

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in Up Energy Development Group Limited (In Provisional Liquidation (For Restructuring Purposes)), you should at once hand this Circular and the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This Circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in Up Energy Development Group Limited (In Provisional Liquidation (For Restructuring Purposes)).

**UP ENERGY**  
**Up Energy Development Group Limited**  
**優派能源發展集團有限公司\***  
**(In Provisional Liquidation (For Restructuring Purposes))**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 307)**

- (1) CREDITORS' SCHEME;**  
**(2) PROPOSED CAPITAL RESTRUCTURING;**  
**(3) PROPOSED ISSUING AND ALLOTMENT OF NEW SHARES UNDER SPECIFIC MANDATE;**  
**(4) PROPOSED LOAN FACILITY;**  
**(5) PROPOSED PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;**  
**(6) CONNECTED TRANSACTIONS IN RELATION TO PROPOSED ISSUING AND ALLOTMENT OF NEW SHARES UNDER SPECIFIC MANDATE;**  
**(7) APPLICATION FOR WHITEWASH WAIVER AND CONSENT FOR SPECIAL DEAL;**  
**AND**  
**(8) NOTICE OF SPECIAL GENERAL MEETING**

**Financial adviser to the Company**



**KINGSTON CORPORATE FINANCE**

**Independent Financial Adviser to the Independent Shareholders**

**MESSIS**  **大有融資**

Terms used in this cover shall have the same meanings as defined in this Circular. The letter from the JPLs is set out on pages 11 to 51 of this Circular.

A letter of advice from Messis Capital Limited, the Independent Financial Adviser to the Independent Shareholders, is set out on pages 52 to 77 of this Circular. A notice convening the SGM to be held at 4:00 p.m. on 25 January 2021 at HKFYG Auditorium, 9/F, The Hong Kong Federation of Youth Groups Building, 21 Pak Fuk Road, North Point, Hong Kong is set out on pages SGM-1 to SGM-4 of this Circular.

Whether or not you are able to attend and/or vote at the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instruction printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

31 December 2020

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## DEFINITIONS

*In this Circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Admitted Claims”	all Claims against the Company which would be provable in a winding up of the Company under Section 263 of the Companies (Winding Up) Ordinance and Section 234 of the Bermuda Companies Act and which have been admitted by the Scheme Administrator in accordance with the Scheme
“Announcement”	the announcement dated 4 September 2020 issued by the Company in relation to, among others, the Creditors’ Scheme, the Whitewash Waiver and the Special Deal
“Baicheng MLR”	Ministry of Land and Resources of Baicheng
“Bermuda Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Bermuda Court”	the Supreme Court of Bermuda
“Bonus Option(s)”	bonus option(s) provided to ICA by the Company pursuant to the Loan Facility Agreement and the Deed
“Bonus Option Notice”	a written notice to the Company by ICA for exercising the Bonus Option(s)
“Bonus Option Period”	the period beginning on the 366th day following the date of the resumption of trading of the Shares of the Company and ending on the 730th day following the date of resumption of trading of the Shares of the Company
“Bonus Share(s)”	the new Shares proposed to be issued to ICA pursuant to the Loan Facility Agreement and the Deed, and to Kaisun Consulting pursuant to the Service Agreement
“Business Day(s)”	a day (excluding a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time and remaining in effect between 9.00 a.m. and 5.00 p.m. and is not discontinued at or before 12.00 noon) on which banks are generally open for business in Hong Kong
“Capital Cancellation”	the proposed cancellation of the unissued share capital of the Company in its entirety immediately after the Capital Reduction (including HK\$40,000,000 of the unissued convertible non-voting preference shares at HK\$0.02 each)

## DEFINITIONS

“Capital Reduction”	the proposed reduction of the nominal value of each Share from HK\$0.20 to HK\$0.01
“Capital Restructuring”	the proposed capital restructuring which involves the Capital Reduction, the Capital Cancellation, the Reduction in Authorised Share Capital and the Increase in Authorised Shares
“Circular”	this circular issued by the Company in relation to, among other things, the Creditors’ Scheme, the Whitewash Waiver and the Special Deal
“Claim(s)”	any debt, liability or obligation of the Company as at the Effective Date, whether known or unknown, whether certain or contingent, whether present, future or prospective, whether liquidated or unliquidated, whether arising at common law, in equity or by statute in Hong Kong, Bermuda or in any other jurisdiction or in any manner whatsoever and which includes without limitation a debt or liability to pay money or money’s worth, any liability for breach of trust, any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution, any liability arising out of any legal claims, whether certain or contingent together with all interest on such debt, obligation or liability. For the avoidance of doubt, no claims for interest may be made for the period on and from 29 March 2016, being the date of the presentation of the winding up petition in HCCW 91 of 2016 in the Hong Kong Court by Satinu Markets Limited (previously known as HEC Securities Limited)
“Coking Plant”	the coal coking plant located in Fukang and wholly-owned by UE Coking
“Company”	Up Energy Development Group Limited (In Provisional Liquidation (For Restructuring Purposes)), a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange (stock code: 307)
“Connected Person(s)”	has the same meaning ascribed to it under the Listing Rules

## DEFINITIONS

“Creditor(s)”	any person having a Claim: (a) which is not a Preferential Claim (and where the Claim is only in part a Preferential Claim, then the person is a Creditor only to the extent of the non-preferential portion of the Claim); (b) which is not a secured Claim (and where the Claim is only in part a secured Claim, then the person is a Creditor only to the extent of the unsecured part of the Claim (i.e. after deducting the value of the Securities Interest)); and (c) which is not a claim for the petition costs
“Creditor Shareholders”	the Shareholders and person who is deemed to be interested in the Shares that are also Creditors
“Cut-Off Date”	the date by which the Claims are to be proved in accordance with the provisions of the Scheme which is to be determined by the Scheme Administrator and shall be at least 21 days after the date of the notices and advertisements referred to in Clause 3 of the Scheme
“Deed”	the deed of variation and addendum to the Loan Facility Agreement dated 14 January 2019
“Director(s)”	the director(s) of the Company from time to time prior to the provisional liquidation of the Company
“Effective Date”	the date of registration with the Companies Registry in Hong Kong of the order sanctioning the Scheme to be granted by the Hong Kong Court; or the date of registration with the Companies Registry in Bermuda of the order sanctioning the Scheme to be granted by the Bermuda Court, whichever is the later
“EPC Master Construction Project Framework”	the agreement entered into between the Company and NPCE on 12 September 2018 relating to provision of management services to the Company
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Existing Share(s)”	share(s) of HK\$0.20 each in the issued share capital of the Company prior to the Capital Restructuring
“Fukang”	a city in Xinjiang Uygur Autonomous Region, the PRC
“GCC”	Grande Cache Coal LP, an 85.31% owned subsidiary of the Company

## DEFINITIONS

“GCC Mine”	Grande Cache Coal Mine, a mine containing coal reserves and coal resources located in Alberta, Canada
“Group”	the Company and its subsidiaries
“Hao Tian Group”	Hao Tian Development Group Limited, interested in 371,500,000 Shares, representing approximately 8.19% of the total issued share capital of the Company as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	the High Court of Hong Kong
“ICA”	Integrated Capital (Asia) Limited, lender of the Loan Facility Agreement, a limited liability company incorporated in Hong Kong and principally engaged in investment holding. ICA is also a Creditor of the Company and its ultimate beneficial owner is Mr. Yam Tak Cheung
“Increase in Authorised Shares”	the proposed increase of authorised shares of the Company from 20,000,000,000 Shares of nominal value HK\$0.20 each to 220,000,000,000 Shares of nominal value HK\$0.01 each
“Independent Financial Adviser”	Messis Capital Limited, a licensed corporation which is licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Shareholders in respect of the Capital Restructuring
“Independent Shareholder(s)”	the Shareholders other than Up Energy Group and parties acting in concert with it, the Creditor Shareholders and those who are interested in or involved in the Creditors’ Scheme, the Whitewash Waiver and the Special Deal
“Issue Price”	the price at which the New Share is to be issued at HK\$0.129 per Share
“JPLs”	Joint Provisional Liquidators, namely Mr. Osman Mohammed Arab and Mr. Lai Wing Lun both of RSM Corporate Advisory (Hong Kong) Limited and Mr. Roy Bailey of EY Bermuda Limited, acting without personal liabilities

## DEFINITIONS

“Kaisun Consulting”	Kaisun Consulting Limited, a wholly owned subsidiary of Kaisun Holdings Limited, incorporated in Hong Kong with limited liability and principally engaged in consulting services. Kaisun Holdings Limited is incorporated in the Cayman Islands with limited liability whose shares are listed in the Growth Enterprise Market of the Stock Exchange (stock code: 8203). Kaisun Holdings Limited is a Creditor of the Company and two of the proposed directors of the Company are directors and shareholders of Kaisun Holdings Limited
“Last Trading Day”	29 June 2016, being the last day on which the Shares were traded on the Stock Exchange
“Latest Practicable Date”	28 December 2020, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility”	the loan facility of up to HK\$800 million provided by ICA to the Company pursuant to the terms and conditions of the Loan Facility Agreement and the Deed
“Loan Facility Agreement”	the loan facility agreement dated 6 March 2018 was entered into between the lender, namely ICA, the Company and the JPLs on behalf of the Company
“Lower Seam”	the lower coal seam of the Xiaohuangshan Mine
“Main Board”	the Main Board of the Stock Exchange
“New Share(s)”	collectively, the Scheme Shares and the Bonus Shares
“Notice of Claim”	a claim in written form submitted by any person claiming to be a Creditor or a notice of claim submitted to the Provisional Liquidators for the purposes of the Scheme Meeting, whichever is delivered later
“NPCE”	China Energy Engineering Group Northwest Power Construction Engineering Company Limited, a subsidiary of China Energy Engineering Corporation Limited whose Shares are listed on the Main Board of the Stock Exchange (stock code: 3996), being a contractor to the Company to provide management services pursuant to the EPC Master Construction Project Framework and Project Service Agreement

## DEFINITIONS

“Petition Costs”	The legal costs of the petitioners in relation to the winding-up petitions brought by Credit Suisse AG, Singapore Branch to wind up the Company in the Companies Winding-up Proceedings No. 183 of 2016 and brought by Satinu Markets Limited (previously known as HEC Securities Limited) to wind up the Company in HCCW 91/2016 (as the Provisional Liquidators were so advised by the solicitors of the petitioners at the Latest Practicable Date), the amount of which is to be agreed by the Scheme Administrators or, if no agreement is reached between the Scheme Administrators and the petitioners, to be subject to taxation
“Placing Agent” or “SBI”	SBI China Capital Financial Services Limited is a company incorporated in Hong Kong with limited liability and a licensed corporation to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance
“Placing Agreement”	a conditional placing agreement entered into between SBI and the Company on 18 May 2018
“Placing Share(s)”	up to 2,000,000,000 new Share(s) proposed to be placed under the Placing Agreement
“Placing Specific Mandate”	the specific mandate to be granted by the Shareholders to the Board at the SGM for the allotment and issue of the Placing Shares
“PRC”	the People’s Republic of China, which for the purpose of this Circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Preferential Claim(s)”	Claim(s) which would be treated as a preferential claim pursuant to Section 265 of the Companies (Winding Up) Ordinance or Section 236 of the Bermuda Companies Act
“Project Services Agreement”	the agreement entered into among the Company, NPCE and the JPLs on 31 August 2018 relating to the appointment of constructors pursuant to the EPC Master Construction Project Framework
“Proposed Restructuring”	the proposed restructuring of debt under the Scheme and the Capital Restructuring of the Company



## DEFINITIONS

“Quanshuigou Mine”	a mine containing coal reserves and coal resources located 40 km to the east of Fukang, which is approximately 50 to 60 km away from Urumqi, the capital city of Xinjiang
“Reduction in Authorised Share Capital”	the proposed reduction of the authorised share capital of the Company from HK\$4,040,000,000 to HK\$2,200,000,000
“Resources Tax”	a fee levied by the PRC Government on the development of mining resources
“Resumption Conditions(s)”	the condition(s) for the resumption of trading of the Shares imposed by the Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“Sanctioning Orders”	the approvals or sanctions on the Scheme by the Bermuda Court and the Hong Kong Court respectively
“Scheme” or “Creditors’ Scheme”	the proposed scheme of arrangement for the Company under Sections 670, 673 and 674 of the Companies Ordinance and Section 99 of the Bermuda Companies Act between the Company and its Creditors, in its present form, or with or subject to any modification of it, any addition to it or any condition approved or imposed by the Hong Kong Court and/or the Bermuda Court
“Scheme Administrator(s)”	such persons who are to be appointed as scheme administrator pursuant to the terms of the Scheme, which are expected to be the Provisional Liquidators
“Scheme Meeting”	the meeting of the Creditors to be convened by the order of the Hong Kong Court and the Bermuda Court which was held on 30 September 2019
“Scheme Shares”	46,600,371,845 new Shares (or such other number of new Shares as the Scheme Administrators may determine) to be issued and allotted to the Creditors at HK\$0.129 per Share for all the Admitted Claims of HK\$6,011,447,965.70
“Scheme Shares Entitlement”	the number of Scheme Shares to which a Creditor with an Admitted Claim is entitled
“Secured Claim(s)”	Claim(s) which is secured by any Securities Interest

