transition Liabilities in cash to Xinjiang XLX within 30 days from the date of the signing the Confirmation Letter.

### *Settlement of Liabilities*

The obligations and debts of the Target Company will continue to be assumed and borne by the Target Company after the Closing Date. However, Xinjiang XLX will bear the repayment obligations for the debts of the Target Company that have not been disclosed to the Purchasers by Xinjiang XLX as of the Valuation Date. The liabilities owed by the Target Company to Xinjiang XLX shall be repaid within 18 months from the date of the signing of the Equity Transfer Agreement in accordance with the terms of the Repayment Agreement. As at the Latest Practicable Date, to the knowledge and



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## LETTER FROM THE BOARD

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belief of the Directors, after having made all reasonable enquiries, the Target Company is not aware of any indebtedness which have not been disclosed by Xinjiang XLX to the Purchasers as of the Valuation Date.

The Target Company will not initiate termination of the labour relationship with its employees as a result of the Disposal, however, any compensations, indemnities or other relevant expenses incurred due to termination of labor relationship requested by employees prior to the Closing Date shall be payable by Xinjiang XLX. The Purchasers shall have the right to recover from Xinjiang XLX any amount paid by the Purchasers after taking over the operation and management rights of the Target Company as compensation or damages in labor disputes which occurred for reasons attributable to Xinjiang XLX during the period when the Target Company was managed and operated by Xinjiang XLX and Xinjiang XLX shall assume full responsibility.

### *Effective Conditions*

The Equity Transfer Agreement shall become effective on the date on which all of the following conditions have been satisfied:

- (1) Xinjiang XLX, the Purchasers, the Target Company and their respective legal representatives or authorised representatives have affixed their signatures and official seals; and
- (2) the Disposal has been approved by the competent decision-making body of Xinjiang XLX and China XLX.

### *Conditions Precedent*

The conditions precedent for the Closing are set below:

- (1) The Target Equity is clear of any pledges, judicial freeze or any other encumbrances and free from any ownership disputes; and
- (2) The relevant consents and approvals for the Disposal have been obtained, including internal approvals from the Target Company, the Purchasers and the Vendor, and approvals from the Company and the Stock Exchange (if any).

The Company confirms that as at the Latest Practicable Date, there are no pledges, judicial freezes or other rights restrictions on the Target Equity, nor are there any ownership disputes over the Target Equity. In addition, as at the Latest Practicable Date, the condition precedent (2) above has not been fully satisfied.

### *Relevant Performance Guarantees*

- (1) Repayment guarantee provided by Mr. Yu Xiao and Mr. Xie Tongbao

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## LETTER FROM THE BOARD

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Mr. Yu Xiao and Mr. Xie Tongbao shall bear joint and several liabilities for the timely and full payment of all the amounts under the Equity Transfer Agreement by either of the Purchasers and the repayment obligations of the Target Company to Xinjiang XLX. Details of the relevant terms are set out in the Guarantee Agreement.

(2) Equity pledge provided by Purchaser 1

On the Closing Date, the Purchasers shall pledge a total of 50% of the equity interests of the Target Company held by them to Xinjiang XLX to guarantee the payment obligations of the Purchasers under the Equity Transfer Agreement and the repayment obligations of the Target Company to Xinjiang XLX. The proportion of equity interests pledged by Purchaser 1 is 50%. Purchaser 2 shall not provide equity pledge. Details of the relevant terms are set out in the Equity Pledge Agreement.

(3) Share pledge provided by Lingtong Trade

Lingtong Trade shall pledge the Henan XLX Shares (representing approximately 3.36% of the equity interest in Henan XLX) held by it to guarantee the payment obligations of the Purchasers under the Equity Transfer Agreement and the repayment obligations of the Target Company to Xinjiang XLX, and the registration of the pledge shall be completed within 10 Business Days from the date of the signing of the Equity Transfer Agreement. Details of the relevant terms are set out in the Share Pledge Agreement.

**(B) Repayment Agreement**

*Date*

28 May 2024

*Parties*

- (1) Xinjiang XLX;
- (2) the Target Company;
- (3) Xinjiang Blackstone (Guarantor 1); and
- (4) Anhui Lingtong (Guarantor 2).

*Indebtedness between the Target Company and Xinjiang XLX*

- (1) Recognised liabilities: As at the Valuation Date, the balance of the borrowings of the Target Company from Xinjiang XLX amounted to RMB285,147,600 (the “**Recognised Liabilities**”).

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## LETTER FROM THE BOARD

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- (2) Transition Liabilities: Pursuant to the Framework Agreement and the Equity Transfer Agreement, the Target Company shall fully repay the Transition Liabilities to Xinjiang XLX. The specific amount of the Transition Liabilities will be jointly recognised by both parties. As at the Latest Practicable Date, the Transition Liabilities were amounted to approximately RMB65 million in aggregate.
- (3) Guaranteed liabilities: The principal amount of borrowings guaranteed by Xinjiang XLX and its related parties in favour of the Target Company amounted to RMB111 million in total (the “**Guaranteed Liabilities**”).

### *Repayment Arrangements*

- (1) The Transition Liabilities, which bear no interest, shall be repaid by the Target Company in cash within 30 days from the date of the signing of the Confirmation Letter.
- (2) Within 18 months from the date of the signing of the Repayment Agreement, the Target Company shall repay the Recognised Liabilities in full to Xinjiang XLX. The outstanding balance of the Recognised Liabilities bear interest at the annualised rate of 4%\* from the date of the signing of the Repayment Agreement. In the event of any material adverse changes to the Target Company or the Guarantors, Xinjiang XLX may demand an early repayment by the Target Company and the Guarantors of any remaining balance of the Recognised Liabilities and hold the Guarantors liable for performance of guarantee obligations and payment of damages for breaching the agreement.
- (3) Upon Closing, all guarantee obligations securing the Guaranteed Liabilities (including the principal amount and all interest payable, liquidated damages and other obligations within the scope of the original guarantee) will be transferred to the Guarantors. If the guarantee obligations securing the Guaranteed Liabilities cannot be transferred to the Guarantors, the Guarantors shall provide sufficient guarantee measures to ensure that the interests of Xinjiang XLX will not be thereby in any way be jeopardized. Xinjiang XLX shall have the right to recover from the Target Company and the Guarantors, in full, any amount paid by it or any other economic loss whatsoever incurred as a result of assuming the guarantee obligations securing the Guaranteed Liabilities from the date when the loss occurs and the Target Company shall be liable for a penalty of 15% of the Total Consideration for breaching the agreement.
- (4) The Guarantors assume unlimited joint and several guarantee obligations for the due repayment of the Recognised Liabilities, the Transition Liabilities and the Guaranteed Liabilities (if any). Any liabilities due that cannot be repaid by the Target Company in full and timely manner shall be unconditionally repaid by the Guarantors prior to the maturity date.

\* Having considered the current one-year Loan Prime Rate (LPR) for RMB loans as published by the PRC National Interbank Funding Centre (authorised by the People’s Bank of China) being 3.45% per annum and the five-year LPR being approximately 3.95% per annum, the Board is of the view that the interest rate is approximate to and not less favourable than the market interest rate, which is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Guarantee Arrangements*

- (1) The Guarantors shall assume unlimited joint and several guarantee obligations for the due repayment of the principal, interest and other payables (if any) associated with the Recognised Liabilities, the Transition Liabilities, the Guaranteed Liabilities as well as any other liabilities (if any) owed by the Target Company to Xinjiang XLX.
- (2) Mr. Yu Xiao and Mr. Xie Tongbao shall assume unlimited joint and several guarantee obligations for the payment of the principal, interest and all other payables in respect of the Recognised Liabilities, the Transition Liabilities, the Guaranteed Liabilities (if any) as well as other liabilities (if any) of the Target Company to Xinjiang XLX.
- (3) Lingtong Trade shall pledge the Henan XLX Shares to guarantee the due repayment of the principal, interest and all other payables (if any) associated with the Recognised Liabilities, the Transition Liabilities, the Guaranteed Liabilities as well as any other liabilities (if any) owed by the Target Company to Xinjiang XLX.

### **(C) Guarantee Agreement**

#### *Date*

28 May 2024

#### *Parties*

- (1) Xinjiang XLX;
- (2) Mr. Xie Tongbao;
- (3) Mr. Yu Xiao; and
- (4) the Target Company.

#### *Scope of Guarantee*

Mr. Xie Tongbao and Mr. Yu Xiao shall assume unlimited joint and several guarantee obligations in support of Xinjiang XLX's claims under the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement, including but not limited to the following:

- (1) the Total Consideration and the interest accrued thereon;
- (2) the Recognised Liabilities and the interest accrued thereon;
- (3) the Transition Liabilities;

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## LETTER FROM THE BOARD

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- (4) the Guaranteed Liabilities (totaling RMB111 million as at the date of the signing of the Repayment Agreement) and, if any, the accrued interest paid by Xinjiang XLX for discharging guarantee obligations as well as any associated penalties and economic loss incurred;
- (5) All other payables and liabilities incurred during the performance of the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement, during the Transition Period and after the Closing Date which should be borne by the Target Company, Xinjiang Blackstone and Anhui Lingtong;
- (6) Any amount paid on behalf of or for Target Company, Xinjiang Blackstone and Anhui Lingtong and any loss suffered by Xinjiang XLX, for the purposes of performing the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement; and
- (7) other expenses as agreed in the Guarantee Agreement.

### *Guarantee Period*

The guarantee period shall be two years after the date on which the last payment under the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement is required to be paid in full.

### *Undertakings*

During the guarantee period, Mr. Xie Tongbao and Mr. Yu Xiao shall not exert influence to transfer or impair the equity interests and core assets of the Target Company (i.e., the coal mine held by it) by any means, directly or indirectly, etc., nor shall they mortgage, pledge or otherwise impose any restrictions thereon except for those created to secure the payment of the Total Consideration and any debt owed to Xinjiang XLX.

Before the liabilities under the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement have been fully settled, Mr. Xie Tongbao and Mr. Yu Xiao shall not exert influence to request Xinjiang Blackstone, Anhui Lingtong and the Target Company to exercise the right of recourse and other associated rights arising from the discharge of guarantee obligations by any means, whether directly or indirectly.

The guarantee obligations under the Guarantee Agreement shall not be assigned to any third party without the written confirmation from Xinjiang XLX.

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## LETTER FROM THE BOARD

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### (D) Share Pledge Agreement

#### *Date*

28 May 2024

#### *Parties*

- (1) Xinjiang XLX;
- (2) Lingtong Trade; and
- (3) Henan XLX.

#### *Collateral*

The collateral under the Share Pledge Agreement is the Henan XLX Shares held by Lingtong Trade and the following derivative interests arising therefrom:

- (1) Equity interests allocated from issue of bonus shares, capitalisation of capital reserves and share split of Henan XLX Shares;
- (2) Dividends and bonuses due from the Henan XLX Shares; and
- (3) Other derivative interests due from the Henan XLX Shares.

According to the latest audited financial statements of Henan XLX prepared in accordance with the China Accounting Standards for Business Enterprises, as at 31 December 2023, the net assets of Henan XLX were RMB10,236,813,111.05, with a total share capital of 1,948,000,000 shares and a net asset value of approximately RMB5.26 per share. The fair value of Henan XLX Shares held by Lingtong Trade as at the Latest Practicable Date was approximately RMB343,679,455.

#### *Claims secured by the Share Pledge Agreement*

Xinjiang XLX's claims secured by the Share Pledge Agreement are the same as those secured by the Guarantee Agreement as set out in the section headed "Guarantee Agreement – Scope of Guarantee".

#### *Release of Collateral*

Xinjiang XLX will complete the registration procedures for the release of the collateral within 10 Business Days from the date of receipt of all payments under the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement.

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## LETTER FROM THE BOARD

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### (E) Equity Pledge Agreement

#### *Date*

28 May 2024

#### *Parties*

- (1) Xinjiang XLX;
- (2) Xinjiang Blackstone; and
- (3) the Target Company.

#### *Collateral*

The collateral under the Equity Pledge Agreement is a 50% equity interest of the Target Company held by Xinjiang Blackstone upon Closing (the “**Pledged Equity**”) and the following derivative interests arising therefrom:

- (1) Equity interests allocated from issue of bonus shares, capitalisation of capital reserves and share split of the Pledged Equity;
- (2) Dividends and bonuses due from the Pledged Equity; and
- (3) Other derivative interests due from the Pledged Equity.