## DEFINITIONS

“Securities Interest”	any mortgage, pledge, lien, charge, assignment, hire-purchase title retention, leasing, other encumbrance, hypothecation or security interest of whatsoever kind, or any other agreement or arrangement having the effect of containing security including, for the avoidance of doubt, any proceeds or realisation of any of the above
“Service Agreement”	a service agreement entered into between the Company and Kaisun Consulting dated 8 August 2018 which the Company engaged Kaisun Consulting as a coordinator and introducer of financing
“SFC”	Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at 4:00 p.m. on 25 January 2021 at HKFYG Auditorium, 9/F, The Hong Kong Federation of Youth Groups Building, 21 Pak Fuk Road, North Point, Hong Kong for the purpose of considering and, if thought fit, approving (i) the transactions contemplated under the Creditors’ Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares; (ii) the proposed Reduction in Authorised Share Capital; (iii) the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate for issuing and allotment of the Placing Shares; (iv) the Whitewash Waiver; and (v) the Special Deal
“Share(s)”	the ordinary share(s) of the Company from time to time
“Shareholder(s)”	the holder(s) of the Existing Share(s)
“Shizhuangou Mine”	a mine containing coal reserves and coal resources located 40 km to the east of Fukang, which is approximately 50 to 60 km away from Urumqi, the capital city of Xinjiang
“Special Deal”	the settlement of the indebtedness due to certain Shareholders under the Creditors’ Scheme, which constitutes a special deal under Rule 25 of the Takeovers Code
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the issuing and allotment of New Shares

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 18 August 2020 in relation to the Loan Facility Agreement was entered into between ICA, the Company and the JPLs on behalf of the Company
“Taihua”	Fukang Taihua Coal Coking and Chemical Company Limited (阜康市泰華煤焦化工有限公司) is a private company incorporated in the PRC, principally engaged in the coal coking industry, coal washing, coal sales, production and sales of coke and chemical products, comprehensive utilisation of waste resources in Fukang. As at the Latest Practicable Date, to the best of the JPLs’ knowledge, Taihua and its ultimate beneficial owners are independent third parties of the Company
“UE (Baicheng) Mining”	Up Energy (Baicheng) Mining Limited, an indirect wholly-owned subsidiary of UE Mining
“UE Coking”	Up Energy (Fukang) Coking Limited, a 70% owned subsidiary of the Company that currently owns the Coking Plant
“UE (Fukang) Mining”	Up Energy (Fukang) Coal Mining Limited, a 79.2% owned subsidiary of the Company that currently owns the Xiaohuangshan Mine
“UE Mining”	Up Energy Mining Limited, a wholly-owned subsidiary of the Company
“Up Energy Group”	Up Energy Group Limited, interested in 1,377,073,492 Shares, representing approximately 30.34% of the total issued share capital of the Company as at the Latest Practicable Date
“Upper Seam”	the upper coal seam of the Xiaohuangshan Mine
“Washing Plant”	the coal washing plant located in Fukang and wholly-owned by Up Energy (Fukang) Coal Washing Limited (優派能源(阜康)煤炭洗選有限公司), a 70% owned subsidiary of the Company
“Water Recycling Plant”	the water recycling plant located in Fukang and wholly-owned by Up Energy (Fukang) Recycled Water Project Limited (優派能源(阜康)水循環工程有限公司), a 70% owned subsidiary of the Company

## DEFINITIONS

“Whitewash Waiver”	a whitewash waiver pursuant to Rule 26 of the Takeovers Code granted or to be granted by the Executive in respect of the obligations of Up Energy Group to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Up Energy Group and parties acting in concert with it which may arise as a result of the issue of the Scheme Shares
“WZJF”	Wenzhou Jianfeng Mining Engineering Co. Ltd (溫州建峰礦山工程有限公司), being the sub-contractor of UE (Fukang) Mining pursuant to the Xiaohuangshan Mine Construction Agreement and the Xiaohuangshan Mine Supplemental Agreement
“Xiaohuangshan Mine”	a mine containing coal reserves and coal resources located 18 km to the southeast of Fukang, which is approximately 50 to 60 km away from Urumqi, the capital city of Xinjiang
“Xiaohuangshan Mine Construction Agreement”	the agreement entered into between UE (Fukang) Mining and WZJF on 6 September 2018 relating to the construction of the Upper Seam and the Lower Seam facilities
“Xiaohuangshan Mine Supplemental Agreement”	the supplemental agreement to the Xiaohuangshan Mine Construction Agreement entered into between UE (Fukang) Mining and WZJF on 6 September 2018 relating to the construction of the Upper Seam facilities
“Xinjiang”	Xinjiang Uygur Autonomous Region, as an autonomous region of the PRC
“Xinjiang Government”	the Government of Xinjiang
“%”	per cent.

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**Up Energy Development Group Limited**  
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**(In Provisional Liquidation (For Restructuring Purposes))**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 307)**

*Executive Directors:*

Mr. Wang Chuan  
*(Co-chairman and Chief Executive Officer)*  
Mr. Zhang Li *(Co-chairman)*  
Mr. Zheng Yuan

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent Non-executive Directors:*

Mr. Li Bao Guo  
Mr. Liu Yongshun  
Mr. Wu Yanfeng

*Head Office and Principal Place of  
Business in Hong Kong:*

29/F, Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

31 December 2020

*To the Shareholders*

Dear Sirs,

- (1) CREDITORS' SCHEME;**  
**(2) PROPOSED CAPITAL RESTRUCTURING;**  
**(3) PROPOSED ISSUING AND ALLOTMENT OF NEW SHARES  
UNDER SPECIFIC MANDATE;**  
**(4) PROPOSED LOAN FACILITY**  
**(5) PROPOSED PLACING OF NEW SHARES  
UNDER SPECIFIC MANDATE;**  
**(6) CONNECTED TRANSACTIONS IN RELATION TO  
PROPOSED ISSUING AND ALLOTMENT OF NEW SHARES  
UNDER SPECIFIC MANDATE;**  
**(7) APPLICATION FOR WHITEWASH WAIVER AND CONSENT  
FOR SPECIAL DEAL;**  
**AND**  
**(8) NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Trading in the Company's Shares on the Main Board has been suspended since 30 June 2016.

## LETTER FROM THE JPLS

On 18 October 2016, the Company was placed into the first delisting stage under Practice Note 17 to the Listing Rules with the Resumption Conditions. The Resumption Conditions are as follows:

- (i) Demonstrate the Company has sufficient level of operation or assets of sufficient value as required under Rule 13.24 of the Listing Rules;
- (ii) Publish all outstanding financial results and address audit qualification (if any); and
- (iii) Having the winding-up petitions against the Company (and its subsidiaries) withdrawn or dismissed and the JPLs discharges.

By a letter dated 19 April 2017 issued by the Stock Exchange, the Stock Exchange informed the Company that the Company was placed in the second stage of delisting and that the Company must submit a viable resumption proposal at least 10 Business Days before the second delisting stage expires, i.e. 29 September 2017.

Although a draft resumption proposal was submitted to the Stock Exchange on 29 September 2017, which was subsequently modified on 9 November 2017, the Listing Department of the Stock Exchange informed the Company that the draft resumption proposal was not viable and the Company was placed in the third stage of delisting on 17 November 2017.

On 28 November 2017, the Company applied to the Listing Committee of the Stock Exchange and subsequently applied to the Listing (Review) Committee of the Stock Exchange for a review of the decision. However, the decision was upheld and the Company was placed in the third stage of delisting stage by a letter dated 31 August 2018 issued by the Stock Exchange, that the Company must submit a viable resumption proposal at least 10 Business Days before the third delisting stage expired, i.e. 25 February 2019.

On 25 February 2019, a fresh resumption proposal of the Company was submitted to the Stock Exchange. By a letter dated 20 March 2020 issued by the Stock Exchange, the Stock Exchange informed the Company that the resumption proposal was not viable and decided to cancel the listing of the Shares on the Main Board under Practice Note 17 to the Listing Rules with effect from 6 April 2020.

On 30 March 2020, after considering legal and professional advice, the Company lodged a written request to the Listing Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision to cancel the listing of the Shares on the Main Board. The Listing (Review) Committee accepted the review application and the review hearing was held on 28 September 2020. However, the Listing (Review) Committee considered that the proposal was not viable and decided to uphold the Listing Committee's decision.

On 6 November 2020, the Company made an application to the Listing Appeals Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision of the Listing (Review) Committee on the cancellation of the listing of the Shares on the Main Board. As at the Latest Practicable Date, the Listing Appeals Committee accepted

## LETTER FROM THE JPLS

the review application and the review hearing date has not been fixed. To the best of the JPLs' knowledge after making reasonable enquiries, the review hearing is anticipated to be held in late February 2021, subject to the further confirmation of the Listing Appeals Committee.

The JPLs wishes to inform the Shareholders that the Listing Appeals Committee is the final review body for decisions made by the Listing Committee and the Listing (Review) Committee and the review hearing by the Listing Appeals Committee is the final opportunity for reviewing the decision to cancel the Company's listing. In the event that the Company is able to demonstrate to the Listing Appeals Committee that it can fulfil the Resumption Conditions, the Listing Appeals Committee will overturn the decision of the Listing Committee and the Listing (Review) Committee to cancel the Company's listing. In the event that the Company fails to demonstrate to the Listing Appeals Committee that it can fulfil the Resumption Conditions, the Stock Exchange will proceed with the cancellation of the Company's listing, subject to a possible judicial review sought by the Company for the decision on the cancellation of the Company's listing in the High Court of Hong Kong.

In the event that the Company is delisted from the Stock Exchange, the Scheme shall not become effective given one of the conditions precedent to the Scheme would require the resumption of trading in the Shares of the Company on the Main Board of the Stock Exchange, and as such, all the contemplated transactions under the Scheme will not be proceeded with.

### **(1) Creditors' scheme**

References are made to the Company's announcements dated 8 May 2019, 7 August 2019, 18 September 2019, 30 September 2019, 6 November 2019, 7 February 2020, 5 May 2020, 5 August 2020 and 4 September 2020 respectively in which the Company had announced that the Company proposed to implement the Creditors' Scheme, which has been sanctioned by the Bermuda Court and is subject to sanction by the Hong Kong Court.

The purpose of this Circular is to provide the Shareholders with (i) further details of the transactions contemplated under the Creditors' Scheme; (ii) further details of the Reduction in Authorised Share Capital; (iii) a letter from the JPLs containing its opinion and recommendations to the Independent Shareholders in respect of the Creditors' Scheme; (iv) a letter of advice from the Independent Financial Adviser to the Independent Shareholders in respect of the Creditors' Scheme; (v) a valuation report of the Company's subject assets by an independent professional valuer; and (vi) a notice convening the SGM.

The Scheme mainly comprises the debt restructuring and the issuing and allotment of New Shares. Under the Scheme, the Company will issue and allot Scheme Shares to the Creditors to discharge and release the Claims owed by the Company to the Creditors in full and issue Bonus Shares to ICA (subject to the terms of the Loan Facility Agreement) and Kaisun Consulting (subject to the terms of the Service Agreement), details of which are set out in the section headed "(3) Issuing and allotment of New Shares under Specific Mandate" below.

As at the Latest Practicable Date, based on the available books and records of the Company, the estimated total amount of Claims against the Company is approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any

## LETTER FROM THE JPLS

Securities Interest pending valuation of the same by the Scheme Administrator). This figure is indicative only and will be subject to final determination made by the Scheme Administrator and adjudication under the Scheme, if applicable.

At the Scheme Meeting convened and held on 30 September 2019, the Scheme was approved by the requisite statutory majorities of the Creditors. Subsequent to the Scheme Meeting, on 1 November 2019, the Scheme was sanctioned by the Bermuda Court pursuant to section 99(2) of the Bermuda Companies Act. The Company will submit the Scheme to the Hong Kong Court for sanction upon completion of the SGM.

After the sanction of the Hong Kong Court has been obtained, the Sanctioning Orders will be filed with the Companies Registry in Hong Kong and the equivalent in Bermuda for registrations respectively, and the Scheme will, subject to the fulfilment of the conditions precedent as listed below, then become effective.

The Scheme Administrator will then assign the Cut-Off Date of the Scheme for filing all notice of claims from the Creditors to the Company and notify the final amounts of the claims of each of the Creditors after assessments of the claims. At or as soon as reasonably practicable after the Cut-Off Date, the Scheme Administrator will determine the Scheme Shares Entitlement of each Creditor with an Admitted Claim who has delivered a Notice of Claim on or before the Cut-Off Date, subject to a lock-up period of one year from the issuance of the Scheme Shares and pursuant to the terms of the Scheme.

In the event that the final amounts of Admitted Claims require the Company to issue more Scheme Shares than the currently proposed issue of Scheme Shares, the Company intends to issue additional Scheme Shares complying with all applicable rules and regulations (including but not limited to convening a general meeting to seek approvals from Shareholders whenever necessary and applying for listing on the Stock Exchange). Having said the above, the Company estimates that the chances of this should be remote. Further, the Company will make timely announcements to notify the Shareholders on the progress of the Scheme.

With effect from the Effective Date of the Scheme, each of the Creditors discharges and waives all of its Claims against the Company in consideration of the right to participate with each of the other Creditors in the issuing and allotment of Scheme Shares pursuant to the terms of the Scheme.

The Scheme will become effective and binding on the Company and its Creditors if the following conditions are satisfied:

- (a) having over 50% in number, representing at least 75% in value of the Creditors present and voting in person or by proxy at the Scheme Meeting, vote in favour of the Scheme;
- (b) the Hong Kong Court having sanctioned the Scheme and an office copy of the order of the Hong Kong Court sanctioning the Scheme having been delivered to the Registrar of Companies in Hong Kong for registration;



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- (c) the Bermuda Court having sanctioned the Scheme and an office copy of the order of the Bermuda Court sanctioning the Scheme is delivered to the Registrar of Companies in Bermuda for registration; and
- (d) trading in the Shares in the Main Board is resumed.

All the above conditions are not capable of being waived. The conditions precedent for the issuing and allotment of New Shares are set out in the sub-section headed “Principal terms of the issuing and allotment of New Shares” under the section headed “(3) Issuing and allotment of New Shares under Specific Mandate” below.

Notwithstanding that the Scheme will be binding on all Creditors under the laws of Hong Kong and the laws of Bermuda, the Scheme may not prevent the Creditors from taking actions against the Company in jurisdictions outside Hong Kong and Bermuda in the event that the proper laws of the contract governing the debt is not the laws of Hong Kong or the laws of Bermuda.

### **(2) Capital restructuring**

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$4,040,000,000 divided into 22,000,000,000 Shares, of which 4,538,515,411 shares had been issued and were fully paid or credited as fully paid up.

Under the Capital Restructuring, the par value of every Share shall be reduced from HK\$0.20 to HK\$0.01 by the reduction of HK\$0.19 value for each Share and the existing unissued share capital of the Company of HK\$194,614,845.89 (including HK\$40,000,000 of the unissued convertible non-voting preference shares at HK\$0.02 each) will be cancelled in its entirety.

The authorised share capital of the Company is proposed to reduce from HK\$4,040,000,000 divided into 22,000,000,000 Shares to HK\$2,200,000,000 divided into 220,000,000,000 shares by the creation of additional 215,461,484,589 new Shares, all of which will rank *pari passu* with all existing Shares. The proposed increase in authorised share capital is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM.

### **(3) Issuing and allotment of new shares under specific mandate**

Subject to the Scheme becoming effective, the Company will implement the issuing and allotment of New Shares, under which it is estimated that the Company will issue and allot, in aggregate, up to approximately 46,600,371,845 Scheme Shares (or such other number of new Shares as the Scheme Administrators may determine, which in any event would not be more than a total of 18,428,570,965 Scheme Shares to be issued and allotted to Up Energy Group and parties acting in concert with it pursuant to the Scheme) at HK\$0.129 per Scheme Share to the Creditors for all the Admitted Claims of HK\$6,011,447,965.70 to settle claims and liabilities of the Company in full with the Creditors with Admitted Claims under the Scheme (taking into account all possible Unadmitted Claims), subject to a lock-up period of one year from the issuance of the Scheme Shares and pursuant to the terms of the Scheme.

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Pursuant to the Loan Facility Agreement dated 6 March 2018 and the Deed dated 14 January 2019 entered into between ICA, the Company and the JPLs on behalf of the Company, ICA will be entitled to receive Bonus Shares in the amount of up to approximately HK\$30 million (i.e. 232,558,140 Bonus Shares with Issue Price of HK\$0.129 per Bonus Share) upon certain conditions. The terms of the Loan Facility Agreement, including the issue of Bonus Shares, were determined after arm's length negotiations between the Company and ICA. Details of the Loan Facility Agreement will be set out in the section headed "(4) Loan Facility Agreement" below.

Pursuant to the Service Agreement dated 8 August 2018 entered into between the Company and Kaisun Consulting, the Company engaged Kaisun Consulting as a coordinator and introducer of financing, Kaisun Consulting will be entitled to receive Bonus Shares in the amount of up to approximately HK\$45 million (i.e. 348,837,210 Bonus Shares with Issue Price of HK\$0.129 per Bonus Share) upon (i) its successful introduction of a funder(s) that the Company enter into any formal and legally binding agreements and/or other contractual arrangements with funders who all together will provide to the Group in total not less than HK\$400 million or such amount deemed sufficient to resume the Company's business; and (ii) the trading of the Shares is successfully resumed. The terms of the Service Agreement, including the issue of Bonus Shares, was determined after arm's length negotiations between the parties with reference to the profile of Kaisun Consulting. Kaisun Consulting has extensive experience and networks in the coal mining industry and in Xinjiang region. Pursuant to the Service Agreement, Kaisun Consulting will utilise its resources to negotiate with various stakeholders, *inter alia*, the creditors, potential funders, etc. As of the Latest Practicable Date, Kaisun Consulting has introduced two funders to the Company, details of which are set out in the sub-sections headed "Project Services Agreement" and "Xiaohuangshan Mine Construction Agreement and the Xiaohuangshan Mine Supplemental Agreement" under the section headed "Background to and reasons for the Creditors' Scheme" below.

As at the Latest Practicable Date, (i) ICA and Kaisun Consulting and their respective beneficial owners do not hold any Shares; and (ii) ICA and Kaisun Consulting are independent of and not acting in concert with the Up Energy Group.

Details of the principal terms of the issuing and allotment of New Shares under the Scheme is set out below.

### *Principal terms of the issuing and allotment of New Shares*

<b>Issuer:</b>	The Company
<b>Issue Price:</b>	HK\$0.129 per New Share
<b>Total number of New Shares to be issued:</b>	Up to 46,600,371,845 Scheme Shares (subject to the determination of Admitted Claims in accordance with the terms of the Scheme) for the Creditors, representing respectively:

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- (i) approximately 1,026.78% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 90.10% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.

Up to 232,558,140 Bonus Shares (subject to the terms of the Loan Facility Agreement) for ICA, representing respectively:

- (i) approximately 5.12% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 0.45% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.

Up to 348,837,210 Bonus Shares (subject to the terms of the Service Agreement) for Kaisun Consulting, representing respectively:

- (i) approximately 7.69% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 0.67% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.

Assuming that there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Effective Date, the aggregate maximum number of New Shares represent respectively:

- (i) approximately 1,040% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 91% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares. The Company will not issue and allot any fractions of New Shares.

**Value of the New  
Shares to be issued to  
the Creditors:**

Up to approximately HK\$6,011 million (subject to the determination of Admitted Claims in accordance with the terms of the Scheme) for the Creditors.

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Up to approximately HK\$30 million (subject to the terms of the Loan Facility Agreement) for ICA at the Issue Price of HK\$0.129.

Up to approximately HK\$45 million (subject to the terms of the Service Agreement) for Kaisun Consulting at the Issue Price of HK\$0.129.

- Lock-up period:** The Scheme Shares are subject to a lock-up period of 12 months from the issuance of the Scheme Shares and pursuant to the terms of the Scheme.
- Ranking:** The New Shares will rank *pari passu* in all respects with the Shares then in issue as at the date of the issue of the New Shares.
- Listing:** Application will be made for the listing of New Shares on the Stock Exchange.
- Conditions precedent:**
- (a) The orders sanctioning the Scheme having been granted by the Bermuda Court and the Hong Kong Court separately;
  - (b) the Company having obtained the requisite approval from the Independent Shareholders and/or the Scheme Creditors on the Scheme;
  - (c) the resolutions in relation to (i) the transactions contemplated under the Creditors' Scheme; (ii) the grant of the Specific Mandate for the issuing and allotment of the New Shares; (iii) the Whitewash Waiver; and (iv) the Special Deal to be approved by the Independent Shareholders at the SGM by way of poll and the resolution in relation to the proposed Reduction in Authorised Share Capital to be approved by the Shareholders at the SGM;
  - (d) the resumption of the trading of the Shares in the Main Board of the Stock Exchange;
  - (e) the Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in the New Shares to be issued and such approval not being subsequently revoked;

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- (f) the Executive granting the Whitewash Waiver to Up Energy Group and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted and such Whitewash Waiver not being subsequently revoked; and
- (g) the consent of the Executive in relation to the transactions contemplated under the Creditors' Scheme as a "special deal" under Rule 25 of the Takeovers Code having been obtained and not revoked prior to completion.

### **Completion:**

Completion shall take place if and when allotment of Scheme Shares to all Creditors with Admitted Claims under the Scheme have been made or such other date as decided by the Company and approved by the Scheme Administrator provided that all conditions precedent of the issuing and allotment of New Shares (save for condition to thereunder) are satisfied.

All of the conditions precedent stated above are non-waivable. As of the Latest Practicable Date, an order for sanctioning the Scheme was granted by the Bermuda Court on 1 November 2019 and the requisite approval on the Scheme was obtained from the Creditors.

### *Determination of the Issue Price*

The Issue Price was determined with reference to the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day, after considering, among other things, the share price performance of the Company and the acceptability of the Creditors towards the terms of the Scheme. The JPLs consider that the terms and conditions of the Scheme (including the Issue Price) are fair and reasonable and in the interests of the Company and its stakeholders, including its Shareholders and creditors, as a whole.

### *Comparison of value*

The Issue Price of HK\$0.129 per Share represents:

- (a) the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date;
- (b) a discount of approximately 24.1% to the audited consolidated net asset value of approximately HK\$0.170 per Share as at 31 March 2019, calculated based on the audited consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$770 million as at 31 March 2019 and divided by the total number of 4,538,515,411 Shares in issue as at the Latest Practicable Date; and

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- (c) a discount of approximately 5.8% to the unaudited adjusted consolidated net asset value of approximately HK\$0.137 per Share of the Group, calculated based on the unaudited consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$624 million (the audited consolidated net asset value of the Group attributable to the Shareholders as at 31 March 2019 with the unaudited adjustment on the asset value based on the latest valuation report as at 30 September 2020) and divided by the total number of 4,538,515,411 Shares in issue as at the Latest Practicable Date.

### *Specific Mandate*

The New Shares will be issued and allotted under the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

#### **(4) Loan facility agreement**

Pursuant to the Loan Facility Agreement dated 6 March 2018 and the Deed dated 14 January 2019 entered into between ICA, the Company and the JPLs on behalf of the Company, ICA has conditionally agreed to provide a loan facility of up to HK\$800 million at the interest rate of 18% per annum to the Company to ease the Group's liquidity challenge and to facilitate the restructuring of the Company.

The details of the principal terms of the Loan Facility Agreement and the Deed are summarised as follows:

#### *Principal terms of the Loan Facility*

<b>Dates:</b>	6 March 2018 for the Loan Facility Agreement and 14 January 2019 for the Deed
<b>Parties:</b>	the Company as the borrower; ICA as the lender; and the JPLs
<b>Principal amount:</b>	up to HK\$800 million
<b>Interest rate:</b>	18% per annum
<b>Repayment:</b>	the Company should make partial repayments of the Loan Facility pursuant to the repayment schedule provided to ICA or as may be from time to time agreed between ICA and the Company and repay the Loan Facility in full on or before the final repayment date as stated in the repayment schedule
<b>Bonus Shares:</b>	if one or more successful drawing(s) is/are made by ICA to the Company (regardless of the amount of such drawing(s)) and the trading of the Shares is successfully resumed:

ICA will be entitled to receive Bonus Shares in the amount of up to approximately HK\$30 million (i.e. 232,558,140 Bonus Shares) with Issue Price of HK\$0.129 per Bonus Share

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### **Bonus Options:**

if one or more successful drawing(s) is/are made by ICA to the Company (regardless of the amount of such drawing(s)) and the trading of the Shares is successfully resumed:

ICA will have 387,596,900 Bonus Options and require the Company to, and the Company will be obliged to at its costs and expenses, arrange for placing of one Share of the Company per Bonus Option to investor(s) at the best price reasonably obtainable. If the placing price for each placing share of the Company is below HK\$0.129, then the Company shall pay to ICA in cash an amount equivalent to:

Amount = HK\$0.129 – the placing price (the “**Shortfall**”)

The Bonus Options are exercisable by ICA during the period beginning on the 366th day following the date of the resumption of trading of the Shares of the Company and ending on the 730th day following the date of resumption of trading of the Shares of the Company. It is expressly agreed that ICA can at most exercise the Bonus Option(s) three (3) times during the Bonus Option Period and upon each time exercising not less than 100,000,000 Bonus Options.