Dividends, bonuses and other gains (if any) generated from the Pledged Equity shall be applied to settle Xinjiang XLX’s claims secured by the Equity Pledge Agreement.

#### *Claims secured by the Equity Pledge Agreement*

Xinjiang XLX’s claims secured by the Equity Pledge Agreement are the same as those secured by the Guarantee Agreement as set out in the section headed “Guarantee Agreement – Scope of Guarantee”.

#### *Release of Collateral*

Xinjiang XLX will complete the registration procedures for the release of the collateral within 5 Business Days from the date of receipt of all payments under the Framework Agreement, the Equity Transfer Agreement and the Repayment Agreement.

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## LETTER FROM THE BOARD

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#### IV. FINANCIAL IMPACT OF THE DISPOSAL AND PROPOSED USE OF PROCEEDS

Upon the Closing, Anhui Lingtong and Xinjiang Blackstone will hold 15% and 85% of the equity interests of the Target Company, respectively. The Company will no longer hold any equity interests in the Target Company, and the financial results of the Target Company will no longer be consolidated into the Group's financial statements.

The Disposal will reduce sizable capital investment by the Company. Based on the Company's initial assessment of the audited financial information of the Target Company prepared in accordance with PRC Accounting Standards as at the Valuation Date, the Board estimates the following changes in the assets and liabilities of the Company before and after the completion of the Disposal:

	<b>As at the Valuation Date (Unaudited) (RMB million)</b>	<b>As at the Closing Date (Unaudited) (RMB million)</b>
Total Liabilities	19,252	18,626
Ownership Interests	11,624	12,305
Total Assets	30,875	30,930
Liabilities To Assets Ratio	62.4%	60.2%

The aforesaid estimation is for illustrative purpose only and does not purport to represent the financial position of the Group after Closing of the Disposal. The actual financial effects of the Disposal will be determined with reference to the financial status of the Target Company as at the Closing Date.

As shown in the above table, the Disposal will effectively reduce the Group's liabilities to assets ratio. This will optimize the Group's debt structure and enhance its overall risk resilience, improving the financial position of the Group. As such, there will be no any adverse impact on the Group's profit and loss statement.

After Closing, the Company expects to achieve an investment gain before taxation of approximately RMB477 million and generate cash inflows of approximately RMB1,587 million. The cash inflow of RMB1,587 million generated from the Disposal was calculated based on the difference between the Total Consideration of the Disposal and the Recognised Liabilities of approximately RMB285 million owed to Xinjiang XLX by the Target Company and taxes of approximately RMB72 million that may be incurred on the Disposal. The Group expects to record net investment gain of approximately RMB681 million, which is calculated with reference to the difference between the Total Consideration of the Disposal of approximately RMB1,374 million, the carrying amount of the total shareholders' equity of the Target Company of approximately RMB621 million and taxes of approximately RMB72 million that may be incurred on the Disposal. The actual gain or loss expected to accrue to the Group as a result of the Disposal is subject to final review by the Company's auditor.



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## LETTER FROM THE BOARD

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The Company estimates the net proceeds from the Disposal will be approximately RMB1,300 million, representing:

- (i) Total Consideration; deducting
- (ii) RMB2 million, being agency fees; deducting
- (iii) RMB72 million, being estimated tax to be provided for the Disposal.

The net proceeds from the Disposal is the result of the cash inflow of RMB1,587 million minus the Recognised Liabilities owed by the Target Company and the intermediary fees of approximately RMB2 million for legal services, auditing services and valuation services incurred for effecting the Disposal. The Company intends to utilise the net proceeds from the Disposal as follows:

- (i) RMB400 million to be used for the repayment of existing bank loans of the Group, which are expected to be fully utilised by the end of March 2025; and
- (ii) RMB900 million to be used for the development of production centers, which are expected to be fully utilised by the end of May 2025. The details are as follows:

<b>Items</b>	<b>Approximate amount of net proceeds to be allocated</b>	<b>Expected date of full utilisation</b>
Xinjiang polyformaldehyde project	200,000,000	By 31 December 2024
Xinjiang Zhundong New Chemical Materials Project Construction	700,000,000	By 31 May 2025
	<hr/>	
Total	<u>900,000,000</u>	

### V. REASONS FOR AND BENEFITS OF THE DISPOSAL

In recent years, the Company has developed strong strategic business relationships with major coal suppliers such as China Shenhua Energy Company Limited and Shanxi Coal Industry Co., Ltd. The Company has secured sufficient coal quotas and a stable supply of coal for urea production from these suppliers. Therefore, despite the coal being the main raw material for the Group's urea production, the Disposal will not adversely affect the production operations of the Group. Furthermore, one of the purposes of the Group's acquisition of the Target Company was to provide complementary coal resources for Xinjiang XLX. The Target Company specializes in producing "coking coal", which has significantly higher market value compared to the coals required by Xinjiang XLX. The procurement of other types of coal at

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## LETTER FROM THE BOARD

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lower prices will adequately meet the daily production and operation needs of Xinjiang XLX. As a result, the Target Company is no longer suitable as a coal supplier to Xinjiang XLX. Therefore, the disposal of the Target Company is more conducive to the Group's optimisation of resource allocation and maximisation of benefits.

As disclosed above, the Disposal is mainly to optimize the allocation of the Group's resources and adjust the asset structure according to market conditions and corporate strategy in anticipation of optimal coal supply in Xinjiang. The Disposal will be conducive to the Group's recovery of capital, re-allocation of resources and development of the Group's fertilizer and chemical businesses, which are the Group's focus, so as to maximize the utilization of its assets and enhance its operating efficiency. In light of the aforesaid, the Group has decided to dispose of all the equity interests in the Target Company, thereby converting these assets into available resources for the development of other business operations of the Group.

Mr. Xie Tongbao is one of the shareholders of Henan XLX, a subsidiary of the Company, holding approximately 3.36% equity interest of Henan XLX through Lingtong Trade. Mr. Yu Xiao is the single largest shareholder of one of the Purchasers, Xinjiang Blackstone, and controls Xinjiang Hutubi County Shitizi Xigou Coal Co., Ltd (the "**Xinjiang Coal Company**"). Both the Xinjiang Coal Company and the Target Company are located in Changji Prefecture, Xinjiang. Business dealings between Xinjiang Coal Company and the Target Company were frequent. Through those connections, the Company approached Mr. Xie Tongbao, Mr. Yu Xiao, as well as Anhui Lingtong and Xinjiang Blackstone that were respectively controlled by each of them, after the Company had a clear intention to dispose of the Target Company. Having considered that both Anhui Lingtong and Xinjiang Blackstone have influential positions within the coal market, and after arm's length negotiations, a consensus has been reached regarding the Total Consideration of the Disposal among the parties and therefore, the Company decided to dispose of the Target Company to Anhui Lingtong and Xinjiang Blackstone.

In addition, the Total Consideration payable by the Purchasers for the Disposal under the Definitive Transaction Documents is RMB1,374 million. After deducting the Initial Payment of RMB800 million received by the Company before the Latest Practicable Date, the Purchasers shall subsequently pay to Xinjiang XLX a sum of RMB574 million as the Final Payment of the Total Consideration. As of the Latest Practicable Date, the Recognised Liabilities, Transition Liabilities and Guaranteed Liabilities of the Target Company owed to Xinjiang XLX amounted to approximately RMB461 million (together with the Final Payment, collectively referred to as the "**Receivables**"). As at the Latest Practicable Date, the Receivables was approximately RMB1,035 million.

Pursuant to the Definitive Transaction Documents, the Receivables will be secured by (1) Henan XLX Shares with a fair value of approximately RMB344 million, which are held by Lingtong Trade which is controlled by Mr. Xie Tongbao, (2) a 50% equity interest in the Target Company (with a fair value of approximately RMB687 million, which equals 50% of the Total Consideration of the Disposal) held by Xinjiang Blackstone (which is controlled by Mr. Yu Xiao) after Closing; and (3) personal guarantees from Mr. Xie Tongbao and Mr. Yu Xiao. The Company has made reasonable enquiries regarding assets of Mr. Xie Tongbao and Mr. Yu Xiao, including their respective beneficial shareholdings in the Purchasers, and any material litigations or material claims, pending or otherwise, against them. It is of the view that Mr. Xie Tongbao and Mr. Yu Xiao are solvent and the personal guarantees provided by them are legally enforceable and they have the financial abilities to settle the guarantee. Considering that the guarantees mentioned in (1)

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## LETTER FROM THE BOARD

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and (2) above have covered a substantial portion of the Receivables, the Board is of the view that in respect of the Disposal, the financial abilities of Mr. Xie Tongbao and Mr. Yu Xiao to settle the personal guarantees will not materially impact the recovery of the Receivables.

As such, the Directors, including all independent non-executive Directors, consider that the terms and conditions of the Framework Agreement and the Definitive Transaction Documents and the Disposal contemplated thereunder are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the shareholders as a whole.

### VI. INFORMATION ON PARTIES

#### The Target Company

The Target Company was established in 1995 after the restructuring of a coal mine. The Target Company mainly engages in coal mining and sale of coal and coal-based products.

Unified social credit identifier	:	91650000229285227D
Address	:	Xiaobaiyanggou, Nanshan, Manas County, Changji Prefecture, Xinjiang
Legal representative	:	Zhao Shouye
Registered capital	:	RMB794,000,000
Scope of operations	:	coal mining; sales of coal and coal-based products; labour services (excluding labour dispatch); loading and unloading and transportation; human resources services.

As at the Latest Practicable Date, the Target Company owns the mining rights of an approved coalfield with an area of 3.72 square kilometers and a reserve of approximately 105 million tons, and an production capacity of 900,000 tons/year.

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## LETTER FROM THE BOARD

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The following table sets out certain audited financial information of the Target Company as at 31 December 2022 and 31 December 2023 and for the years then ended, prepared in accordance with the PRC Accounting Standards:

	<b>As at</b> <b>31 December</b> <b>2022</b> <i>(RMB)</i>	<b>As at</b> <b>31 December</b> <b>2023</b> <i>(RMB)</i>
Operating income	410,913,852.82	108,605,534.69
Operating profit/(loss)	54,283,775.22	(93,186,999.59)
Profit/(loss) before tax	54,264,265.38	(95,599,468.73)
Profit/(loss) after tax	54,264,265.38	(95,599,468.73)
Total assets	1,154,163,352.49	1,232,106,065.70
Net assets	737,698,578.58	642,099,109.85

In May 2022, with the approval of the government, Target Company's coal mine commenced trial production with an annual output of approximately 310,000 tonnes. In 2023, the government officially recognised the Target Company's coal mine as a high gassy mine, which requires the installation of a dedicated gas return airway to comply with the regulations. The Target Company's mine was temporarily halted during the excavation of the gas return airway. The Target Company's mine experienced a year-on-year decline in production volume of approximately 65% and a decline in sales volume of approximately 61% in 2023. As a result, the Target Company experienced a significant decrease in operating revenues and net profits in FY2023 as compared to FY2022.

On the Valuation Date, the carrying amount and appraisal value of total shareholders' equity of the Target Company were approximately RMB620,662,024.45 and RMB1,161,728,000.00 respectively, with an appreciation rate of 87.18%. The significant appreciation is attributable to the appreciated amount of RMB682.0228 million in the appraised value of intangible assets. Along with the improvement of the economy, the price of land and mining rights, as non-renewable resources, has shown an overall upward trend.

There have been no material changes in the financial performance and position of the Target Company since the Valuation Date up to the Latest Practicable Date.

### ***Xinjiang XLX and Henan XLX***

As at Latest Practicable Date, the Company holds a 78.57% equity interest in Henan XLX which in return holds a 100% equity interest in Xinjiang XLX. Henan XLX, Xinjiang XLX and the Group are principally engaged in the manufacturing, sales and trading of urea, compound fertiliser, methanol, liquid ammonia and melamine. The Group is also one of the large-scale and most cost-efficient coal-based urea producers in the PRC.