ICA shall exercise the Bonus Option(s) by way of giving a written notice to the Company. Within 15 Business Days after the Company’s receipt of the Bonus Option Notice, the Company shall arrange for placing of one Share of the Company per Bonus Option to the investor(s) at the best price reasonably obtainable. Within 20 Business Days after the Company’s receipt of the Bonus Option Notice, the Company shall pay to ICA the proceeds of the placing and the Shortfall, if any.

### **Conditions precedent:**

(a) the Loan Facility and each drawing of the Loan Facility are subject to the conditions precedent, and will become available to the Company (on and subject to the terms and conditions of the Loan Facility Agreement and the Deed) when ICA has confirmed receipt of all of the documents and evidence set out as below:

- (i) certified copy of the respective orders of the Bermuda Court and/or Hong Kong Courts sanctioning the Company entering into the Loan Facility Agreement and the Deed;
- (ii) certified copy of the certificate of incorporation of the Company and the Covenants;

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- (iii) certified copy of the business registration certificate of the Company and the Covenantors;
- (iv) certified copy of the bye-laws or other equivalent constitutional documents of the Company;
- (v) certified copy of the register of charges of the Company and the Covenantors;
- (vi) any other security documentation, including but not limited to a legal opinion if so required by ICA, concerning, *inter alia*, (i) first charge (s) over the Shares of the subsidiary(ies) of the Company (namely, UE (Fukang) Mining and/or UE Coking) and (ii) first charge over the core asset(s) of the subsidiary(ies) of the Company (namely, the coal coking equipment and facilities of UE Coking and/or the Xiaohuangshan Mine of UE (Fukang) Mining) and/or any other assets requested by and acceptable to ICA from time to time at its sole and absolute discretion;
- (vii) evidence, including but not limited to reports from a professional valuer and/or financial adviser if so required by ICA, to the satisfaction of ICA that the value of the security to be provided for the relevant drawing on distress or forced sale basis shall be no less than 2.5 times of the amount of the relevant drawing;
- (viii) proposed repayment schedule in respect of each drawing acceptable to ICA from time to time at its sole and absolute discretion; and
- (ix) a cash flow forecast of the relevant subsidiary of the Company and/or the consolidated cash flow forecast of the Company acceptable to ICA from time to time at ICA's sole and absolute discretion.

All the documents mentioned above shall be in form and substance satisfactory to ICA. A written confirmation of fulfilment of all the conditions shall be issued by ICA to the Company before each drawing is made.



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- (b) If the Bermuda Court and/or the Hong Kong Court (where applicable) refuse to approve the Loan Facility Agreement and the Deed and/or the Company is unable to obtain the approval(s) by 28 February 2019 (or any extension of time as may be agreed between ICA and the Company), as set out in the Loan Facility Agreement and the Deed or as varied according to the agreement entered into among the parties of the Loan Facility Agreement and the Deed, then the Loan Facility Agreement and the Deed will terminate and each party hereto shall have no liability to the other party or any person.

On 1 February 2019, the Loan Facility Agreement and the Deed were sanctioned and approved by the Bermuda Court. However, as at the Latest Practicable Date, conditions precedent of the Loan Facility Agreement and the Deed have not yet been satisfied.

Pursuant to the Loan Facility Agreement, the Deed and the subsequent confirmations of ICA, it is an event of default, among other, if (i) the Company fails to pay any sum payable or perform its obligations timely; (ii) if the Company and its covenantor failed or there occur a material adverse change affecting the Company and its covenantor's ability to perform their obligations; (iii) the winding-up petitions against the Company in Hong Kong and Bermuda are not withdrawn or dismissed by 30 June 2021; (iv) the Company cannot resume the trading of the Shares in the Stock Exchange by 30 June 2021; and (v) the Scheme is not approved by the requisite majority of the financial creditors and sanctioned by the Hong Kong Court and the Bermuda Court by 30 June 2021.

On 18 August 2020, a Supplemental Agreement in relation to the Loan Facility was entered into between ICA, the Company and the JPLs on behalf of the Company. Pursuant to which, ICA will provide a special drawing up to HK\$176 million (or any higher sum to be agreed between ICA and the Company) under the Loan Facility subject to terms and conditions set out in the Supplemental Agreement but allow the initial drawing prior to the fulfilment of the certain conditions precedent as set out in the Loan Facility Agreement and Deed. For the avoidance of doubt, any other subsequent drawings are subject to the terms and conditions of the Loan Facility Agreement and Deed.

### *Principal terms of the Supplemental Agreement*

<b>Dates:</b>	18 August 2020
<b>Parties:</b>	the Company as the borrower; ICA as the lender; and the JPLs
<b>Amount of special drawing:</b>	A sum up to HK\$176,000,000
<b>Interest rate:</b>	24% per annum until the completion of registration of a first rank charge over the Xiaohuangshan Mine, and reduced to 18% per annum

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**Repayment:**

The Company agrees that repayment of the special drawing will commence at the sixth (6th) months after the respective drawing(s) as specified below and settled in full within twenty-four (24) months.

If the Company is not able to fulfil the drawdown required for the drawing under (e) below, the repayment for the drawings under (a), (b), (c) and (d) below shall be settled in full in twelve (12) months upon its respective drawings.

**Conditions:**

ICA agrees to provide the special drawings to the Company subject to following condition(s):

- (a) A first special drawing in sum of HK\$4,000,000 for settlement of restructuring expenses of the Company — within five (5) Business Days upon signing of the Supplemental Agreement; and within 45 Business Days immediately upon receipt of the first special drawing as stated herein, the Company shall perform or procure the following:
  - (i) completion of registration of the charge over 105,388,145 issued ordinary shares of Up Energy Investment (China) Ltd (a wholly-owned subsidiary of the Company), representing 100% issued share capital of Up Energy Investment (China) Ltd in favour of ICA;
  - (ii) completion of registration of the charge over 50,000 issued ordinary shares of Up Energy International Ltd (a wholly-owned subsidiary of the Company), representing 100% issued share capital of Up Energy International Ltd in favour of ICA;
  - (iii) completion of registration of the charge over 10,000 issued ordinary shares of Up Energy (Hong Kong) Limited (an indirect wholly-owned subsidiary of the Company), representing 100% issued share capital of Up Energy (Hong Kong) Limited in favour of ICA;
  - (iv) completion of registration of a first rank charge over the share capital amounted to USD14,990,000 of UE (Fukang) Mining, representing 79.2% issued share capital of UE (Fukang) Mining in favour of ICA subject to ICA taking the legally necessary step including but not limited to lending money directly if so required to UE (Fukang) Mining;

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- (v) obtaining the necessary approval for the Supplemental Agreement, including but not limited to obtaining approval from the Bermuda Court; and
  - (vi) failing to fulfil any one condition of the above shall constitute an event of default and ICA shall terminate the special drawing and request the Company for the immediate payment of any outstanding loan amount;
- (b) a second special drawing in sum of HK\$16,000,000 for settlement of the commitment fee payable to ICA — immediately after the Company's receipt of the first special drawing as specified under (a) above;
  - (c) a third special drawing in sum of HK\$2,000,000 for settlement of restructuring expenses of the Company — within ten (10) Business Days upon settlement of the commitment fee payable to ICA as specified under (b) above;
  - (d) a fourth special drawing in sum of HK\$4,000,000 for settlement of restructuring expenses of the Company — within five (5) Business Days after the Shareholders passing all necessary resolutions at the contemplating special general meeting which are necessary for the transactions contemplated under the Creditors' Scheme to be effective in compliance with the Listing Rules, the Takeovers Code and any other requirements;
  - (e) a fifth special drawing in sum of HK\$150,000,000 for the payment or settlement of the prepayment of the resources tax in relation to the Xiaohuangshan Mine within ten (10) Business Days upon the fulfilment of the following:
    - (i) to arrange meeting(s) in relation to the Xiaohuangshan Mine for ICA's representative(s) to meet with the relevant government authorities in Xinjiang;
    - (ii) at the sole discretion of ICA that a satisfactory result in development of the Xiaohuangshan Mine is obtained in the meeting(s) as stated in (i) above;

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- (iii) completion of the assessment of the prepayment of resources tax of the Xiaohuangshan Mine and an invoice or equivalent document is issued by the relevant government authority and which is provided to ICA;
  - (iv) a feasible plan and a legal opinion to be issued by a recognized PRC law firm in Xinjiang to specify and confirm the procedures so that ICA can register a first rank charge over the Xiaohuangshan Mine (including but not limited to the mining licenses) within 30 Business Days upon the payment of the prepayment of the resources tax;
  - (v) any other documents in relation to the Xiaohuangshan Mine which is requested by ICA from time to time; and
  - (vi) any commitment in relation to Xiaohuangshan Mine which ICA deems necessary to protect its interest;
- (f) The Company undertakes to procure and provide all necessary assistance to UE (Fukang) Mining to complete registration of a first rank charge over the Xiaohuangshan Mine (including but not limited to the mining licenses) within 30 Business Days upon the payment of the prepayment of the resources tax.

On 19 August 2020, the Company received the first special drawing from ICA under the Supplemental Agreement. As at the Latest Practicable Date, the Company is in the process of fulfilling the conditions (a) and (e) stated above.

The repayment will commence in February 2021 and all the principal and interests will be settled by January 2023. If the Company is unable to fulfil the condition(s) required for the fifth special drawing, the repayment for the other special drawings shall be settled in 12 months upon its respective drawings. The repayment will be financed by the profits generated from UE Coking and UE (Fukang) Mining.

The Loan Facility is proposed to ease the Group's liquidity challenge and to facilitate the restructuring of the Company. The Company expects that the Loan Facility can fully cover its financial needs.

### **(5) Placing of new shares under specific mandate**

Pursuant to the Placing Agreement dated 18 May 2018 entered into between the Company as the issuer and SBI as the Placing Agent, SBI has conditionally agreed to place, on a best efforts basis, up to 2,000,000,000 Placing Shares of nominal value of HK\$0.01 each at the

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placing price of HK\$0.129 per Placing Share to not less than six Placees who are independent of and not connected with the Group and independent of and not acting in concert with Up Energy Group. SBI has contacted six potential placees who intend to subscribe to a total of 150,000,000 Placing Shares at HK\$0.129. The subscription of the remaining 1,850,000,000 Placing Shares is subject to uncertainties and further development of the restructuring of the Company. Further announcements will be made in relation to the proposed placing of new Shares.

The details of the principal terms of the Placing Agreement are summarised as follows:

*Principal terms of the Placing Agreement*

- Date:** 18 May 2018
- Parties:** the Company; and SBI as Placing Agent
- Placing Shares:** 2,000,000,000
- Placing price:** HK\$0.129
- Placees:** not less than six (6) professional and institutional investors or other investors procured by SBI, who shall be independent of and not connected with the Company and its subsidiaries and independent of and not acting in concert with Up Energy Group, to subscribe for the Placing Shares on a best efforts basis
- Placing commission:** 5% of the aggregate amount equal to the placing price multiplied by the actual number of Placing Shares successfully placed by the Placing Agent
- Conditions precedent:**
- (a) where necessary, the Shareholders and the board of directors of the Company having approved the Placing Agreement and other transactions contemplated under the Placing Agreement (including, without limitation to, allotment and issue of the Placing Shares) at a general meeting of the Company or at the board meeting of the Company to be convened in accordance with the Listing Rules;
  - (b) the Capital Reduction having become effective;
  - (c) the Listing Committee having granted or agreed to grant (subject to allotment and/or despatch of certificates for the Placing Shares) the approval for listing of, and permission to deal in, the Placing Shares either unconditionally or subject to such conditions as may be accepted by the Company;

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- (d) the Stock Exchange having granted its conditional or unconditional approval to allow for the Company to proceed with the resumption of trading in the Shares on the Stock Exchange in principle and all conditions attached to such approval or decision (if any) having been fulfilled or waived by the Stock Exchange;
- (e) the petition brought by Credit Suisse AG, Singapore Branch to wind up the Company in the Companies Winding-up Proceedings No. 183 of 2016 having been stayed and/or dismissed and an order to that effect having been made by and filed at the Bermuda Court;
- (f) the petition brought by Satinu Markets Limited (previously known as HEC Securities Limited) to wind up the Company in the Companies Winding-up Proceedings No. 91 of 2016 (HCCW 91/2016) having been stayed and/or dismissed and an order to that effect having been made by and filed at the Hong Kong Court;
- (g) in compliance with any other requirements under the Listing Rules or otherwise of the Stock Exchange or other regulatory authorities or any applicable laws and regulations which requires compliance at any time prior to completion of the Placing;
- (h) Creditors Scheme having been approved by the Bermuda Court and the Hong Kong Court and under which, all the financial liabilities of the Company or at the minimum, all the outstanding convertible bonds of the Company, will be converted into the Shares at HK\$0.129 per share;
- (i) completion of the Placing at the same time as or immediately after the approval of the Creditors Scheme; and
- (j) any other approval, consent and/or waiver as may be required by any relevant courts, governments, regulatory authorities or relevant third parties and applicable laws, rules and/or regulations for the Placing and other transactions contemplated under the Placing Agreement shall have been obtained (if required).

As of the Latest Practicable Date, the Placing Agreement remains valid and SBI confirms that they are ready to proceed with the Placing Agreement, subject to the conditions precedent.

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The Placing Shares will rank *pari passu* in all respects with the Shares on the date of the issuing and allotment of the Placing Shares.

Assuming that all the Placing Shares are fully placed, the estimated net proceeds from the Placing will amount to approximately HK\$0.2 billion. The Company intends to utilise the net proceeds of the Placing as an alternative funding for the Company to ease the Group's liquidity challenge and to facilitate the restructuring of the Company.

### *Placing Specific Mandate*

The placing of new shares is subject to the Shareholders' approval. The Company proposes to seek the grant of the Placing Specific Mandate from the Shareholders at the SGM for the issuing and allotment of the Placing Shares.

## **EQUITY FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

The Company has not conducted any fundraising activities in the past 12 months immediately preceding the Latest Practicable Date.

## **EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

The following table sets forth the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after issuing and allotment of Scheme Shares (assuming no contingent claims admitted under the Scheme); (iii) immediately after issuing and allotment of Scheme Shares (assuming all contingent claims admitted under the Scheme); (iv) immediately after issuing and allotment of Scheme Shares and Bonus Shares (assuming all contingent claims admitted under the Scheme); and (v) immediately after issuing and allotment of Scheme Shares and Bonus Shares and the completion of placing of new Shares (assuming all contingent claims admitted under the Scheme):

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	As at the Latest Practicable Date		Immediately after issuing and allotment of Scheme Shares (assuming no contingent claims admitted under the Scheme)		Immediately after issuing and allotment of Scheme Shares (assuming all contingent claims admitted under the Scheme)		Immediately after issuing and allotment of Scheme Shares and Bonus Shares (assuming all contingent claims admitted under the Scheme)		Immediately after issuing and allotment of Scheme Shares and Bonus Shares and the completion of placing of new Shares (assuming all contingent claims admitted under the Scheme)	
	Approx.		Approx.		Approx.		Approx.		Approx.	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
<b>Shareholders</b>										
<i>Creditors</i>										
Up Energy Group and parties acting in concert with it (including the receiver and a Director) (Note 1)	1,377,073,492	30.34	19,805,644,457	50.32	19,805,644,457	38.73	19,805,644,457	38.29	19,805,644,457	36.87
Hao Tian Group (Note 2)	371,500,000	8.19	371,500,000	0.94	5,797,856,590	11.34	5,797,856,590	11.21	5,797,856,590	10.79
Exploratory Capital Limited (Note 3)	300,000,000	6.61	311,248,063	0.79	311,248,063	0.61	311,248,063	0.60	311,248,063	0.58
Bank of Communications Trustee Limited (Note 4)	62,134,000	1.37	64,808,419	0.16	64,808,419	0.13	64,808,419	0.13	64,808,419	0.12
Asia Light Enterprises Limited (Note 5)	20,000,000	0.44	402,264,446	1.02	402,264,446	0.79	402,264,446	0.78	402,264,446	0.75
Ms. Ma Hiu Ngai (Note 6)	2,000,000	0.04	59,270,310	0.15	59,270,310	0.12	59,270,310	0.11	59,270,310	0.11
Capital Sunlight Limited (Note 7)	1,556,425	0.03	4,533,472,733	11.52	4,533,472,733	8.87	4,533,472,733	8.77	4,533,472,733	8.44
Holders of Bonus Shares (Note 8 and 9)	—	—	—	—	—	—	581,395,350	1.12	581,395,350	1.08
Other Directors (except a Director who is acting in concert with Up Energy Group) (Note 10)	24,100,000	0.53	42,017,252	0.11	42,017,252	0.08	42,017,252	0.08	42,017,252	0.08
Other Creditors (Note 11)	—	—	11,391,474,838	28.94	17,742,153,492	34.69	17,742,153,492	34.30	17,742,153,492	33.03
Placees	—	—	—	—	—	—	—	—	2,000,000,000	3.72
Other public Shareholders	2,380,151,494	52.44	2,380,151,494	6.05	2,380,151,494	4.65	2,380,151,494	4.60	2,380,151,494	4.43
<b>Total</b>	<b>4,538,515,411</b>	<b>100.00</b>	<b>39,361,852,012</b>	<b>100.00</b>	<b>51,138,887,256</b>	<b>100.00</b>	<b>51,720,282,606</b>	<b>100.00</b>	<b>53,720,282,606</b>	<b>100.00</b>

\* The percentages above are subject to rounding error.

### Note

- Messrs Lai Kar Yan, Yeung Lui Ming and Ho Kwok Leung Glen, all of Deloitte Touche Tohmatsu, have been appointed as joint and several receivers over, amongst others, 1,331,051,890 issued shares of the Company and the Convertible Notes issued by the Company in the face value of HK\$2,189,250,000 (collectively known as the "Charged Assets") by China Minsheng Bank Corp. Ltd. Hong Kong Branch acting in its capacity as a secured lender with first fixed charge over the Charged Assets. Mr. Wang Chuan, a Director of the Company, is the brother of Ms. Wang Jue, who is one of the beneficiaries of the J&J Trust of which indirectly holds 100% interest in Up Energy Group. Mr. Wang Chuan is not a shareholder of the Company but is a creditor of the Company under the Scheme claiming for a sum of HK\$721,966.67 and shall have the same entitlement as other Creditors. Up Energy Group and parties acting in concert with it will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.



## LETTER FROM THE JPLS

Set out below is a breakdown of the shareholding of Up Energy Group and parties acting in concert with it:

Up Energy Group and parties acting in concert with it	As at the Latest Practicable Date		Immediately after issuing and allotment of Scheme Shares (assuming no contingent claims admitted under the Scheme)		Immediately after issuing and allotment of Scheme Shares (assuming all contingent claims admitted under the Scheme)		Immediately after issuing and allotment of Scheme Shares and Bonus Shares (assuming all contingent claims admitted under the Scheme)		Immediately after issuing and allotment of Scheme Shares and Bonus Shares and the completion of placing of new Shares (assuming all contingent claims admitted under the Scheme)	
	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %
Up Energy Group	1,377,073,492	30.34	19,800,047,816	50.30	19,800,047,816	38.72	19,800,047,816	38.28	19,800,047,816	36.86
Mr. Lai Kar Yan	1,331,051,890	29.33	18,949,265,950	48.14	18,949,265,950	37.05	18,949,265,950	36.64	18,949,265,950	35.27
Mr. Yeung Lui Ming	1,331,051,890	29.33	18,949,265,950	48.14	18,949,265,950	37.05	18,949,265,950	36.64	18,949,265,950	35.27
Mr. Ho Kwok Leung Glen	1,331,051,890	29.33	18,949,265,950	48.14	18,949,265,950	37.05	18,949,265,950	36.64	18,949,265,950	35.27
Mr. Wang Chuan	—	—	5,596,641.00	0.01	5,596,641.00	0.01	5,596,641.00	0.01	5,596,641.00	0.01

\* *The percentages above are subject to rounding error.*

2. Hao Tian Group is an ordinary shareholder of the Company interested in 371,500,000 Shares and is also a creditor of the Company under the Scheme with a contingent claim of HK\$700,000,000. As a Creditor Shareholder, Hao Tian Group will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.
3. Exploratory Capital Limited is an ordinary shareholder of the Company interested in 300,000,000 Shares and is also a creditor of the Company under the Scheme with a claim of HK\$1,451,000. As a Creditor Shareholder, Exploratory Capital Limited will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.
4. Bank of Communications Trustee Limited is an ordinary shareholder of the Company interested in 62,134,000 Shares and is also a creditor of the Company under the Scheme with a claim of HK\$345,000. As a Creditor Shareholder, Bank of Communications Trustee Limited will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.
5. Asia Light Enterprises Limited is an ordinary shareholder of the Company interested in 20,000,000 Shares and is also a creditor of the Company under the Scheme with a claim of HK\$49,312,113.53. As a Creditor Shareholder, Asia Light Enterprises Limited will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.
6. Mr. Pan Li Hui, the spouse of Ms. Ma Hiu Ngai, is interested in 2,000,000 Shares. Ms. Ma Hiu Ngai therefore is deemed to be interested in the relevant Shares by virtue of the SFO and is also a creditor of the Company under the Scheme with a claim of HK\$7,387,869.91. Ms. Ma Hiu Ngai, as a Creditor Shareholder, and Mr. Pan Li Hui will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.
7. Capital Sunlight Limited is an ordinary shareholder of the Company interested in 1,556,425 Shares and is also a creditor of the Company under the Scheme with a claim of HK\$584,617,203.68. As a Creditor Shareholder, Capital Sunlight Limited will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.
8. Pursuant to the Loan Facility Agreement and the Deed, Bonus Shares amounted to approximately HK\$2.33 million which are equivalent to 232,558,140 Shares would be issued conditionally to ICA.

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9. Pursuant to the Service Agreement entered with Kaisun Consulting (a subsidiary of Kaisun Holdings Limited) dated 8 August 2018, Bonus Shares amounted to approximately HK\$3.49 million which are equivalent to 348,837,210 Shares would be issued to Kaisun Consulting upon fulfilment of agreed conditions.
10. Up to the Latest Practicable Date, the total amounts respectively due to Mr. Zhang Li, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng are illustrated as follows:

	<b>Approximate amount due</b> <i>(HK\$)</i>
Mr. Zhang Li	1,016,667
Mr. Zheng Yuan	453,467
Mr. Li Bao Guo	317,665
Mr. Liu Yongshun	317,665
Mr. Wu Yanfeng	205,861
<b>Total</b>	2,311,325

Under the Scheme, Mr. Zhang Li, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng shall have the same entitlement as other Creditors. Pursuant to the terms of the Scheme, one Scheme Share will be allotted and issued for every HK\$0.129 of the Admitted Claims. Based on the available books and records of the Company, it is expected that the entitlement of Mr. Zhang Li, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng under the Scheme respectively are as follows:

	<b>Value of Scheme</b> <b>Shares to be issued</b> <i>(HK\$)</i>	<b>Issue Price</b> <i>(HK\$)</i>	<b>Number of Scheme</b> <b>Shares to be issued</b>
Mr. Zhang Li	1,016,667	0.129	7,881,137
Mr. Zheng Yuan	453,467	0.129	3,515,246
Mr. Li Bao Guo	317,665	0.129	2,462,522
Mr. Liu Yongshun	317,665	0.129	2,462,522
Mr. Wu Yanfeng	205,861	0.129	1,595,825
<b>Total</b>	3,033,292		17,917,252

As at the Latest Practicable Date, Ms. Chen Wan, the wife of Mr. Zhang Li, is interested in 24,100,000 Shares, representing approximately 0.53% of the total issued share capital of the Company. Mr. Zhang Li therefore is taken to be interested in the relevant Shares by virtue of the SFO. Mr. Zhang Li, as a Creditor Shareholder, and Ms. Chen Wan will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.

11. Other Creditors are Creditors excluding Up Energy Group and parties acting in concert with it (including Deloitte Touche Tohmatsu as receiver and a Director), Hao Tian Group, Exploratory Capital Limited, Communications Trustee Limited, Asia Light Enterprises Limited, Ms. Ma Hiu Ngai, Capital Sunlight Limited, holders of Bonus Shares and other Directors (except a Director who is acting in concert with Up Energy Group).

## BACKGROUND TO AND REASONS FOR THE CREDITORS' SCHEME

### The Company

The Company was incorporated in Bermuda with limited liability on 30 October 1992. The principal activities of the Group were the mining of coking coal and the production and sale of raw coking coal, clean coking coal, coking and chemical products.

## LETTER FROM THE JPLS

### **Winding up petition and appointment of JPLs**

On 29 March 2016, Satinu Markets Limited (previously known as HEC Securities Limited) presented a petition in the Hong Kong Court under HCCW 91 of 2016 to wind up the Company.

On 6 May 2016, Credit Suisse AG, Singapore Branch presented the petition in the Bermuda Court to wind up the Company under 2016 No. 183.

The JPLs were appointed pursuant to the order of the Bermuda Court dated 7 October 2016 and amended on 28 October 2016 and were authorised under the laws of Bermuda to, amongst other things, consult with the Company in respect of, and review, on an ongoing basis, the Company's restructuring proposal including with respect to the necessary steps which need to be taken, and conditions to be met, in order for the restructuring proposal to be successfully implemented and to consider and consent to the terms of any scheme of arrangement proposed by the Company under the provisions of section 99 of the Bermuda Companies Act prior to any applications being made to the Bermuda Court to proceed with the scheme. The JPLs were granted further powers pursuant to the Order of the Bermuda Court dated 28 April 2017.

The appointment of the JPLs was recognised by the Hong Kong Court pursuant to the Order granted by the Honourable Mr. Justice Harris dated 16 August 2017 in HCMP 1570 of 2017.