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## LETTER FROM THE BOARD

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### *Anhui Lingtong, Lingtong Trade and Mr. Xie Tongbao*

Anhui Lingtong is a limited liability company established in the PRC in 2014 with a registered capital of RMB100 million. Anhui Lingtong is principally engaged in industrial investment management services, pre-packaged food retail, coal transportation, coal trading, coal chemicals, clean energy and other businesses. Its de facto controller is Mr. Xie Tongbao. Mr. Xie Tongbao is the chairman of Anhui Lingtong and beneficially owns 99% equity interests of Anhui Lingtong.

Lingtong Trade is a modern trade and logistics enterprise established in the PRC in 2000 and is principally engaged in the deep processing of coal, as well as the operation and transportation of coal and dangerous goods. Anhui Lingtong and Mr. Xie Tongbao hold approximately 70% and 30% of the equity interests in Lingtong Trade respectively.

### *Xinjiang Blackstone and Mr. Yu Xiao*

Xinjiang Blackstone is a limited liability company established in the PRC in 2019 and is principally engaged in the sales services of coal and mineral products. Its de facto controller is Mr. Yu Xiao. Mr. Yu Xiao is the single largest shareholder of Xinjiang Blackstone and beneficially owns 99% equity interests of Xinjiang Blackstone.

Anhui Lingtong, Lingtong Trade, Mr. Xie Tongbao, Xinjiang Blackstone and Mr. Yu Xiao are all third parties independent of the Company and its connected persons.

## **VII. LISTING RULES IMPLICATIONS**

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal is higher than 25% but all of the applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction for the Company, and is therefore subject to reporting, announcement, circular and shareholders' approval requirements under the Listing Rules.

## **VIII. EXTRAORDINARY GENERAL MEETING**

The EGM will be held by the Company at 2nd Conference Room, 6th Floor, R&D Building, Gate No. 7, Xinlianxin Avenue, Xinxiang Economic Development Zone, Xinxiang City, Henan Province, PRC on 9 August 2024 at 9 a.m., to consider and if thought fit, to approve the Disposal.

To the best knowledge of the Directors, as at the Latest Practicable Date, no Shareholder is required to abstain from the resolution approving the Disposal to be put forward at the EGM.

Pursuant to the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the proposed resolution will be put to vote by way of poll at the EGM. An announcement on the poll voting results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

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## LETTER FROM THE BOARD

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### IX. ACTION TO BE TAKEN BY SHAREHOLDERS

The notice convening the EGM is set out on pages 68 to 70 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinaxlx.com.hk](http://www.chinaxlx.com.hk)). If you are not able to attend the EGM in person, please complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the letter or power of attorney under which it is signed or a certified copy of that letter or power of attorney, to the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for holding the EGM (i.e., not later than 9 a.m. on 7 August 2024) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish. In such event, your proxy form shall be deemed to be revoked.

### X. RECOMMENDATIONS

The Board considers that the terms of the Framework Agreement and the Definitive Transaction Documents are normal commercial terms and the Disposal thereunder is fair and reasonable and in the interests of the Company and the Shareholders as a whole. As such, the Directors recommend that the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

### XI. FURTHER INFORMATION

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

Yours faithfully,  
By Order of the Board  
**China XLX Fertiliser Ltd.**  
**Liu Xingxu**  
*Chairman*

**1. Financial Summary**

The audited financial information of the Group for each year ended 31 December 2021, 2022 and 2023 and its relevant notes have been disclosed in the relevant annual reports of the Company, which have also been published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.chinaxlx.com.hk](http://www.chinaxlx.com.hk):

- (i) the annual report of the Company for the year ended 31 December 2021 (pages 93 to 221) published on 28 April 2022 can be accessed via the link below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042801160.pdf>

- (ii) the annual report of the Company for the year ended 31 December 2022 (pages 101 to 233) published on 26 April 2023 can be accessed via the link below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042602573.pdf>

- (iii) the annual report of the Company for the year ended 31 December 2023 (pages 104 to 233) published on 28 March 2024 can be accessed via the link below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0328/2024032801368.pdf>

**2. Working Capital**

The Directors, having made appropriate enquiries and considered the current internal resources of the Group, are of the opinion that the Group has sufficient working capital to meet the operational demands for a minimum of twelve months since the publication date of this circular. The Company has obtained the confirmation letter as required by Rule 14.66 (12) of the Listing Rules.

### 3. Statement of Indebtedness

As at the end of business hours on 31 May 2024, being the Latest Practicable Date of this statement of indebtedness, the Group's indebtedness was as follows:

#### Bank and other borrowings

	<i>RMB'000</i>
<b>Current:</b>	
Secured	975,600
Unsecured	4,103,748
	<u>5,079,348</u>
<b>Non-current:</b>	
Secured	1,332,900
Unsecured	5,322,380
	<u>6,655,280</u>
	<u><u>11,734,628</u></u>

The Group's bank loans of RMB2,308,500,000 are secured loans. The current bank loans amounting to RMB569,100,000 and non-current bank loans amounting to RMB329,950,000 are secured by the pledge of certain time deposits. Besides, the current bank loans amounting to RMB396,500,000 and non-current bank loans amounting to RMB953,330,000 are guaranteed by property, plant and equipment. The non-current bank loans amounting to RMB49,620,000 are guaranteed by lands. The rest of current loans with the amount of RMB10,000,000 are secured by natural person. He is Yang Haitao, who is the Deputy General Manager of Henan Hydrogenpower Energy Co., Ltd., a subsidiary of the Company.

As at 31 May 2024, except as disclosed above, the Group did not have any outstanding mortgages, charges, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

#### Lease Liabilities

The Company has lease contracts for various items of land amounting to RMB79,560,000, plant amounting to RMB2,144,000 and machinery amounting to RMB214,000 used in its operations. As at 31 May 2024, the Group's recorded current lease liabilities of RMB4,069,000 and non-current lease liabilities of RMB77,849,000.



The Directors confirmed that, as at the end of business hours on 31 May 2024, being the Latest Practicable Date of this statement of indebtedness, save as aforesaid and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding or authorized, or otherwise created but unissued, or time loans, or other borrowings or liabilities in the nature of the Group, including bank overdrafts or promissory notes (other than normal trade notes) or acceptance credits or hire purchase commitments, or mortgages or charges, and there was no other material contingent liabilities or guarantees as at the close of business on 31 May 2024.

#### **4. Financial and operational prospects of the Group**

As disclosed in the Company's announcement of unaudited business update for the three months ended 31 March 2024, with the change of the supply and demand pattern of raw coal, the prices of raw materials are steadily rising, providing support to the prices of coal-related chemical products. As we enter the second quarter, the peak season for summer fertilisation and spring plowing approaches, releasing agricultural demand, boosting the sales of nitrogen-based fertilisers and other fertilisers, and providing support for the Group to increase its sales proportion of high-efficiency compound fertilisers. Additionally, the window of opportunity for the export of fertilisers further optimizes the supply and demand pattern of fertilisers, and facilitates stable and positive development of fertiliser prices. Regarding chemical products, with the steady recovery of the domestic economy, the real estate, new energy, chemical fiber and textile industries, which have a greater impact on the chemicals industry, are gradually rallying, and the downstream demand continues to improve, which supports the stabilization and recovery of chemical prices and it is expected that the chemical market still has more room for improvement.

According to domestic environmental requirements, as the deadline for the elimination of outdated production capacity approaches, the industrial structure will accelerate its optimization and upgrading, and the concentration of industries will continue to increase. Enterprises with advantages in resources, marketing, and technology will further enhance their leading positions in the industry. The Group has always adhered to the strategy of "low cost + differentiation", continuously strengthened the core position of high-end R& D in business operations, and strived to reduce cost and enhance efficiency through refined management and flexible production. At the same time, we are accelerating the transformation of marketing models, using big data in marketing as the starting point, focusing on large-scale farmers, and enhancing integrated service capabilities through team collaboration, in order to adapt to the future trend of land-intensive agricultural development.

In terms of project construction, based on the premise of ensuring stable cash flow, the Group will seize the period of consolidation and upgrading in the fertiliser industry to further increase market share. While expanding and extending the industrial chain and strengthening scientific research in the three major bases, the Group solidly advancing the construction of new bases. It is expected that the Phase I project of compound fertiliser in the Group's Guangxi base will be completed and put into operation by the end of this year, aiming to build it into the benchmark demonstration base for integrated fertiliser production and application along the southern coast, while laying a foundation for expanding into the Southeast Asian market.

**5. Material adverse changes**

As at the Latest Practicable Date, there have been no material adverse changes in the financial or operational conditions of the Group since 31 December 2023, being the preparation date of the latest audited consolidated financial statement of the Company.

*Notes:*

1. The following information is extracted from the valuation report of “Yu Da Xin Ping Bao Zi [2024] No. 0029” prepared by Henan Daxin Asset Appraisal Firm Co., Ltd. (河南大信資產評估事務所有限公司). This summary is not the entire content of the valuation report.
2. The opinions and analyses in the following summary are directly quoted from the valuer’s opinions and analyses in the valuation report.

1. **Valuer:** Henan Daxin Asset Appraisal Firm Co., Ltd. (河南大信資產評估事務所有限公司)
2. **No. of the Valuation Report:** Yu Da Xin Ping Bao Zi [2024] No. 0029
3. **Date of the Valuation Report:** 30 April 2024
4. **Valuation Date:** 29 February 2024
5. **Valuation Target:** the entire equity interests of Manas Tianxin Coal CO., LTD\* (瑪納斯縣天欣煤業有限公司)(referred to as “**Tianxin Coal**”).

The valuation target is the entire equity interest of Tianxin Coal, and the scope of the valuation involves all assets and liabilities of Tianxin Coal as at the Valuation Date, with a total carry amount of assets of RMB1,246,679,400, a total carrying amount of liabilities of RMB626,017,400, and a net carrying amount of assets of RMB620,662,000. The specific items of assets and liabilities are based on the appraisal form filed by Tianxin Coal. All assets and liabilities included in the appraisal form and confirmed by Tianxin Coal are included in the scope of the appraisal. The carrying values of the assets and liabilities to be appraised as at the Valuation Date are set out in the table below:

**APPENDIX II****INFORMATION RELATED TO THE  
VALUATION REPORT***Unit: RMB10,000*

<b>Types of Assets</b>	<b>Carrying Amount</b>	<b>% of Total Assets</b>	<b>Types of Liabilities</b>	<b>Carrying Amount</b>	<b>% of Total Assets</b>
Monetary funds	1,142.90	0.92	Payable Amounts	10,021.34	16.01
Prepayments	285.53	0.23	Contract Liabilities	24.88	0.04
Inventories	1,820.68	1.46	Staff Remuneration Payable	1,587.69	2.54
Other Current Assets	2,717.02	2.18	Tax Payable	36.08	0.06
<b>Total Current Assets</b>	<b>5,966.13</b>	<b>4.79</b>	Other Payables	29,188.78	46.63
Fixed Assets	80,297.99	64.41	Non-current Liabilities Due within a Year	1,665.00	2.66
Construction in Progress	13,899.49	11.15	Other Non-current Liabilities	3.23	0.01
Intangible Assets	24,504.33	19.66	<b>Total Current Liabilities</b>	<b>42,527.00</b>	<b>67.93</b>
<b>Total Non-current Assets</b>	<b>118,701.81</b>	<b>95.21</b>	Long-term Borrowings	9,435.00	15.07
<b>Total Assets</b>	<b>124,667.94</b>	<b>100.00</b>	Long-term Payables	10,639.74	17.00
			<b>Total Non-current Liabilities</b>	<b>20,074.74</b>	<b>32.07</b>
			<b>Total Liabilities</b>	<b>62,601.74</b>	<b>100.00</b>
			<b>Total Equity Interests</b>	<b>62,066.20</b>	

The financial data presented in the above table have been audited by Henan Huaqin Joint Accounting Firm (General Partnership), which has issued the Audit Report of Huaqin Hui Shen Zi (2024) No. 0416.

- 6. Purpose of Appraisal:** To determine the market value of the entire equity interest of Tianxin Coal as at the Valuation Date, and to provide a value reference for the proposed transfer of the equity interest in Tianxin Coal held by Xinjiang XLX.
- 7. Appraisal Scope:** all of the assets and liabilities claimed by Tianxin Coal.
- 8. Types of value:** Market Value.

9. **Valuation Method:** This valuation will adopt the asset-based method.