### **Listing status of the Company**

The Shares are listed on the Main Board with stock code 307. The Shares have been listed on the Main Board since 2 December 1992. Trading in the Shares on the Main Board has been suspended since 30 June 2016.

On 18 October 2016, the Company was placed into the first delisting stage under Practice Note 17 to the Listing Rules with the Resumption Conditions. The Resumption Conditions are as follows:

- (i) Demonstrate the Company has sufficient level of operation or assets of sufficient value as required under Rule 13.24 of the Listing Rules;
- (ii) Publish all outstanding financial results and address audit qualification (if any); and
- (iii) Having the winding-up petitions against the Company (and its subsidiaries) withdrawn or dismissed and the JPLs discharges.

By a letter dated 19 April 2017 issued by the Stock Exchange, the Stock Exchange informed the Company that the Company was placed in the second stage of delisting and that the Company must submit a viable resumption proposal at least 10 Business Days before the second delisting stage expires, i.e. 29 September 2017.

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Although a draft resumption proposal was submitted to the Stock Exchange on 29 September 2017, which was subsequently modified on 9 November 2017, the Listing Department of the Stock Exchange informed the Company that the draft resumption proposal was not viable and the Company was placed in the third stage of delisting on 17 November 2017.

On 28 November 2017, the Company applied to the Listing Committee of the Stock Exchange and subsequently applied to the Listing (Review) Committee of the Stock Exchange for a review of the decision. However, the decision was upheld and the Company was placed in the third stage of delisting stage by a letter dated 31 August 2018 issued by the Stock Exchange, that the Company must submit a viable resumption proposal at least 10 Business Days before the third delisting stage expired, i.e. 25 February 2019.

On 25 February 2019, a fresh resumption proposal of the Company was submitted to the Stock Exchange. By a letter dated 20 March 2020 issued by the Stock Exchange, the Stock Exchange informed the Company that the resumption proposal was not viable and decided to cancel the listing of the Shares on the Main Board under Practice Note 17 to the Listing Rules with effect from 6 April 2020.

On 30 March 2020, after considering legal and professional advice, the Company lodged a written request to the Listing Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision to cancel the listing of the Shares on the Main Board. The Listing (Review) Committee accepted the review application and the review hearing was held on 28 September 2020. However, the Listing (Review) Committee considered that the proposal was not viable and decided to uphold the Listing Committee's decision.

On 6 November 2020, the Company made an application to the Listing Appeals Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision of the Listing (Review) Committee on the cancellation of the listing of the Shares on the Main Board. As at the Latest Practicable Date, the Listing Appeals Committee accepted the review application and the review hearing date has not been fixed. To the best of the JPLs' knowledge after making reasonable enquiries, the review hearing is anticipated to be held in late February 2021, subject to the further confirmation of the Listing Appeals Committee.

## LETTER FROM THE JPLS

### Proposed Restructuring of the Group

The Proposed Restructuring involves, amongst other things, the Capital Restructuring, the debt restructuring pursuant to the Scheme, the loan facilities from financiers and/or lenders, and the placing of new Shares. These transactions are summarised below.

#### (a) *Capital Restructuring*

Under the Capital Restructuring, the Company's share capital will be restructured by way of Capital Reduction, Capital Cancellation, Reduction in Authorised Share Capital and Increase in Authorised Shares, and issuing and allotment of New Shares.

##### (i) *Capital Reduction*

The value of every Share shall be reduced from HK\$0.20 to HK\$0.01 by the reduction of HK\$0.19 value for each Share.

##### (ii) *Capital Cancellation*

Immediately after the Capital Reduction becoming effective, the existing unissued share capital of the Company of HK\$194,614,845.89 (including HK\$40,000,000 of the unissued convertible non-voting preference shares at HK\$0.02 each) will be cancelled in its entirety.

##### (iii) *Reduction in Authorised Share Capital and Increase in Authorised Shares*

Immediately after the Capital Reduction and Capital Cancellation becoming effective, the authorised share capital of the Company is proposed to reduce from HK\$4,040,000,000 divided into 22,000,000,000 Shares to HK\$2,200,000,000 divided into 220,000,000,000 Shares with a nominal value of HK\$0.01 per share.

##### (iv) *Issuing and allotment of New Shares*

Up to 46,600,371,845 Scheme Shares and 581,395,350 Bonus Shares with a nominal value of HK\$0.01 each will be issued and allotted.

The proposed Capital Restructuring will result in the change of the issued share capital of the Company in the manner explained in the following table:

<b>Issued share capital of the Company</b>	
Before Capital Restructuring	4,538,515,411 issued shares×HK\$0.20 each = HK\$907,703,082.20
After Capital Restructuring	<b>Capital Reduction</b> 4,538,515,411 issued shares×HK\$0.01 each = HK\$45,385,154.11

## LETTER FROM THE JPLS

### Issued share capital of the Company

#### Issuing and allotment of New Shares

(46,600,371,845 Scheme Shares + 581,395,350

Bonus Shares)

×HK\$0.01 each

= HK\$471,817,671.95

#### Total

HK\$45,385,154.11 + HK\$471,817,671.95

= HK\$517,202,826.06

These figures may vary depending on the final adjudication of Admitted Claims and the valuation of any Securities Interest held by Creditors, if not surrendered in advance of adjudication.

### *(b) Debt restructuring pursuant to the Scheme*

Based on the information and documents available to the JPLs up to the Latest Practicable Date, it was estimated that the total indebtedness owed by the Company to its Creditors amounts to approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any Securities Interest pending valuation of the same by the Scheme Administrator). Under the Scheme, upon the Effective Date, the Scheme Administrator will allot the Scheme Shares to the Creditors with Admitted Claims based on their Admitted Claims and all the liabilities of the Company due to the Creditors will be compromised and discharged in full by arrangements contemplated under the Scheme.

From the Effective Date, each of the Creditors discharges and waives all its Claims in consideration for the right to participate with each of the other Creditors in the issuing and allotment of Scheme Shares pursuant to the terms of the Scheme.

### *(c) Facility from Financiers and/or Lenders*

The JPLs have liaised with financiers and/or lenders for loan facilities for the operational costs and general working capital of the Group.

On 6 March 2018, the Loan Facility Agreement, which is subject to the approval being granted by the Bermuda Court and/or the Hong Kong Court (where applicable), was entered into between ICA being the lender, the Company and the JPLs on behalf of the Company. Subsequently on 14 January 2019, ICA, the Company and the JPLs on behalf of the Company entered into the Deed.

Pursuant to the Loan Facility Agreement and the Deed, ICA agreed to provide a loan facility of up to HK\$800 million to the Company for a period of 3 years upon the approval of the Loan Facility Agreement being granted by the relevant Court(s) and fulfilments of the conditions precedent. Subsequently on 1 February 2019, the Loan Facility Agreement and the Deed were approved and sanctioned by the Bermuda Court. As at the Latest Practicable Date, conditions precedent of the Loan Facility Agreement and the Deed have not yet been fully

## LETTER FROM THE JPLS

satisfied. However, on 18 August 2020, ICA, the Company and the JPLs on behalf of the Company entered into the Supplemental Agreement which, *inter alia*, exempt the Company from satisfying of the certain of those condition precedent prior to the drawdown from the Loan Facility and the Company obtained first special drawing from ICA on 19 August 2020. It is considered that the availability of the Loan Facility would enable the Company to ease the Group's liquidity challenges and facilitate the restructuring of the Company. For the avoidance of doubt, the Loan Facility is subject to time extension.

Pursuant to the Service Agreement dated 8 August 2018 entered into between the Company and Kaisun Consulting, the Company engaged Kaisun Consulting as a coordinator and introducer of financing. Upon Kaisun Consulting's successful introduction of funder(s) to the Company and that the Company enters into any formal and legally binding agreements and/or other contractual arrangements with the funder(s), the funder(s) will provide to the Group in total not less than HK\$400 million or such amount deemed sufficient to resume the Company's business.

***(d) Placing of new Shares under specific mandate***

On 18 May 2018, a Placing Agreement has been entered into between the Placing Agent, namely SBI, and the Company. Pursuant to the Placing Agreement, SBI has agreed, among others, to procure subscriptions for 2,000,000,000 Placing Shares of nominal value of HK\$0.01 each at the placing price HK\$0.129 per Placing Share on a best efforts basis during the placing period, i.e. commencing upon the execution of the Placing Agreement and terminating at three months from the date of the general meeting of the Shareholders for approving the Placing Agreement and the transactions contemplated hereunder (or such later date as may be agreed between SBI and the Company), unless terminated earlier in writing pursuant to the terms of the Placing Agreement.

***(e) The Company expected to carry on as going concern after Proposed Restructuring***

The main reasons which led to the insolvency of the Company were the general and prolonged downturn of the coal and coking industry in the PRC since 2011, over-investment and/or unhealthy capital structures to finance the medium-to-long term mining projects by the utilisation of short-to-medium term debt.

The core business of the Company has been the development of three coal mines together with the auxiliary facilities (i.e. Coking Plant, Washing Plant and Water Recycling Plant) in Xinjiang, the PRC. All these three mines and the facilities were in the development stage at the material times and only the development of the Coking Plant had been partially completed and had started production since around late 2013. The Company had further acquired two mines located in the southern region of Xinjiang, the PRC, namely Baicheng Mine, and in Alberta, Canada, namely GCC Mine respectively during 2013 to 2015.

The Company relied on short-to-medium term financing to finance the acquisitions of these mining assets as well as the subsequent developments of these mining assets. However, the coal and coke prices had fallen since 2011 for around 5 years till around 2016. Due to the downturn of the coal and coke market during 2011 to early 2016, the Company faced difficulties in financing its development of its mining assets since or around 2015. At the same

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time, its only major operations, the coking plant and trading of coal, had also operated at a loss due to the then market conditions. The Company was unable to support its development of its mining assets and the repayment of its debts when they became due.

In early 2017, the Baicheng Mine was listed as one of the 109 mines in Xinjiang to be closed down by the Xinjiang Government due to the coal mines having annual capacity below 300,000 metric tonnes. The Baicheng MLR had issued notices of mining licence cancellation to UE (Baicheng) Mining, an indirect wholly-owned subsidiary of UE Mining which owns and operates the Baicheng Mine, urging UE (Baicheng) Mining to proceed with the corresponding cancellation procedure with the Baicheng MLR, in mid-2017. Subsequently, the mining licence of the Baicheng Mine was revoked by the Baicheng MLR. UE (Baicheng) Mining will continue to use its best endeavour to protect its legal rights according to the relevant laws and legislations available as long as it is practical to do so.

On 3 February 2017, all assets of GCC and the relevant related companies of GCC, including but not limited to the GCC Mine, were put into receivership by China Minsheng Banking Corp. Ltd and Deloitte Restructuring Inc. in Canada was appointed as receiver and manager pursuant to an Order granted on the same date by the Court of Queen's Bench of Alberta, Canada. Deloitte Restructuring Inc. has advertised for Invitations for offers to purchase the business and/or assets of GCC and related companies on 10 July 2017. According to the information available, the disposal of the assets of GCC has been completed in 2018 and there will not be any surplus payable back to the shareholder of GCC.

However, the elimination of excess capacity and the consolidation of the coal and coke industry in the PRC has led to a substantial improvement of the coal and coke industry since or around 2016. The price of both coal and coke has started to recover since or around 2016 and the coal and coke prices have been maintained at a relatively high level. The demand for coal and coke has also been strong in Xinjiang since 2016.

Given the limited number of coal coking plants in the northern region of Xinjiang Province, the PRC still in operation after the PRC government's implementation of stringent consolidation, elimination of excess capacity and environmental protection policy for coal coking plants, a barrier of entry has been created. Taking into account in particular (i) the entry barrier; (ii) the high demand of coke in the Xinjiang region and other close-by provinces; (iii) the relatively cheaper coking coal resources in Xinjiang area than other nearby provinces; and (iv) UE Coking has been equipped with more advanced and the latest facilities comparing with the other coking plants in Xinjiang province, UE Coking is expected to be able to achieve outstanding results.

### **Status of UE Coking**

The Coking Plant is located in Fukang. The principal activities of UE Coking are the production and sale of cokes and chemical products. From February 2017 to September 2017, production of UE Coking had ceased due to the tightening of environmental protection policies and for the upgrading and completion of various environmental and other auxiliary facilities. In November 2017, commercial production resumed and the operation of the Coking Plant has remained stable since then.



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Due to its cessation of operations from February 2017 to September 2017 and the adverse market conditions, UE Coking had undergone a debt restructuring and the same was completed. The majority of the liabilities of UE Coking had been settled in discount by the funds, which were secured by the court appointed administrator in PRC, from Taihua.

As at the Latest Practicable Date, UE Coking is still in negotiation with Taihua in respect of the repayment plan and a preliminary consent has been reached between the Company and Taihua where the repayment to Taihua will either be settled by (i) issue of new shares of UE Coking which shall be not more than an amount resulting in the Company losing the controlling interest of UE Coking; and/or (ii) by way of cash.