9.1 Selection of Valuation Method

9.1 The valuation method selected for this valuation is the asset-based approach. The reasons for the choice of valuation method are set out below:

9.1.1 The reasons for selecting the asset-based approach for appraisal are as follows: The asset-based approach is based on the balance sheet, which reasonably appraises the value of assets and liabilities on and off the balance sheet of an enterprise and determines the value of the valuation target. The assets and liabilities of Tianxin Coal on the balance sheet on the Valuation Date can be identified, and the appraisers can collect the information needed to meet the asset-based approach from outside and conduct a comprehensive inventory and appraisal of assets and liabilities of Tianxin Coal. Therefore, the asset-based approach is applicable to this appraisal.

9.1.2 Reasons for not choosing the income approach for appraisal: The income approach is based on the expected utility theory of economics, that is, to investors, the value of an enterprise lies in the expected revenue that the enterprise can produce in the future. Although the income approach does not directly use the reference in the real market to illustrate the current fair market value of the valuation target, it is the fundamental basis for determining the current fair market value of assets – the expected profitability of assets and the value in use, which can fully reflect the overall value of the enterprise, and its appraisal conclusion shows good reliability and persuasiveness. As far as the applicable conditions of the income approach are concerned, according to the information provided by the enterprise and on-site assessment, the evaluated unit has suspended production since 2019 and has not been in normal production during that period. Since 2019, the Target Company has not obtained the safety production permit for coal mine production. From 2019 to 2022, the Target Company's coal mine had to suspend production due to expansion works. Until the expansion formalities are completed in May 2022, the trial production stage commences after obtaining government approval. During the shutdown period, although production was halted, a small quantity of engineered cut coal generated during the construction process was available for external sales and to generate revenue. The Target Company will bear fixed costs such as staff wages, custodian fees and depreciation during this period, which had an adverse effect impact on its profitability. As at the Valuation Date, the valuation target has ceased production due to the epidemic and other reasons. As at the Valuation Date, the valuation target has not obtained the safety production permit, and the enterprise is unable to provide a definitive plan for the resuming work, production and operation, making it challenging to reasonably quantify its future benefits and risks. Therefore, the income approach is not applicable for this appraisal.

9.1.3 Reasons for not choosing the market approach for appraisal: The market approach is to appraise the current fair market value of the appraised object with reference to the comparables in the real market. Its characteristics is adopting a direct perspective of valuation, intuitive evaluation process, direct evaluation data drawn from the market and strong persuasive appraisal results. However, the market method is not chosen. For reason 1: due to the lack of a fully developed and active capital market in China at present, it is difficult to accurately quantify and revise the similarity between comparable listed companies or transaction cases and appraised objects, so the accuracy of the appraisal results by the market approach is difficult to consider the value of the appraised object accurately, and the market approach evaluates the value based on the time-point impact of the capital market on the benchmark date without considering the impact of market periodic fluctuations. For reason 2: It is difficult to find sufficient examples of comparable corporate transactions that are identical or similar to the appraisal object in both the capital market and the property trading market.

Consequently, the asset-based approach was selected for this appraisal.

## **10. Introduction of the Appraisal Approaches**

The asset-based approach is based on the balance sheet of the appraisal object on the Valuation Date to assess all assets and liabilities on and off the balance sheet, if identifiable, so as to arrive at the value of the appraisal object.

The asset-based method is adopted for the valuation of enterprise value. The value of each asset shall be determined by adopting appropriate specific valuation methods according to its specific conditions. The selected valuation methods may differ from the specific valuation methods when it is considered as an individual asset valuation target, and its contribution to the enterprise value shall be considered.

### **(1) Specific Appraisal Methods for Current Assets**

The current assets of Tianxin Coal included in the appraisal scope include four items of monetary fund, prepayments, inventories and other current assets.

#### **1) Appraisal Approach for Monetary Funds**

Monetary funds refer to exchange mediums that can be readily utilized for purchasing goods or services and repaying debts, including cash, bank deposits, and other monetary funds. The specific appraisal methods are as follows:

- A. Cash: The appraised value is determined through a cash count with the actual deposit amount.

- B. Bank Deposits: Different amounts, measured at amortised cost, are deposited by enterprises with banks or other financial institutions. The appraisal value is determined through the verification of bank statements and letters and applied the verified carrying amount. Of which: foreign currency funds are converted to RMB based on the quoted foreign exchange rates as of the Valuation Date; time deposit accounts are valued by considering the principal amount with the accrued interest for the holding period.

**2) *Appraisal Approach for Prepayments***

Prepayments are payments made by enterprises to suppliers in advance pursuant to purchase agreements. The appraisal value is determined on the basis of the value of assets or rights formed by the corresponding goods that can be recovered. For recoverable goods or rights, the verified carrying amount is the appraisal value. Where solid evidence indicates that the goods are not recoverable and the prepayments are unable to form corresponding assets or equity, the appraisal value of the prepayment is zero. The amortised expenses in prepayments are assessed based on the value of assets and rights to which the enterprise is entitled after the Valuation Date. For the amortised expense items with the corresponding rights or values remaining after the Valuation Date, the appraisal value is determined based on the ratio of the original incurred amount and the remaining beneficial period to the total amortisation period.

**3) *Appraisal Approach for Inventories***

- A. Purchased inventories: mainly include raw materials, the appraisal value is determined by multiplying the verified quantity by the current purchase price of the market, and considering reasonable freight and miscellaneous expenses, wastage, acceptance, management and storage fees, and other expenses in the process of material purchase.
- B. Finished products: finished products can be assessed using the cost method and the market method. In this appraisal, the market method is adopted. The value of a finished product is determined based on the full cost of the products, and depending on its sales in the market, the value may be adjusted upward to reflect its profit or adjusted lower than the cost. For popular products, the appraisal value is their ex-factory prices less selling expenses and all taxes; for products that sell normally, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and an appropriate amount of net profit after tax; for products that have to be sold with great efforts, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and net profit after tax; for products that are unsalable, overstocked or have to be sold at lower prices, the net realizable value is taken as the appraisal value. Products issued by installment and entrusted for sale are appraised as finished products on the basis of verification of books of accounts, original certificates, and contracts.

**4) Other Current Assets**

Other current assets included input tax to be recognized. Its appraisal value is determined based on the verified carrying amount.

**(2) Specific Appraisal Methods for Non-Current Assets**

The non-current assets of Tianxin Coal included in the appraisal scope include five items of building assets, tunnel engineering, machinery assets, construction in progress and intangible assets.

**1) Appraisal Approach for Building Assets**

Valuation of self-built buildings and structures is mainly carried out using the cost method.

Appraisal value = Replacement cost × Integrated Newness Rate

**A. Determination of Replacement Price**

Replacement Cost = Construction and Installation Cost + Upfront and Other Expenses + Capital Cost – Deductible VAT

**(A) Determination of Construction and Installation Cost****a. Re-budgeting Method**

Re-budgeting Method: Calculate the construction and installation cost of major buildings and typical buildings as at the Valuation Date upon re-compilation of the checklist for the volume of work based on the construction completion documents and drawings of the to-be-assessed buildings, and in accordance with the prevailing standards of building construction budgetary quotas and fees in various places.

**b. Final Accounting Adjustment Method**

Final Accounting Adjustment Method: For buildings with completed drawings and project settlement documents, the analysis of the costs of each component of the comprehensive cost of the construction and installation works of the buildings is based on the confirmed quantities of works in the final account. The comprehensive cost of the construction and installation works of the buildings is adjusted based on the information on prices of labor and materials in the local market and the relevant charging documents as at the Valuation Date, and finally, the comprehensive cost of the construction and installation works is determined.



c. Analogy calculation approach

Analogy calculation approach is adopted for buildings (structures) without final account information. Under this approach, comparison is made between other buildings (structures) of the same structural type and such types of buildings (structures) to make adjustments for factors affecting the construction and installation cost due to the differences between the subject and comparable buildings (structures) in terms of professional standards of structure, decoration and ancillary facilities, thereby determining the construction and installation cost of other buildings (structures) of the same type.

d. Cost per square meter approach

Cost per square meter approach is adopted to determine the construction and installation cost of buildings (structures) with small value and simple structure.

(B) Determination of Other Expenses

Other expenses comprise two parts, namely government policy fees and construction unit management costs, including feasibility study fees, agent service fees for bidding, survey and design fees, project supervision fees and project construction management fees. According to the provisions in the document of the “Notice of the National Development and Reform Commission on Further Relaxation on Professional Services Charges for Construction Projects” (Fa Gai Jia Ge [2015] No. 299 issued by the National Development and Reform Commission), the governmental-guided prices for pre-construction consultancy fees, project survey and design fees, agent service fees for bidding and project supervision fees were relaxed to allow for market-driven adjustments. Since there is no market price standard, this appraisal still takes into consideration the standards stipulated in the abovementioned six items of fees in the government’s guideline documents. The reference basis is the total investment amount (excluding the land use rights) to determine the other expenses of the construction project. The current other expenses for the appraisal project’s location are as follows:

No.	Name of expenses	Calculation Basis	Tax- inclusive rate	Tax- exclusive rate	Reference Basis
1	Management cost of the contractor	Construction cost (including tax)	0.92%	0.92%	Cai Jian [2016] No. 504
2	Agent service fee for bidding	Construction cost (including tax)	0.07%	0.07%	Ji Jia Ge [2002] No. 1980
3	Project construction supervision cost	Construction cost (including tax)	1.50%	1.42%	Fa Gai Jia Ge [2007] No. 670
4	Project survey and design cost	Construction cost (including tax)	2.38%	2.25%	Ji Jia Ge [2002] No. 10
5	Feasibility study cost	Construction cost (including tax)	0.19%	0.18%	Ji Jia Ge [1999] No. 1283
	Sub-total		<b>5.06%</b>	<b>4.83%</b>	

**(C) Capital Cost**

Capital costs represent the interests or opportunity costs incurred in the construction of buildings. The capital cost is calculated for projects with a relatively large project cost and a construction period of more than three months. Projects with a construction period of less than three months are excluded from the calculation of capital costs.

The interest rate on capital costs is subject to the Loan Prime Rate (LPR) as at the Valuation Date announced on 20 February 2024 by National Interbank Funding Center with the authorisation of the People's Bank of China. It is calculated at the capital inputs evenly incurred in the construction period.

Capital Cost = Construction and Installation Cost (including tax) + Other Expenses (including tax) × Loan Interest × Construction Period × 1/2

The bank lending rate as at the Valuation Date announced by National Interbank Funding Center on 20 February 2024 with the authorisation of the People's Bank of China are set out below:

<b>Period</b>	<b>Annual Interest Rate</b> %
Within one year (inclusive)	3.45
Over five years	3.95

The bank lending rate of 3.70% per annum for the period of one to five years (inclusive) adopted for this appraisal was the average of the bank lending rates for RMB loans with a maturity of one year or less (inclusive of one year) and RMB Loans with a maturity of over five years as published by the PRC National Interbank Lending Centre as at 20 February 2024 as authorised by the People's Bank of China.

- (D) According to Cai Shui [2016] No. 36 "Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-Round Manner" (implemented since 1 May 2016), and based on the relevant requirements of the "Provisional Regulations on Value Added Tax of the People's Republic of China" (Order No. 538 of the State Council) and "Detailed Rules for Implementation of the Interim Regulations on the Value-Added Tax of the People's Republic of China" (Order No. 50 of the Ministry of Finance and the State Administration of Taxation), the input tax incurred by general VAT taxpayers from purchasing or manufacturing fixed assets can be deducted from the specific invoice for appreciation tax, specific payment letter on import appreciation tax issued by the Customs and the settlement receipt for transportation fees. The input tax of which is recorded under the item entitled "tax payable-value-added tax payable, input tax". Therefore,

$$\text{Deductible VAT} = \text{Construction and Installation Cost (including tax)} / 1.09 \times 0.09 + (\text{Upfront Cost (including tax)} - \text{Upfront Cost (excluding tax)})$$

*B. Determination of integrated newness rate*

For buildings (structures) with small unit value and relatively simple structures, the newness rate will be determined by age limit method with modifications according to the specific situations.

For high-valued and important buildings (structures), the newness rate will be determined comprehensively by scoring approach and useful life approach. The formula of its calculation is:

$$\text{Integrated newness rate} = \text{Newness rate over useful life} \times 40\% + \text{Newness rate by scoring approach} \times 60\%$$

(A) Newness Rate over Useful Life

The newness rate of buildings is calculated and determined based on the economic durability of the buildings, serviced life and remaining service life. The formula of its calculation is:

Newness rate over useful life (%) = remaining service life ÷ (serviced life + remaining service life) x 100%

(B) Newness rate by scoring approach

The appraisers conduct a site survey of the use condition of the valued buildings, investigate and understand the maintenance and renovation of the buildings, conduct site surveys of their main structural parts, renovation parts and facilities parts, and determines the newness rate by taking into account the damage condition of the buildings and the corresponding weighting factors for different structural parts.

Newness rate by scoring approach = total score for the structure x ratio + total score for decoration x ratio + score of equipment x ratio

**2) Appraisal Approach for Tunnel Engineering**

According to the features and the valuation purposes of the reported assets, cost replacement method was adopted to conduct valuation on the tunnel engineering.

Appraisal Value = Replacement Cost × integrated newness rate

A. *Determination of Replacement Cost*

Replacement Cost = Integrated cost + upfront and other expenses + capital cost

a. Comprehensive Cost

It was calculated according to the work amount of the project and the current coal quota and the charge standard.

Comprehensive Cost = Quota of Direct Cost + Quota of Auxiliary Cost + Comprehensive Fee + Price Difference + Regulation Fee + Tax – Deductible VAT Input Tax

Wherein:

Quota of Direct Cost – Select the quotas based on the construction method, rock hardness, excavation section (or net diameter), supporting method, supporting material, supporting thickness and other different contents according to the “Estimated Quotas for Tunnel Engineering Construction of Coal” (2007 base price), and adjusted according with applicable regulations;

Quota of Auxiliary Cost – Select the quotas based on the method of reclamation with the form of the shafts, the number of shafts, the layout of the mines, the gas content, the lithology of the roadways, the water inflow from the mines, the depth of the shafts, the total amount of works, excavation section (or net diameter), and supporting method according to the “Estimated Quotas for Tunnel Engineering Construction of Coal” (2007 base price), and adjusted according with applicable regulations;

Comprehensive Fee – Calculate according to the standards in the “Relevant Provisions on the Management of Cost Quota and Costs of Coal Construction Works” (Zhong Mei Xie [2007] No. 90) and considering the location of the mine;

Regional Price Difference – The regional price difference is a combination of the material price difference, the labour price difference and the machinery and equipment cost difference. The material price difference is based on the material prices for the third quarter of 2023 released by the local municipal construction committee’s standard quota station for basic construction; the labour price difference is based on the Yongmei Group’s standard for labour costs in the mines; and the machinery and equipment cost difference is based on the material prices for the third quarter of 2023 released by the local municipal construction committee’s standard quota station for basic construction and is determined in conjunction with the actual conditions of the site.

Regulation Fee – Calculate according to the “Regulations on Cost Quotas in Coal Construction Work and Other Associated Expenses in Coal Construction (As Revised)” (Zhong Mei Jian Xie Zi [2011] No. 72).

Tax – Calculate at 10% according to the notice of the “Adjustment Measures for the valuation of Coal construction Projects based on the Change of Business Tax to VAT in the Construction Industry” (Zhong Mei Jian Xie Zi [2016] No. 46).

b. Upfront and Other Expenses

Upfront and Other Expenses: It includes the management cost of the contractor, project supervision cost, design cost, joint trial run fee, environmental assessment fee, tendering agency fee and other costs. The reasonable upfront and other expenses for coal mines (companies) were calculated according to the relevant regulations including the “Regulations on Coal Construction Work Cost Quotas and Other Coal Construction Costs (As revised)” (Zhong Mei Jian Xie [2011] No. 72), “Notice on Issuing the Regulations on the Management of Charges for Project Survey and Design” (Ji Jia Ge [2002] No. 10 issued by the State Planning Commission and the Ministry of Construction), “Notice of Regulations on the Administration of construction project supervision service

fees” (Gai Jia Ge Zi [2007] No. 670 issued by the Ministry of Construction) and the “Notice on Reduction of Charging Standards for Certain Construction Projects and Standardization of Charging Methods” (Gai Jia Ge [2011] No. 537 issued by the National Development and Reform Commission).

c. Capital Cost

The reasonable capital cost during the construction period of the mine is estimated according to the reasonable construction period and the corresponding loan interest rate.

The capital is calculated based on the even input. The interest rate on loans is subject to the Loan Prime Rate (LPR) as at the Valuation Date announced on 20 February 2024 by National Interbank Funding Center with the authorisation of the People’s Bank of China.

B. *Determination of Integrated Newness Rate*

Unlike buildings (structures) on the ground, the tunnelling engineering of coal mines are special structures attached to the coal resources and are closely related to reserves mined at the mine. Their economic lives are reduced as more coal resources are mined; when the coal resources are mined out, their economic lives end.

Prior to the determination of the newness rate, the appraisers firstly looked up the geological report, the mine design information and the proof of mineral reserve assessment to understand the strata, stratum properties, supporting methods of various underground roadways and the influence of geological structure and mining on roadways; secondly, they checked the supporting condition and maintenance condition of such roadway on the site, learned and checked the maintenance records, time and methods from the on-site engineers and technicians; thirdly, they calculated the serviced life based on the completion date of various types of roadways, and then calculated the serviceable life of various types of roadways based on the mine geological reserves, industrial reserves and recoverable reserves provided by the geological survey department according to levels, coal seams and mining areas.

Integrated Newness Rate = Remaining Service Life ÷ (Serviced Life + Remaining Service Life) x Local modification positive coefficient x 100%

3) *Appraisal Approach for Machinery Assets*

The machinery assets included in the appraisal scope include three major items of machinery and equipment, transportation equipment and electronic devices.

According to the purpose of this appraisal, according to the principle of continuous use in situ, based on the market price, combined with the characteristics of the equipment and the information collected, the cost approach is mainly used to appraise the machinery assets.

Appraisal Value = Replacement Cost x Integrated Newness Rate

A. *Appraisal Approach for Machinery and Equipment*

In this appraisal, the machinery and equipment included in the appraisal scope include general equipment and non-standard equipment.

(A) Determination of Replacement Price

Replacement Cost = Purchase Price + Transportation and Miscellaneous Expenses + Installation and Commissioning Cost + Basic Fees + Other Expenses + Capital Cost – Deductible VAT

A) Determination of the Purchase Price of Equipment

It is mainly determined by making inquiries from manufacturers or trading companies, consulting the “2018 Mechanical and Electrical Products Quotation Manual” and referring to the current contract prices of similar equipment. Due to the substantial number of machinery and equipment, it was not feasible to conduct price enquiries on all of the equipment during the appraisal. As a result, for a few pieces of equipment where the appraiser cannot determine the purchase price, the price change rate of equipment with the same age and category will be calculated and determined. Such treatment complies with the requirements of asset valuation standards.

B) Determination of Transportation and Miscellaneous Expenses

Equipment transportation and miscellaneous expenses mainly include freight, loading and unloading charges, insurance charges and other charges. Generally, they are based on the purchase price of the equipment, considering factors such as the distance between the manufacturer and the location of the equipment, the weight of the equipment and the size of the equipment, and are calculated according to different transportation and miscellaneous charge rates. If the equipment cost already includes transportation and miscellaneous expenses, the calculation will not be repeated.

C) Determination of the Installation and Commissioning Cost

The installation and commissioning costs are determined based on the characteristics, weight, and installation complexity of the equipment, and are charged at varying rates corresponding to the purchase price. If the equipment that does not require installation and commissioning, or if the installation and commissioning costs have already included in the equipment fee, no additional installation and commissioning costs will be charged.

D) Determination of Basic Fees

Regarding the basic equipment needed, a certain basic rate shall be considered according to the actual situation of the equipment, provided that no double counting occurs in the accounting of buildings.

E) Determination of Other Expenses

Other expenses comprise two parts, namely government policy fees and construction unit management costs, including feasibility study fees, agent service fees for bidding, survey and design fees, project supervision fees and project construction management fees. According to the provisions in the document of the “Notice of the National Development and Reform Commission on Further Relaxation on Professional Services Charges for Construction Projects” (Fa Gai Jia Ge [2015] No. 299 issued by the National Development and Reform Commission), the governmental-guided prices for pre-construction consultancy fees, project survey and design fees, agent service fees for bidding and project supervision fees were relaxed to allow for market-driven adjustments. Since there is no market price standard, this appraisal still takes into consideration the standards stipulated in the abovementioned six items of fees in the government’s guideline documents. The reference basis is the total investment amount (excluding the land use rights) to determine the other expenses of the construction project. The current other expenses for the appraisal project’s location are as follows:



No.	Name of expenses	Calculation Basis	Tax- inclusive rate	Tax- exclusive rate	Reference Basis
1	Management cost of the contractor	Construction cost (including tax)	0.92%	0.92%	Cai Jian [2016] No. 504
2	Agent service fee for bidding	Construction cost (including tax)	0.07%	0.07%	Ji Jia Ge [2002] No. 1980
3	Project construction supervision cost	Construction cost (including tax)	1.50%	1.42%	Fa Gai Jia Ge [2007] No. 670
4	Project survey and design cost	Construction cost (including tax)	2.38%	2.25%	Ji Jia Ge [2002] No. 10
5	Feasibility study cost	Construction cost (including tax)	0.19%	0.18%	Ji Jia Ge [1999] No. 1283
6	Sub-total		<b>5.06%</b>	<b>4.83%</b>	

#### F) Determination of Capital Cost

Based on the reasonable construction period of the project, the capital cost is calculated subject to the Loan Prime Rate (LPR) as at the Valuation Date announced on 20 February 2024 by National Interbank Funding Center with the authorisation of the People's Bank of China. The capital cost is calculated based on the even input. Its inclusive projects are calculated on a tax-inclusive basis.

#### G) Deductible VAT

In accordance with the provisions of documents such as the Cai Shui [2008] No.170, Cai Shui [2013] No.106, Cai Shui [2016] No.36 and Announcement [2019] No.39 by Ministry of Finance, State Taxation Administration and General Administration of Customs, on the Valuation Date, the input tax incurred from purchase or self-manufactured fixed assets by ordinary appreciation tax payers could be deducted from the output tax with the specific invoice for appreciation tax, specific payment letter on import appreciation tax issued by the Customs and the settlement receipt for transportation fees. The input tax of which is recorded under the item entitled "tax payable-value-added tax payable, input tax". Therefore,

$$\begin{aligned} \text{Deductible VAT} = & \text{Purchase Price of Equipment} \times 13\% / (1 + 13\%) \\ & + (\text{Transportation and Miscellaneous Expenses} + \text{Installation and} \\ & \text{Commissioning Cost} + \text{Basic Fees}) \times 9\% / (1 + 9\%) + \text{Deductible} \\ & \text{Amount of Other Costs} \end{aligned}$$

(B) *Determination of Integrated Newness Rate*

The major equipment adopts the integrated newness rate with its calculation method as follows:

Integrated Newness Rate = Newness Rate over Useful Life × 40% +  
Newness Rate by Scoring Approach × 60%

A) *Determination of Newness Rate over Useful Life*

The newness rate of equipment is calculated and determined based on the economic durability of the equipment (or remaining service life) and serviced life.

Newness Rate over Useful Life (%) = Remaining Service Life ÷  
(serviced life + remaining service life) × 100%

For equipment that has exceeded its service life but can still function adequately, the determination of its newness rate follows the industry's code of practice, ensuring it is not set below 15%.

B) *Newness Rate by Scoring Approach*

The determination of the newness rate by scoring approach is mainly based on the actual condition of the enterprise equipment. It considers factors such as the technical state of the equipment, the working environment, and maintenance, and through a comprehensive on-site survey of the equipment, each part is scored individually to determine the newness rate by scoring approach.

For equipment with a low-value, lightweight, and simple structure that is in normal use, the newness rate is determined using the useful life method, which primarily considers the duration of usage with maintenance and repair activities.