In addition, as UE Coking has a relatively tight cash flow subsequent to the resumption of the commercial production, Taihua had also been giving support to the funding needed for the normal operation of UE Coking, *inter alia*, the prepayment of raw materials. Under the industry practice, the purchase of coal requires the prepayment from the customer a month in advance due to the high demand of coking coals in Xinjiang region. In the circumstances, Taihua sourced coals from its external suppliers and sold to UE Coking in order to provide a credit relief to UE Coking. In addition, UE Coking had been under the debt restructuring and could not engage in its customers directly without going through bureaucratic procedures. The state-owned entities were not willing to enter into business relationships with UE Coking as it was under debt restructuring. In such circumstances, Taihua acted as the “distributor” of the products of UE Coking by purchasing the products from UE Coking and then sell to the customers. Nevertheless, the facilitation by Taihua could assist UE Coking to stabilise its operation so as to enhance the ability of the repayment of UE Coking to Taihua. Besides, Taihua intends to create synergy between UE Coking and Taihua itself to dominate the market in the region nearby after the resumption of the normal business of UE Coking, as UE Coking is a sizeable coking plant with latest technology and facilities in Xinjiang.

In any event, since the resumption of the commercial production of UE Coking, the Coking Plant has been generating an average monthly net profit of approximately RMB2.8 million. In the first year after the resumption of commercial production, UE Coking had relied heavily on the support of Taihua in respect of the purchase of the coals and the sales of production due to the factors mentioned in the above paragraphs. However, subsequent to the completion of the debt restructuring and having considered the production and cash flow of UE Coking became more stable and favourable, UE Coking sourced its raw materials directly from four other suppliers, excluding Taihua, and established business relationship with other customers directly. Once the Company obtained funding from the Loan Facility Agreement or Placing Agreement or other means to work up the repayment plan with Taihua and ease the working capital issue, UE Coking could be operated and self-financed independently.

### **Status of Xiaohuangshan Mine**

Beside the coking coal plant, the Company’s focus will be on putting Xiaohuangshan Mine into full production. The Company has further secured appropriate and sufficient funding to complete the remaining construction of the Xiaohuangshan Mine. Thus, the Company should

## LETTER FROM THE JPLS

be in a much better position after the successful implementation of the Proposed Restructuring to face any adverse market environment, especially once the Xiaohuangshan Mine is being put into a permanent stage of production.

The Company considers that all the major obstacles for resuming the construction of the Xiaohuangshan Mine have been cleared, except for obtaining the hard copy of the renewed mining license after resolving the issue of implementation of new policy of Resources Tax.

As informed by the Xinjiang Government, a new policy has been imposed on all the mining companies in Xinjiang and a “trial run” has been adopted in implementing the policy of Resources Tax. Under the new policy, all the mining companies in Xinjiang are required to prepay the Resources Tax prior to the extraction and the sales of the coals when they obtain or renew mining licenses. The amount of the Resources Tax is calculated on the basis of a fixed scale over the coal resources of the mine assessed.

The management of UE (Fukang) Mining was in active discussion with the Xinjiang Government and relevant authorities as to whether UE (Fukang) Mining should be subject to or be exempted from the “trial run” of the new policy for the prepayment of the Resources Tax. Concurrently, the management of UE (Fukang) Mining was in discussion with a panel valuer in order to commence the evaluation of the coal resources of the Xiaohuangshan Mine and to assess the amount of the prepayment of Resources Tax, if indeed required.

After various discussions with the management of UE (Fukang) Mining and the relevant authorities in Xinjiang, the management of UE (Fukang) Mining is of the view that the Xinjiang Government and relevant authorities are unlikely to exempt UE (Fukang) Mining from the trial run of the new policy for the prepayment of Resources Tax.

The amount of Resources Tax payable by UE (Fukang) Mining is calculated based on the marketable coal reserves of the mine, which are required to be first assessed by a panel valuer approved by the authorities and further approved by the authorities. A panel valuer has been engaged in this regard and UE (Fukang) Mining is waiting the result so as to ascertain the Resources Tax amount payable.

Meanwhile, based on the discussions between the management of UE (Fukang) Mining and the relevant authorities, it is provisionally estimated that the amount of the prepayment of the partial Resources Tax would be approximately RMB130 million. Once the prepayment amount of the partial Resources Tax is confirmed after the completion of the valuation, UE (Fukang) Mining will subsequently arrange its prepayment and resume the construction of the Xiaohuangshan Mine.

Pursuant to the Loan Facility Agreement, the Deed and the Supplemental Agreement, the Company may utilise the Loan Facility to settle the Resources Tax. However, as mentioned under the section “Loan Facility Agreement” above, ICA requires the Company to fulfil certain conditions as pre-requisite for the Loan Facility drawdown, such as arrange meeting(s) in relation to the Xiaohuangshan Mine for ICA’s representative to meet with the relevant government authorities in Xinjiang, however severe travel restrictions were imposed by both

## LETTER FROM THE JPLS

PRC and Hong Kong governments due to the current COVID-19 pandemic. As such, the Company closely monitoring the development of the situation and attempts to arrange the meetings immediately once the travel restrictions are eased.

Alternatively, the Company has entered into the Placing Agreement and subject to the approval and the timing of the payment, the Group may apply the fund raised from the placing to settle the Resources Tax upon the Stock Exchange having approved the resumption of the trading of the Shares.

Furthermore, the Company is exploring for other financing options including but not limited to request for deposit or financing from the contractor.

While the management of UE (Fukang) Mining is in discussion with the authorities in respect of the prepayment of Resources Tax, the management also took this opportunity to seek the approval of the authorities to allow UE (Fukang) Mining to amend the design of the development plan of the exploration of the upper coal seams in a way which would be more costs efficient and potentially yield higher output. This new development plan has been approved by the authorities. Although the mining license was expired on 30 December 2019, the Company has already applied for renewal for a period not less than 2 years and such application is currently in the process.

### **Project Services Agreement**

Reference is made to the announcement of the Company dated 12 September 2018, in relation to, *inter alia*, the Company entering into of (i) the EPC Master Construction Project Framework on 20 August 2018; and (ii) the Project Service Agreement with NPCE on 31 August 2018, pursuant to which NPCE agreed to provide management services on the construction of Xiaohuangshan Mine, Quanshuigou Mine, Shizhuanggou Mine, the second coking oven of the Coking Plant and other auxiliary plants. The Company is of the view that the engagement of NPCE will facilitate the resumption of the construction and development of the Company's principal assets, including in the first instance the Xiaohuangshan Mine, and is, therefore, in the interests of the Shareholders, Creditors and the Company as a whole. The principal terms of the Project Services Agreement are as follows:

Date:	31 August 2018
Parties:	NPCE (as the Contractor); and the Company
Scope of work:	NPCE to provide management services to the Company, including but not limited to resource management, sourcing sub-contractor(s) for the construction of each project, and project finance management

## LETTER FROM THE JPLS

- Projects:** Project 1: construction of the remaining part of the Upper Seam and the construction of the Lower Seam; Project 2: construction of Quanshuigou Mine; Project 3: construction of Shizhuangou Mine; Project 4: construction of second coking oven; Project 5: construction of Washing Plant; and Project 6: construction of Water Recycling Plant
- Management fee:** The Company shall pay NPCE 3.5% of the amount agreed under each of the sub-contractors successfully procured, 5% of which is payable within 28 days after the sub-contracting agreement being effective and the remaining 95% of which is payable based on the progress of the relevant project.
- Construction fee:** The Company shall prepay no more than 10% of the sub-contracting agreement to NPCE before the commencement of the relevant project. Payment to the sub-contractor shall be based on the progress of the project; nevertheless, no more than 50% of the total project cost shall be paid prior to the completion of the relevant project. The remaining amount shall be payable to the sub-contractor at the 1st anniversary of the inspection of each project upon completion.

For avoidance of doubts, as of the Latest Practicable Date, the EPC Master Construction Project Framework and the Project Service Agreement remains valid and will be carried on once the Company commence the mine development pursuant to the terms and conditions.

### **Xiaohuangshan Mine Construction Agreement and the Xiaohuangshan Mine Supplemental Agreement**

On 6 September 2018, NPCE has procured, and UE (Fukang) Mining has entered into, the Xiaohuangshan Mine Construction Agreement and the Xiaohuangshan Mine Supplemental Agreement with a sub-contractor, WZJF, for the construction of the Xiaohuangshan Mine. The engagement of WZJF is expected to provide adequate working capital as required for the construction of the remaining part of the Upper Seam in return for repayment to WZJF in the future as UE (Fukang) Mining will sell its coal resources and realise profit.

The management of the Company and the JPLs are of the view that the construction of the Xiaohuangshan Mine can be resumed without heavy investment and interest cost to the Company under the Xiaohuangshan Mine Construction Agreement and its supplemental agreement, consequently, the burden on the Company's financial resources can be minimised in the short term. Accordingly, it is believed that the Xiaohuangshan Mine Construction Agreement is in the interests of the Shareholders, Creditors and the Company as a whole. The principal terms of the Xiaohuangshan Mine Construction Agreement are as follows:

- Date:** 6 September 2018
- Parties:** WZJF (as Sub-contractor); and UE (Fukang) Mining

## LETTER FROM THE JPLS

Scope of work: The construction of the remaining part of the Upper Seam and the construction of the Lower Seam, including but not limited to installation, maintenance and removal of equipment and devices, mining, device un-installment, closure of mine entrance.

Construction fee: The construction cost of the remaining part of the Upper Seam will be fully paid by WZJF in advance and will be re-paid when UE (Fukang) Mining generates sales income of the coal resources in the Upper Seam, of which WZJF is entitled to 40%, until the construction cost is fully re-paid.

The construction cost of the Lower Seam shall be payable in 3 instalments, 85% of which shall be paid to WZJF based on the process of construction in monthly arrears; 10% of which shall be paid to WZJF within 30 days after completion of the settlement audit of the construction; the remaining 5% of which shall be paid to WZJF after the expiry of the warranty period of 1 year. The construction cost of the Lower Seam shall be calculated with the assumption of total cost minus 8.2% and 90% of the auxiliary price based on the 2007 coal budget.

Contract period: 30 months

Working schedule: The actual construction work shall commence from the date when NPCE approves the commencement report to be submitted by WZJF

The principal terms of the Xiaohuangshan Mine Supplemental Agreement are as follows:

Date: 6 September 2018

Parties: WZJF (as Sub-contractor); and UE (Fukang) Mining

Scope of work: The construction works include the expansion of the working face, the acquisition, installation and maintenance of the large system equipment, the backstopping in working face, the withdrawal and closure of the mining area upon the exhaustion of the area, and the acquisition, installation and maintenance of the safety equipment and facilities, all in the first stage area.

Construction fee: WZJF would procure funds and inject RMB150 million (or equivalent to approximately HK\$173 million) for settlement of the cost of engineering for shafts and tunnels. The costs will be re-paid when UE (Fukang) Mining generates sales income of the coal resources in the Upper Seam, of which WZJF is entitled to 40%, until the construction cost is fully re-paid.

Contract period: 18 months

## LETTER FROM THE JPLS

Working schedule: The actual construction work shall commence from the date when UE (Fukang) Mining approves the commencement report to be submitted by WZJF.

For the avoidance of doubts, as of the Latest Practicable Date, the Xiaohuangshan Mine Construction Agreement and the Xiaohuangshan Mine Supplemental Agreement remain valid and effective. WZJF confirms that they are ready to proceed with the same, once the approval of the resumption of the construction from the local authorities has been obtained.

Subject to all relevant restrictions imposed by Xinjiang Government and Hong Kong Government in respect of the coronavirus outbreak being relaxed by February 2021, set out below is an expected timetable showing the key milestones for the construction of the Xiaohuangshan Mine:

<b>Date</b>	<b>Key milestones</b>
Early to Mid-March 2021	Payment of prepayment of Resources Tax amounted to approximately RMB130 million
Mid to Late April 2021	Obtain approval for renewal of mining licence of the Xiaohuangshan Mine
Mid to Late May 2021	Obtain approval for unsealing the shaft of the Xiaohuangshan Mine
Late May 2021	Resumption of construction of the Xiaohuangshan Mine
Mid-June 2021	Extraction of coal from the Upper Seam
1 August 2023	Extraction of coal from the Lower Seam

UE (Fukang) Mining had secured offtake agreements from 3 customers previously which was expired on 31 December 2019. These three offtake agreements have been renewed to 31 December 2020 and a new offtake agreement was entered between a new customer and UE (Fukang) Mining in 2020 with the expiration date on 31 December 2020. The management of UE (Fukang) Mining has been maintaining a friendly relationship with various potential customers. After considering the current demand of the coking coal in Xinjiang, the Company is of the view that, subsequent to the extraction of coal from the Upper Coal Seam of the Xiaohuangshan Mine, there will not be any obstacle in entering offtake agreements with the potential customers.