B. *Valuation Approaches of Vehicles*

(A) *Determination of Replacement Cost*

The replacement cost of the appraised vehicles is determined by analysing and determining the purchase price of new vehicles in the local area on the Valuation Date through methods such as market enquiry and less deductible VAT in accordance with national policies. The formula of its calculation is:

Replacement Cost = Vehicle Purchase Price (excluding VAT) + Vehicle Purchase Tax + Production Cost of New Car License

Vehicle purchase tax = non-taxable sales price of vehicles × 10% tax rate

Other expenses comprise industrial and commercial transaction fees, vehicle inspection fees and license fees, which are calculated at RMB300.00.

(B) Determination of Integrated Newness Rate

With reference to the national mandatory vehicle scrapping standards, the theoretical newness rate is determined based on the lower of the mileage or the service life of the vehicle, and then adjusted to account for factors such as the vehicle's manufacturing quality, operating conditions and on-site investigation. The formula of its calculation is:

Newness Rate over Useful Life = (economic service life – serviced life) ÷ economic service life × 100%

Newness rate of mileage = (economic travelled mileage – travelled mileage) ÷ economic travelled mileage × 100%

Theoretical Newness Rate = MIN(Newness Rate over Useful Life, newness rate of mileage)

Integrated Newness Rate = MIN(Newness Rate over Useful Life, Newness rate of mileage) × 40% + Newness Rate under the Observation Method × 60%

Valuation of Vehicles with Earlier Purchase Period Using the Market Approach

The market comparison method is a method of estimating the price of a vehicle to be appraised by comparing it to similar vehicles with substitutability and recently traded on the market during the valuation period, and making differential adjustments to the transaction prices of similar vehicles in accordance with the substitution principle. The basic formula is as follow:

$$P = PB \times A \times B \times C \times D \times E$$

Wherein:

P – Price of the vehicle to be appraised;

PB – Price of the comparison case;

A – The vehicle transaction index to be appraised divided by the vehicle transaction index of the comparison case vehicle;

B – The price index on the valuation period of the vehicle to be appraised divided by the price index on the transaction date of the vehicle of the comparison case;

C – The technical condition index of the vehicle to be appraised divided by the technical condition index of the comparison case;

D – The mileage index of the vehicle to be appraised divided by the mileage index of the comparison case;

E – The useful life correction index of the vehicle to be appraised divided by the useful life of the comparison case.

C. *Appraisal Approach for Electronic Equipment*

(A) Determination of Replacement Cost

Electronic equipment primarily consists of office equipment. The distributors undertake the delivery, installation and commissioning of such equipment. Their replacement cost is determined directly based on its market purchase price. The formula of its calculation is:

Replacement Cost = Purchase Price – Deductible VAT

(B) Determination of Newness Rate

The rate of the electronic equipment is determined based on the newness rate over useful life.

Newness Rate over Useful Life = remaining service life ÷ (serviced life + remaining service life) x 100%

**4) Appraisal Approach for Constructions in Progress**

Construction in progress is assessed using the cost approach. To avoid double count or omission of assets in the appraisal, the following approach applies to constructions in progress, depending on the nature and condition of each construction in progress:

- A. Constructions that have been completed as at the Valuation Date for which construction payment has been fully settled or the construction payable has been recognized are assessed using the valuation method of fixed assets.
- B. Where main facilities or main structure of buildings is converted to fixed assets, but some expenses are not converted, if the value is covered in the appraisal of fixed assets, the appraised value of the construction in progress are taken as zero.
- C. Unfinished Projects
  - (A) Where the construction commenced within half a year from the Valuation Date, the appraised value of constructions in progress is the verified value declared, net of unreasonable expenditure.
  - (B) Where the construction commenced more than half a year ago from the reference date, and is going on properly, if changes in the prices of equipment, materials, labor and others involved in the investment during this period of time are not material, the appraised value is the carrying value net of unreasonable expenditure plus an appropriate amount of capital cost; where material changes in the prices of equipment, materials, labor and others have taken place, the replacement value is determined based on all costs that would be incurred to reproduce the completed workload of the construction in progress on the reference date under normal situation; where serious physical obsolescence and depreciation, functional obsolescence and depreciation and economic obsolescence and depreciation are obvious, the amount of depreciation is required to be deducted; otherwise, the amount of depreciation is zero.

D. For amortized expenses, if they are verified to be necessary for future construction projects, the verified carrying amount will be used as the assessed value, otherwise they are assessed at zero.

5) **Specific Valuation Methods of Intangible Assets**

The intangible assets reported by the enterprise include one land use right and one mining right.

A. *Land Use Right*

The valuation methods adopted in land valuation complies with the requirements and the application conditions stipulated in the “Regulations on the Evaluation of Urban Land”, and is in line with the valuation purpose. The valuation methods adopted in this valuation were determined pursuant to the “Regulations on the Evaluation of Urban Land” and based on the development status of local real estate market, the specific characteristics of the valuation subject and the valuation purpose. The common valuation methods include market comparison approach, income capitalization approach, cost approximation approach, residue approach and benchmark land premium coefficient correction approach. Based on the on-site survey and analysis by the valuers, the cost approximation approach and market approach were adopted in the valuation.

(A) Cost Approximation Method

The cost approximation method refers to the appraisal method for confirmation of the land price primarily based on the sum of various expenses consumed for development of land, plus a certain amount of profit, interest, taxes payable and land appreciation gain. The basic calculation formula of the cost approximation method is as follow:

$$\text{Land Price} = (\text{Land Acquisition Cost} + \text{Land Development Cost} + \text{Tax and Surcharge} + \text{Interest} + \text{Profit} + \text{Land Appreciation Gain}) \times (1 + \text{Locational Correction Coefficient}) \times \text{Correction Coefficient Of Tenure}$$

A) Prices of Land Use Rights with Infinite Term

$$V_n = E_a + E_d + T + R_1 + R_2 + R_3$$

Wherein:  $V_n$ : Price of land use rights with infinite term

$E_a$ : Land acquisition cost

$E_d$ : Land development cost

T: Tax and surcharge

R1: Interest

R2: Profit

R3: Land appreciation

B)Prices of Land Use Rights with Finite Term

$$VN=Vn \times 1 - 1/(1 + r)^n$$

Wherein: VN: Prices of land use rights with finite term for the land parcels to be appraised

Vn: Prices of land use rights with infinite term

r: Land restoration rate

The locational correction coefficient is determined based on the comprehensive analysis of the specific location of the land parcel.

## 11. Significant Use of Expert Work and Relevant Reports

11.1. The data reported in this valuation is quoted from the data in the Huaqin Hui Shen Zi (2024) No. 0416 Audit Report, audited and issued by the Henan Huaqin Joint Accounting Firm (General Partnership).

11.2 Quoted data from the Zhongshenghua Mining Ping Zi [2023] No. 1-016 “Manas Tianxin Coal CO., LTD Coal Mine Mining Rights Assessment Report” dated 18 December 2023 issued by Zhongshenghua Asset Appraisal Co, Ltd.. The report is described as follows:

11.2.1 Valuation Conclusion: After valuation and estimation, it was determined that the appraisal value of the mining rights of “Manas Tianxin Coal CO., LTD Coal Mine” as at the Valuation Date is RMB933,161,400 (the proceeds from the assignment of mining rights corresponding to the resource reserves that were disposed of without compensation amounted to RMB18,375,000). Of the 159,713,000 tonnes of resources utilized in this valuation, 46,275,000 tonnes have been disposed of with compensation for the mining rights (according to the Mining Rights Transfer Contract (2021) No. 22, the usable reserves (resources) amounted to 46,275,100 tonnes and the proceeds from the assignment of mining rights amounted to RMB207,010,300. As required in the contract, owners of the mining rights shall pay the proceeds from the assignment of mining rights to the assignor in 15 instalments). As of the Valuation Date, proceeds from the assignment amounting to RMB53,220,000 have been paid. The amount of resources corresponding to the paid assignment proceeds as at the Valuation Date was 11,896,800 tonnes, with a remainder of 34,378,300 tonnes for which the proceeds from the assignment have not been paid, and 113,437,900 tonnes have not been disposed of

with compensation and have not been subject to the calculation of the proceeds from the assignment of mining rights). According to article 15 of the Tax Levy and Collection Methods for Income from Mineral Rights Transfers (Cai Zong [2023] No. 10) implemented by the Ministry of Finance, the Ministry of Natural Resources and the State Administration of Taxation from 1 May 2023, “for the mining rights that have been established and disposed of with compensation, when utilizing the resource reserves within the scope of the mining rights that have not been disposed of with compensation, the proceeds from the assignment of mining rights shall be levied in accordance with the following principles by comparing to the assign methods in the agreement: the types of minerals listed in the “Catalogue of Minerals”, proceeds from the assignment of mineral rights shall be levied on an annual basis according to the rate of proceeds from the assignment of mineral rights at the time of selling the mineral products.” Coal mines are mineral types listed in the “Catalogue of Minerals”. The rate of proceeds from the assignment of mineral rights is 2.4%. Therefore, the remaining undisposed resources are required to collect proceeds from the assignment of mining rights on an annual basis after the 57.55 years since the Valuation Date based on the rate of proceeds from the assignment of mineral rights. The total amount is RMB523,525,200, discounted to RMB18,375,000 as at the Valuation Date based on the discount rate of this appraisal.

#### 11.2.2 Key Parameters of the Appraisal:

As of the Valuation Date, the mining right certificate of “Manas Tianxin Coal CO., LTD Coal Mine” (Certificate No.: C6500002021041110151945) has 158,657,000 tonnes of resource reserves (83,024,000 tonnes of proved resources (111b), 30,660,000 tonnes of controlled resources (122b) and 44,973,000 tonnes of inferred resources (333) and 101,658,300 tonnes of mineable reserves. The assessed production scale of this Valuation is 900,000 tonnes/year, with a reserve factor of mine reserves of 1.4. The assessed service term is 80.68 years with a construction period of 0.42 years. The service term set for the Valuation is 81.10 years; the investments of fixed assets (including tax) amounted to RMB989,807,200, the unit production cost amounted to RMB189.47/tonnes; the selling price of cleaned coal (excluding tax) amounted to RMB586.04/tonnes, the selling price of medium coal (excluding tax) amounted to RMB120/tonnes, and the selling price of coal slime (excluding tax) amounted to RMB50/tonnes. The mining method is underground mining, and the discount rate is 8.00%.

According to “Guiding Opinions on Determination of Mineral Rights Valuation Parameters” (《礦業權評估參數確定指導意見》) (IVS30800-2008), the discount rate is the rate at which expected returns are discounted to present value. This rate is generally composed of the risk-free return rate and the risk return rate.



(1) *Risk-free Return Rate*

The risk-free return rate, being the safe return rate, can usually be determined by reference to the interest rate of medium-to-long-term treasury bonds or the interest rate of bank deposits for the same period. The proposed risk-free return rate in the “Guiding Opinions on Determination of Mineral Rights Valuation Parameters” can be determined by selecting the coupon rate of the long-term treasury bonds most recently issued prior to the Valuation Date, the weighted average of the interest rates of the long-term treasury bonds issued in the last few years, and the interest rate of 5-year time deposits announced by the People’s Bank of China closest to the Valuation Date. With the frequent adjustments to bank deposit rates in 2015 and the gradual marketisation of interest rates, it is no longer appropriate to apply deposit rates as a basis for deriving the risk-free return rate. Therefore, the risk-free return rate for the valuation was determined by referencing the weighted average of the 5-year coupon rates of savings bonds (electronic) actually issued by the Ministry of Finance in the five years preceding the Valuation Date.

Upon enquiry by the appraisers, the weighted average of the 5-year coupon rates of savings bonds (electronic) actually issued by the Ministry of Finance in the five years preceding the Valuation Date was calculated to be 3.70%. Accordingly, the risk-free rate of return for this valuation was determined at 3.70%.

(2) *Risk Return Rate*

The risk return rate includes the risk return rate in the exploration and development stage, the return rate of industry risk, the return rate of financial and operational risk, and the return rate of other individual risks. With reference to the range for the risk return rate stipulated in the “Guiding Opinions on Determination of Mineral Rights Valuation Parameters” (IVS30800-2008), and considering the actual situation of the mine, the values for each of the items in this evaluation are as follows:

(3) *Risk Return Rate for the Exploration and Development Stage*

The mine has undergone refurbishment and expansion, and the risk return rate for the exploration and development stage ranges between 0.15 and 0.65%. During the valuation, it was determined that the risk return rate for the exploration and development stage falls within the middle of the specific range at 0.40%.

(4) *Return Rate of Industry Risk*

The prescribed range for the return rate of industry risk is between 1.00% and 2.00%. Industry risk refers to the risk arising from the uncertainty that caused by factors such as industry market characteristics and investment characteristics. The specific value varies based on the type of mine. In the case of this project, which involves coal mining, the demand for coal is relatively stable. The return rate of industry risk for this valuation is determined at 1.50% by considering the local market demand.

(5) *Return Rate of Financial and Operational Risk*

The return rate of financial and operational risk includes two aspects: external financial risk that impacts the enterprise's financial situation and internal operational risk that arises within the enterprise. The financial risk is related to the risk of the enterprise's capital flow, liquidity and income distribution, including the interest rate risk, the exchange rate risk, the purchasing power risk and the tax rate risk. Operational risk encompasses the uncertainties arising from market demand, key supply and demand factors, comprehensive development, and enterprise management within the internal operation process of the enterprise, ranging between 1 and 1.5%. It is determined that the return rate of financial and operational risk falls within the middle of the specific range at 1.2%.

(6) *Return Rate of Other Individual Risks*

The return rate for other individual risks falls under the category of non-systematic risk, which mainly considers various non-systematic risks other than financial and operational risks, such as the geographical location of the mine, the size of the enterprise, the duration since its establishment, management control, human resources, and incidental factors, ranging between 0.5 and 2.00%. The return rate of other individual risks was taken as 1.20% for the purpose of this valuation. The risk-return rate is estimated to be 4.30% by applying the risk-accumulation approach. The risk return rate is the sum of the risk return rate for the exploration and development stage, the return rate of industry risk, the return rate of financial and operational risk, and the return rate for other individual risks, i.e.  $4.3\% = 0.40\% + 1.50\% + 1.2\% + 1.20\%$ .

After giving due consideration to the specific business risks of the enterprise during this valuation, the discount rate for the valuation was finally determined to be 8.00%.

11.2.3 Special Notes

- 1) According to the Mining Right Transfer Contract (2021) No. 22, the usable reserves (resources) amounted to 46,275,100 tonnes and the proceeds from the assignment of mining rights amounted to RMB207,010,300. As required in the contract, owners of the mining rights shall pay the proceeds from the assignment of mining rights to the assignor in 15 instalments. As of the Valuation Date, proceeds from the assignment amounting to RMB53,220,000 have been paid. The amount of resources corresponding to the paid proceeds from the assignment as at the Valuation Date is 11,896,800 tonnes, with a remainder of 34,378,300 tonnes for which the proceeds from the assignment have not been paid. This Valuation did not take into account the effects of unpaid proceeds from the assignment for the resources entrusted for the valuation to the assessed value. Principals, owners of mining rights and other relevant parties are advised to exercise caution when using this valuation report.

- 2) The resources within the scope of the mining right certificate contain a reserve of 159,713,000 tonnes, in which the resource reserves that were disposed of with compensation amounted to 46,275,100 tonnes and the undisposed resource reserves amounted to 113,437,900 tonnes. The proceeds from the assignment of mining rights that were disposed of without compensation amounted to RMB18,375,000 (The proceeds from the assignment amounted to RMB523,525,200 in aggregate, discounted to RMB18,375,000 as at the Valuation Date based on the discount rate of this Valuation). In the event of any differences between the proceeds from the assignment of mining rights corresponding to the actual payment of resource reserves that were subsequently disposed of without compensation and the above amount, the actual amount shall prevail. Principals, owners of mining rights and other relevant parties are advised to exercise caution when using this Valuation Report.
- 11.3 The Valuation Date of the valuation in the “Manas Tianxin Coal CO., LTD Coal Mine Mining Rights Assessment Report” is 31 October 2023, and the Valuation Date of this Valuation is 29 February 2024. The principal has made enquiries with the appraised entity and Zhongshenghua Asset Appraisal Co., Ltd that both Valuation Date are relatively close. The data for the mineable reserves utilized during both benchmark dates was 8,200 tonnes, which has minimal effect on the mining rights, and there is no significant changes in other relevant parameters. It is confirmed that quoting the data from this report will not have a great impact on the conclusion of this appraisal, therefore the valuation conclusions of the mineral rights report is directly quoted and the proceeds from the assignment of mining rights corresponding to the resource reserves that were disposed of without compensation of RMB18,375,000 is deducted. The value of the mining rights in this appraisal is RMB914,786,400, without taking into account the impacts of inconsistencies as at the Valuation Date to the valuation conclusions. The responsibility for this quotation shall be borne by the principal, Neither the valuer nor the evaluation agency shall be liable for such quotation.

Save for the above, there was no reference to the conclusions of reports issued by other institutions.

**12. Valuation Assumptions**

Due to the changes in the operating environment of the enterprise and the changing factors affecting the value of assets, it is necessary to establish some assumptions in order to appraise the value of assets by professionals and fully support our conclusion of the appraisal. This appraisal is based on the following premises and assumptions:

**12.1 General Assumptions*****12.1.1 Transaction Assumption***

The transaction assumption assumes that all assets to be appraised are in the process of transaction, and the valuers conduct the valuation based on a simulated market according to the transaction conditions, etc. of the assets to be appraised. Transaction assumptions is the most fundamental premise assumption for the further implementation of the asset valuation.

***12.1.2 Open Market Assumption***

The open market assumption is to assume that with respect to the asset traded or to be traded in the market, the transacting parties are in equal position and have opportunities and time to access sufficient market information so as to make a rational judgment on the function, purpose and transaction price of assets. The open market assumption is made on the basis that the assets can be traded openly in the market.

**12.2 Special Assumptions**

12.2.1 This appraisal is premised on the specific appraisal purpose listed in this asset appraisal report;

12.2.2 Assumption of no significant change: It is assumed that there will be no major changes in the current laws and regulations of the country and the macroeconomic situation of the country, and that the external economic environment such as interest rate, exchange rate, tax benchmark and tax rate, and policy-based fee collection will not change unpredictably;

12.2.3 Assumption of no adverse effects: It is assumed that no other force majeure or unforeseeable factors will have a significant adverse impact on the assets and liabilities to be appraised of the appraised entity;

12.2.4 Assumption of continuous use of assets: It is assumed that the appraised assets will continue to be used in accordance with the current use and the mode, scale, frequency and environment of use, without taking into account the respective optimal use of each asset;

12.2.5 Assumption of data authenticity: It is assumed that the financial reports and transaction data of the comparable companies relied on by the valuers are true and reliable. The relevant basic information and financial information provided by the appraised entity and the client are true, accurate and complete;

12.2.6 The scope of the appraisal is only based in the valuation declaration form provided by Tianxin Coal, without taking into account the contingent assets and contingent liabilities that may exist outside the list provided by Tianxin Coal;

In the event of any inconsistency with the aforesaid assumptions, the appraisal results will generally become invalid.

**13. Valuation Conclusion:** After the implementation of the valuation procedures, as at the Valuation Benchmark Date, the valuation conclusion under the asset-based approach based on the assumption of going concern for the total shareholders' equity of Tianxin Coal:

The carrying amount of the total assets is RMB1,246,679,400 and the appraisal value is RMB1,787,745,400, representing an appreciation of RMB541,066,000 or 43.40% over the carrying amount; the carrying amount of the total liabilities is RMB626,017,400 and the appraisal value is RMB626,017,400, with no increase or decrease in value; the carrying amount of the net assets (all of the shareholders' equity) is RMB620,662,000 and the appraisal value is 1,161,728,000, representing an appreciation of RMB541,066,000 or 87.18% over the carrying amount.

## Summary Form of the Asset-Based Method Results

Appraised Object: Tianxin Coal

Unit: RMB10,000

Item		Carrying amount	Appraisal Value	Increase/ decrease in value	Increase (decrease) ratio %
				C=B-A	D=C/ A×100%
		A	B		
Current assets	1	5,966.13	4,817.35	-1,148.78	-19.26
Non-current assets	2	118,701.81	173,957.19	55,255.38	46.55
Including: Fixed assets	3	80,297.99	68,725.05	-11,572.94	-14.41
Construction in progress	4	13,899.49	12,525.53	-1,373.96	-9.88
Intangible assets	5	24,504.33	92,706.61	68,202.28	278.33
Total assets	6	124,667.94	178,774.54	54,106.60	43.40
Current liabilities	7	42,527.00	42,527.00	0.00	0.00
Non-current liabilities	8	20,074.74	20,074.74	0.00	0.00
Total liabilities	9	62,601.74	62,601.74	0.00	0.00
Net assets	10	62,066.20	116,172.80	54,106.60	87.18

*Note:* the reasons for the differences between the carrying values and the appraisal values of fixed assets, construction in progress, intangible assets and current assets are as follow:

**Fixed Assets**

- (i) The increase of the original appraisal values of buildings and structures, mainly due to the increase in construction materials and payroll expenses at the time of the Valuation Date. The increase of net appraised value was due to the combined effects of the increase of the original appraised value and the economic service lives of buildings were higher than their accounting lives.
- (ii) The appraised decrease in the value of tunnel engineering, which was due to the unreasonable composition of the book value of tunnel engineering, which has a relatively high cost. This valuation was conducted under reasonable circumstances, resulting in the impairment of the appraisal.
- (iii) The increase in the original appraisal values of machinery and equipment, mainly attributable to the increase in the equipment and materials. The increase in the net appraised value was due to the increase in material prices and the fact that the accounting depreciation lives of enterprises were shorter than the economic durable lives.
- (iv) The decrease in the original appraisal value of vehicles due to the decline in the market price trend of vehicles. The increase in the net appraised value was due to the fact that the accounting depreciation lives of enterprises were shorter than the economic durable lives.

- (v) The decrease of the original values of electronic devices, which was mainly attributable to (a) the drop in the prices of electronic devices and (b) certain electronic devices were appraised based on second-hand prices of the devices. The increase in the net appraised value was due to the fact that depreciation lives in enterprise accounting were shorter than the economic durable lives.

As stated above, the decrease in the appraisal value of fixed assets compared with the carrying amount is mainly due to the decrease of the value of the tunnel engineering in the valuation. The Valuer values the tunnel engineering at less than the carrying value on the account of its unreasonable composition and excessively high cost, which led to the fixed assets' appraised value lower than its' carrying value.

### **Construction in Progress**

The decrease in the value of construction in progress was mainly due to the fact that certain main components of the construction in progress have been completed and converted into fixed assets. Under the terms of the construction in progress, the appraisal value of such component in the construction in progress was nil.

### **Intangible Assets**

- (i) The increase in the value of land use rights was mainly due to the following reasons: (a) the carrying value of lands was the balance after amortization; (b) lands are non-renewable resources and the overall trend of land prices is increasing with the changes in economic development.
- (ii) The increase in the value of mining rights was mainly due to the following reasons: (a) the carrying value of mining rights was the balance after amortization; (b) mining rights are non-renewable resources and the overall trend of mining right prices is increasing with the changes of economic development.

The appraisal value of intangible assets amounted to RMB927,066,100, which is the sum of the appraisal value of land use rights of RMB12,279,700 and the appraisal value of mining rights of RMB914,786,400. The appraisal value of land use rights was assessed using two methods, the cost approximation approach and the market approach, and was calculated with reference to the average of the results derived from each of those two methods. The appraisal value of the mining rights was determined based on the valuation of the mining rights of RMB933,161,400 as set out in the mining rights report less the disposal gain of the mining rights of RMB18,375,000 from the disposal of outstanding resources reserves.

### **Current Assets**

The decrease in the value of current assets was mainly due to the decrease in the value of inventories and finished goods, which was attributed by the excessively high book costs.

## 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 aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or this circular misleading.

Where information contained in this circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from these sources and/or reproduced in this circular in its proper form and context.

## 2. DISCLOSURE OF INTERESTS

### (I) Disclosure of Directors' and Chief Executive's Interests

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the Shares, based on the information in the register maintained by the Company in accordance with Section 164 of the Companies Act and Section 352 of the SFO, are set out below:

	Beneficial Interest		Deemed Interest	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
<b>Directors</b>				
Mr. Liu Xingxu	600,000	0.05	426,344,999 <sup>(a)</sup>	35.11
Ms. Yan Yunhua	300,000	0.02	255,966,000 <sup>(b)</sup>	21.08
Mr. Ong Kian Guan	100,000	0.01	—	—

*Notes:*

- (a) These Shares were held by Pioneer Top. Mr. Liu Xingxu beneficially owned 42% of the equity interest in Pioneer Top Holdings Limited, and is irrevocably granted the absolute discretion to exercise the voting rights and the rights to the day-to-day management of Pioneer Top Holdings Limited.
- (b) 44,026,152 Shares are held by Rosy Top Limited, which is 100% owned by Ms. Yan Yunhua. Mirth Power Limited is a trust vehicle which holds 211,939,848 Shares for a total of 1,245 beneficiaries who are the employees of the Group, pursuant to a trust agreement dated 12 September 2023. Additionally, Ms. Yan Yunhua is the settlor of the said employee trust. Pursuant to the said trust agreement, Ms. Yan Yunhua has the absolute discretion to exercise the voting rights held by Mirth Power Limited in the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 164 of the Companies Act and Section 352 of the



SFO or which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers.

## (II) Disclosure of Substantial Shareholders' Interests

As at the Latest Practicable Date, the following parties had interests of 5% or more in the issued Shares and underlying Shares, according to the register of interests required to be kept by the Company pursuant to Section 88 of the Companies Act and Section 336 of the SFO:

### Long positions

Name of substantial shareholders	Capacity	Number of issued ordinary Shares interested	Approximate percentage of the Company's issued share capital
Pioneer Top Holdings Limited <sup>(a)</sup>	Beneficial owner	426,344,999	35.11%
Teeroy Limited <sup>(b)</sup>	Trustee	211,939,848	17.45%
Mirth Power Limited <sup>(b)</sup>	Beneficial owner	211,939,848	17.45%

\* The shareholding percentage represents the number of issued ordinary shares interested divided by the number of the issued Shares as at the Latest Practicable Date.

#### Notes:

- (a) Pioneer Top Holdings Limited is an investment holding company established in the BVI. Mr. Liu Xingxu, the Chairman of the Board and an executive Director of the Company as at the Latest Practicable Date, beneficially owned 42% of the equity interest in Pioneer Top Holdings Limited. Mr. Liu Xingxu has the absolute discretion to exercise the voting rights held by Pioneer Top Holdings Limited in the Company.
- (b) Mirth Power Limited is a trust vehicle which holds 211,939,848 Shares for a total of 1,245 beneficiaries who are the employees of the Group, pursuant to a trust agreement dated 12 September 2023. Teeroy Limited is trustee of the said employee trust. None of the 1,245 beneficiaries holds more than 5% interest in the trust. Additionally, Ms. Yan Yunhua is the settlor of the employee trust. Pursuant to the said trust agreement, Ms. Yan Yunhua has the absolute discretion to exercise the voting rights held by Mirth Power Limited in the Company.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors and chief executive of the Company whose interests are set out in the section headed "Disclosure of Directors' and Chief Executive's Interests" above, had an interest or a short position in the underlying shares or debentures of the Company that was required to be recorded in the register maintained by the Company pursuant to Section 88 of the Companies Act and Section 336 of the SFO.

**3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any subsidiary of the Group which will not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

**4. DIRECTORS' INTEREST IN ASSETS**

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any asset which has since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Group were made up), up to the Latest Practicable Date, been acquired or disposed of by or leased to, any subsidiary of the Group or are proposed to be acquired or disposed of by, or leased to, any subsidiary of the Group.

**5. DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE**

No Director and/or his/her respective close associates had a material interest, either directly or indirectly, in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

**6. COMPETING INTERESTS**

As at the Latest Practicable Date, as far as the Directors are aware, none of the Directors, the proposed Directors nor their respective close associates is and was interested in any business which competes or may compete, either directly or indirectly, with the business of the Group.

**7. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**8. MATERIAL CONTRACTS**

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by subsidiaries of the Group within the two years preceding the date of this circular and up to the Latest Practicable Date and are or may be material:

- (i) the Definitive Transaction Documents;
- (ii) the Framework Agreement;

- (iii) On 19 January 2024, Jiangxi Xinlianxin Chemical Co., Ltd. (a subsidiary of the Company) (“**Jiangxi XLX**”) entered into a capital contribution agreement with the original shareholder (Henan Xinlianxin Chemical Group Co., Ltd. (“**Henan XLX**”) and ABC Financial Asset Investment Co., Ltd (“**ABC Financial**”), pursuant to which ABC Financial agreed to subscribe for certain interests of Jiangxi XLX at the consideration of RMB500,000,000, of which approximately RMB283,096,000 will be registered as the additional capital of Jiangxi XLX and the remaining amount of approximately RMB216,904,000 will be included in the capital reserve of Jiangxi XLX. Upon completion of the capital contribution, the registered capital of Jiangxi XLX will be increased from RMB2,700,000,000 to approximately RMB2,983,096,000 and each of Henan XLX and ABC Financial will hold approximately 90.51% and 9.49% of Jiangxi XLX’s enlarged equity interests. For details, please refer to the Company’s announcement dated 19 January 2024;
- (iv) On 16 January 2024, Henan Xinlianxin Shenleng Energy Co., Ltd. (“**Henan Shenleng**”), a subsidiary of the Company, and Hangzhou Oxygen Plant Group Co., Ltd. (“**Hangzhou Oxygen Plant Group**”), entered into a procurement contract and supplemental contract, pursuant to which Henan Shenleng agreed to procure a set of air separation equipment from Hangzhou Oxygen Plant Group at a total consideration of RMB376.5 million. For details, please refer to the Company’s announcement dated 16 January 2024;
- (v) On 31 March 2023, Jiangxi Shenleng Gas Co., Ltd. (“**Jiangxi Shenleng**”) (an indirect subsidiary of the Company) entered into (i) a domestic equipments procurement contract to procure domestic equipments (including design services in relation thereto) and on-site technology services for domestic equipments and overseas equipments, at a consideration of RMB345,220,000; and (ii) the overseas equipments procurement contract to procure overseas equipments, at a consideration of EUR10,034,000 and USD3,580,000 respectively. For details, please refer to the Company’s announcement dated 31 March 2023;
- (vi) On 20 February 2023, Henan Xinlianxin Intelligent Equipment Technology Co., Ltd (“**Intelligent Equipment**”), a subsidiary of the Company, entered into an equity transfer agreement with Henan Xinlianxin Chemical Group Co., Ltd. (“**XLX Chem**”). According to the equity transfer agreement, XLX Chem intends to transfer its 100% equity interest in Xinxiang Shenzhou Anti-corrosion Installation Co., Ltd. to Intelligent Equipment, and Intelligent Equipment will pay RMB8.8851 million as consideration to XLX Chem. For details, please refer to the Company’s announcement dated 20 February 2023; and
- (vii) On 30 December 2022, Henan Xinlianxin International Trade Co., Ltd (“**International Trade**”) and Xinxiang County Xinmao Enterprise Management Consulting Partnership (Limited Partnership) (“**Partnership Platform**”), entered into a capital increase agreement, pursuant to which the Partnership Platform will contribute approximately RMB7.45 million for the subscription of new registered share capital of International Trade of RMB7.45 million, representing approximately 28.65% of the enlarged share capital of International Trade. For details, please refer to the Company’s announcement dated 30 December 2022.

**9. EXPERT AND CONSENT**

The following are the qualifications of the experts providing advice or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Henan Daxin Asset Appraisal Firm Co., Ltd.	Independent valuer
Zhongshenghua Asset Appraisal Co., Ltd	Independent valuer
Henan Huaqin Joint Accounting Firm (General Partnership)	Certified Public Accountants

As at the Latest Practicable Date, the above-mentioned expert (i) had not any shareholding in any subsidiary of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any subsidiary of the Group; (ii) had not any interest in any asset which has since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by, or leased to, any subsidiary of the Group; and (iii) has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter or report and reference to its name in the form and context in which they respectively appear.

**10. MISCELLANEOUS**

- (a) The joint secretaries of the Company are Ms. Leung Kwan Wai and Ms. Lin Moi Heyang. Ms. Leung Kwan Wai is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. Ms. Lin Moi Heyang is a Practising Chartered Secretary and an Associate of The Chartered Secretaries Institute of Singapore;
- (b) The registered office and principal place of business of the Company is situated at 9 Raffles Place, #26-01 Republic Plaza, Singapore 048619;
- (c) The Company's share registrar and transfer office is Tricor Investor Services Limited, located at 17/F, Far East Financial Centre, 16 Harcourt Road, Hong Kong.
- (d) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

**11. DOCUMENTS ON DISPLAY**

Copies of the following documents shall be displayed online on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.chinaxlx.com.hk](http://www.chinaxlx.com.hk)) for a period of 14 days from the date of this circular:

- (a) the Framework Agreement;

- (b) the Definitive Transaction Documents; and
- (c) the consent letter as described in the section headed “EXPERT AND CONSENT” of this appendix.

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# NOTICE OF THE 2024 SECOND EXTRAORDINARY GENERAL MEETING

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**心连心**

**CHINA XLX FERTILISER LTD.**

**中國心連心化肥有限公司 \***

*(Incorporated in Singapore with limited liability)*

**(Company Registration No. 200610384G)**

**(Hong Kong Stock Code: 1866)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2024 second extraordinary general meeting (the “**Meeting**” or “**EGM**”) of China XLX Fertiliser Ltd. (the “**Company**”) will be held at 2nd Conference Room, 6th Floor, R& D Building, Gate No. 7, Xinlianxin Avenue, Xinxiang Economic Development Zone, Xinxiang City, Henan Province, PRC on 9 August 2024 at 9 a.m. to consider and, if thought fit, pass with or without modifications the following as an ordinary resolution of the Company:

All capitalized terms in this Notice of EGM which are not defined herein shall have the same meanings as ascribed to them in the Company’s circular to its shareholders dated 19 July 2024 (the “**Circular**”).

### ORDINARY RESOLUTION

“**THAT**

- (i) The Framework Agreement and the Definitive Transaction Documents, copies of which have been produced at the meeting marked “A” and “B” respectively and signed by the Chairman of the meeting for the purpose of identification, and the Disposal contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (ii) any one Director be and is authorised to do all such things and take all such actions as he or she may consider necessary or desirable to implement and/or give effect to the Framework Agreement and the Definitive Transaction Documents and the transactions contemplated thereunder.”

By Order of the Board  
**China XLX Fertiliser Ltd.**  
**Liu Xingxu**  
*Chairman*

Hong Kong, 19 July 2024

*\* For identification purpose only*

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## NOTICE OF THE 2024 SECOND EXTRAORDINARY GENERAL MEETING

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*Notes:*

- a. A member entitled to attend and vote at the EGM is entitled to appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- b. The proxy form must be deposited at the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time scheduled for holding the EGM (i.e., not later than 9 a.m. on 7 August 2024) or any adjournment thereof.
- c. If the member is a corporation, the instrument appointing a proxy must be executed under its common seal or signed on its behalf by an attorney duly authorised in writing or a duly authorised officer of the corporation.
- d. To ascertain Shareholders' eligibility to attend and vote at the EGM, the Register of Members of the Company will be closed from 6 August 2024 to 9 August 2024 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the EGM, unregistered holders of Shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited (at its address shown in Note b above), for registration no later than 4:30 p.m. on 5 August 2024.
- e. All times and dates referred to in this notice refer to Hong Kong local times and dates.

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## NOTICE OF THE 2024 SECOND EXTRAORDINARY GENERAL MEETING

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### Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of the proxy(ies) and/or representative(s) appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

*This circular, in both English and Chinese versions, is available on the Company's website at [www.chinaxl.com.hk](http://www.chinaxl.com.hk).*

*Shareholders may at any time change their choice of language(s) (either English only or Chinese only or both languages) of the corporate communications of the Company (the "**Corporate Communications**").*

*Shareholders may send their request to change their choice of language(s) of Corporate Communications in writing to the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.*

*Shareholders who have chosen to receive the Corporate Communications in either English or Chinese version will receive both English and Chinese versions of this circular since both languages are bound together into one booklet.*

*As at the date of this notice, the executive directors of the Company are Mr. Liu Xingxu, Mr. Zhang Qingjin and Ms. Yan Yunhua; the independent non-executive directors of the Company are Mr. Ong Kian Guan, Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Li Hongxing.*