For the avoidance of doubts, as of the Latest Practicable Date, the offtake agreements entered into between UE (Fukang) Mining and the customers remains valid and the Company is confident that renewals of the offtake agreements could be obtained before the end of contract term.

## LETTER FROM THE JPLS

### (6) IMPLICATIONS UNDER THE LISTING RULES AND CONNECTED TRANSACTIONS IN RELATION TO THE ISSUING AND ALLOTMENT OF NEW SHARES UNDER SPECIFIC MANDATE

Up Energy Group is a substantial Shareholder and there is an outstanding amount of HK\$2.38 billion in the form of convertible bonds issued by the Company to Up Energy Group arising from the acquisition of the Company in 2010. As at the Latest Practicable Date, Up Energy Group is interested in 1,377,073,492 Shares, representing approximately 30.34% of the total issued share capital of the Company.

Among the Creditors, Mr. Zhang Li is a Director and is deemed to be interested in the Shares. As at the Latest Practicable Date, Ms. Chen Wan, the wife of Mr. Zhang Li, is interested in 24,100,000 Shares, representing approximately 0.53% of the total issued share capital of the Company. Mr. Zhang Li therefore is taken to be interested in the relevant Shares by virtue of the SFO.

Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng are the other Directors who will participate in the Scheme as Creditors.

Under the Scheme, subject to adjudication of claims, Up Energy Group, Mr. Zhang Li, Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng shall have the same entitlement as the other Creditors. Up Energy Group, Mr. Zhang Li, Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng have confirmed that they will compromise their debts against the Company pursuant to the Scheme and the treatment to be received by them under the Scheme shall be the same as those of the other Creditors.

Accordingly, Up Energy Group, Mr. Zhang Li, Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng are connected persons of the Company (collectively, the “**Connected Persons**”) under Chapter 14A of Listing Rules.

Therefore, so far as the issue of New Shares to the Connected Persons under the Creditors’ Scheme are concerned, the Creditors’ Scheme will upon implementation constitute connected transactions of the Company under Chapter 14A of Listing Rules, and are subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements, which the Connected Persons will be required to abstain from voting on the relevant resolutions in relation to the Creditors’ Scheme at the SGM.

As at the Latest Practicable Date, save for Up Energy Group, Mr. Zhang Li, Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng, the other Creditors are independent of and not connected with the Company and its subsidiaries, its connected person(s) and their respective associate(s).

**(7) IMPLICATIONS UNDER THE TAKEOVERS CODE AND POSSIBLE APPLICATION FOR WHITEWASH WAIVER AND CONSENT FOR SPECIAL DEAL**

**Application for Whitewash Waiver**

Under the Proposed Restructuring, Up Energy Group (the controlling Shareholder) and parties acting in concert with it (including Deloitte Touche Tohmatsu (the appointed receivers to the assets of Up Energy Group)) may increase its existing shareholding of the Company of approximately 30.34% up to a maximum of approximately 50.32% subject to the adjudication of the claims against the Company to be done by the Scheme Administrator under the Scheme.

Pursuant to Rule 26.1 of the Takeovers Code, immediately upon completion of the proposed issuing and allotment of New Shares under the Scheme, Up Energy Group would be obliged to make a mandatory general offer to the Shareholders for all the issued shares and other securities of the Company not already owned or agreed to be acquired by Up Energy Group and parties acting in concert with it (including Deloitte Touche Tohmatsu as receivers and Mr. Wang Chuan), unless the Executive grant a Whitewash Waiver which is approved by the Independent Shareholders at the SGM and in accordance with the requirements of the Takeovers Code. In the circumstance where the maximum potential holding of voting rights resulting from the transactions contemplated under the creditors' scheme will exceed 50% of the voting rights of the Company, Up Energy Group may increase its holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

In this regard, the Proposed Restructuring will be conditional upon the grant of the Whitewash Waiver, and the Whitewash Waiver as well as the Proposed Restructuring having been approved by the Shareholders who are permitted to vote under the Takeovers Code at the SGM and such conditions in relation to the Whitewash Waiver cannot be waived. Up Energy Group has applied to the Executive for the Whitewash Waiver under Rule 26.1 of the Takeovers Code in relation to the Creditors' Scheme.

If the Whitewash Waiver is granted by the Executive and the resolutions approving the Whitewash Waiver and the transactions contemplated under the Creditors' Scheme are approved by at least 75% and more than 50%, respectively of the votes cast by the Independent Shareholders at the SGM by poll, Up Energy Group will not be required to make a mandatory general offer which would otherwise be required as a result of completion of the issuing and allotment of the New Shares.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the transactions contemplated under the Creditors' Scheme will not proceed.



## LETTER FROM THE JPLS

### Consent for Special Deal

Among the Shareholders, Exploratory Capital Limited, Bank of Communications Trustee Limited, Mr. Zhang Li, Asia Light Enterprises Limited, Ms Ma Hiu Ngai and Capital Sunlight Limited are Creditor Shareholders, and Hao Tian Group is a potential Creditor Shareholder.

As at the Latest Practicable Exploratory Capital Limited is interested in 300,000,000 Shares, representing approximately 6.61% of the Shares; Bank of Communications Trustee Limited is interested in 62,134,000 Shares, representing approximately 1.37% of the Shares; Mr. Zhang Li is deemed to be interested in 24,100,000 Shares, representing approximately 0.53% of the Shares; Asia Light Enterprises Limited is interested in 20,000,000 Shares, representing approximately 0.44% of the Shares; Ms. Ma Hiu Ngai is deemed to be interested in 2,000,000 Shares, representing approximately 0.04% of the Shares; Capital Sunlight Limited is interested in 1,556,425 Shares, representing approximately 0.03% of the Shares; and Hao Tian Group is interested in 371,500,000 Shares, representing approximately 8.19% of the Shares.

As at the Latest Practicable Date, the Creditor Shareholders have claims of approximately HK\$1,344 million in aggregate against the Company. The Creditor Shareholders may receive payments under the Creditors' Scheme if they become effective and such payments are not extended to other Shareholders who are not Creditors. As such, the Creditors' Scheme constitute a special deal under Note 5 to Rule 25 of the Takeovers Code, and requires the consent of the Executive, provided that the Independent Financial Adviser considers that the terms of the transactions contemplated thereunder are fair and reasonable and the transactions is approved by the Independent Shareholders at the SGM. The Company has applied to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Creditors' Scheme.

The Creditor Shareholders will be required to abstain from voting on the relevant resolutions relating to the Creditors' Scheme, the Whitewash Waiver and the Special Deal to be proposed at the SGM.

### INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, the JPLs confirm that:

- (a) Up Energy Group and parties acting in concert with it are interested in 1,377,073,492 Shares, representing approximately 30.34% of the total issued share capital of the Company. Messrs Lai Kar Yan, Yeung Lui Ming and Ho Kwok Leung Glen, all of Deloitte Touche Tohmatsu, have been appointed as joint and several receivers over, amongst others, 1,331,051,890 issued shares of the Company and the Convertible Notes issued by the Company in the face value of HK\$2,189,250,000 by China Minsheng Bank Corp. Ltd. Hong Kong Branch acting in its capacity as a secured lender with first fixed charge over the charged assets. Save as aforesaid, none of Up Energy Group or parties acting in concert with it owns or has control or direction over any existing Shares, rights over Shares, convertible securities, warrants, options or derivatives in respect of the Shares.

## LETTER FROM THE JPLS

- (b) none of Up Energy Group or parties acting in concert with it has received any irrevocable commitment in relation to voting of the resolutions in respect of the transactions contemplated under the Creditors' Scheme, the Whitewash Waiver or the Special Deal at the SGM;
- (c) there is no outstanding derivative in respect of the securities of the Company which has been entered into by Up Energy Group or parties acting in concert with it;
- (d) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares of Up Energy Group or parties acting in concert with it or the Company and which might be material to the transactions contemplated under the Creditors' Scheme, the Whitewash Waiver or the Special Deal;
- (e) there is no agreement or arrangement to which Up Energy Group or parties acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the transactions contemplated under the Creditors' Scheme, the Whitewash Waiver or the Special Deal;
- (f) none of Up Energy Group or parties acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (g) save for the issuing and allotment of New Shares to Up Energy Group and parties acting in concert with it (including Deloitte Touche Tohmatsu as receivers and Mr. Wang Chuan) under the Creditors' Scheme, there is no other consideration, compensation or benefit in whatever form paid or to be paid by Up Energy Group or parties acting in concert with it to the Company or any party acting in concert with it in connection with the transactions contemplated under the Creditors' Scheme;
- (h) save for the Special Deal, no agreement, arrangement or understanding (including any compensation arrangement) exists between Up Energy Group or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders of the Company having any connection with or dependence upon the transactions contemplated under the Creditors' Scheme; and
- (i) save for the Special Deal, there is no understanding, arrangement, agreement or special deal between (1) any Shareholder; and (2)(a) Up Energy Group and parties acting in concert with it; or (b) the Company, its subsidiaries or associated companies.

### **(8) SPECIAL GENERAL MEETING**

Set out on pages SGM-1 to SGM-4 is a notice convening the SGM to be held at 4:00 p.m. on 25 January 2021 at HKFYG Auditorium, 9/F, The Hong Kong Federation of Youth Groups Building, 21 Pak Fuk Road, North Point, Hong Kong, at which the necessary resolutions will be proposed to consider and, if thought fit, approve (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of

## LETTER FROM THE JPLS

the New Shares; (ii) the Reduction in Authorised Share Capital; (iii) the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate for issuing and allotment of the Placing Shares; (iv) the Whitewash Waiver; and (v) the Special Deal at the SGM.

A form of proxy for use at the SGM is enclosed with this Circular. Whether or not you are able to attend the SGM in person, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM (i.e. not later than 4:00 p.m. on 22 January 2021) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case maybe) should you so wish. Voting on the proposed resolution at the SGM will be taken by poll.

Only Independent Shareholders shall be entitled to vote at the SGM on the resolutions relating to the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares, the Whitewash Waiver and the Special Deal.

Any Shareholder (or its associate) who was involved in or has a material interest in the transactions contemplated under the Creditors' Scheme shall abstain from voting on the relevant resolution(s) to approve (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares; (ii) the Reduction in Authorised Share Capital; (iii) the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate for issuing and allotment of the Placing Shares; (iv) the Whitewash Waiver; and (v) the Special Deal at the SGM. If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the SGM, Up Energy Group will not be required to make a mandatory offer which would otherwise be required as a result of the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares.

Up Energy Group and the parties acting in concert with it, Exploratory Capital Limited, Bank of Communications Trustee Limited, Mr. Zhang Li, Ms. Chen Wan, Asia Light Enterprises Limited, Ms. Ma Hiu Ngai, Mr. Pan Li Hui, Capital Sunlight Limited and potentially Hao Tian Group are Creditor Shareholder. Accordingly, they are considered as having material interests in the Scheme and are also required to abstain from voting in respect of the proposed resolutions at the SGM. As at the Latest Practicable Date, Up Energy Group and the parties acting in concert with it is interested in 1,377,073,492 Shares, representing approximately 30.34% of the Shares; Exploratory Capital Limited is interested in 300,000,000 Shares, representing approximately 6.61% of the Shares; Bank of Communications Trustee Limited is interested in 62,134,000 Shares, representing approximately 1.37% of the Shares; Mr. Zhang Li is deemed to be interested in 24,100,000 Shares, representing approximately 0.53% of the Shares; Asia Light Enterprises Limited is interested in 20,000,000 Shares, representing approximately 0.44% of the Shares; Ms. Ma Hiu Ngai is deemed to be interested

## LETTER FROM THE JPLS

in 2,000,000 Shares, representing approximately 0.04% of the Shares; Capital Sunlight Limited is interested in 1,556,425 Shares, representing approximately 0.03% of the Shares; and Hao Tian Group is interested in 371,500,000 Shares, representing approximately 8.19% of the Shares.

As at the Latest Practicable Date, save for Up Energy Group and parties acting in concert with it, the Connected Persons and the Creditor Shareholders, no other Shareholder was involved in or has any material interest in the Creditors' Schemes, the Whitewash Waiver and the Special Deal at the SGM. Up to the Latest Practicable Date, the Shares, as such, required to abstain from voting are of 2,158,363,917 Shares in total.

Completion of the Creditors' Scheme is subject to the fulfilment of the conditions under the Scheme. Accordingly, the Creditors' Scheme may or may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 20 January 2021 to 25 January 2021, both days inclusive, during which no transfer of Shares will be effected.

In order to be eligible to attend and vote at the SGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 19 January 2021 for registration.

### **RECOMMENDATION**

Having considered the above-mentioned background to and reasons for the Creditors' Scheme, the JPLs consider that the terms of the Proposed Restructuring are in the interests of the Company, the Shareholders and the Creditors as a whole.

With the granting of additional power to the JPLs pursuant to the orders of the Bermuda Court dated 28 April 2017, the powers of the existing Directors have ceased since then. As such, no independent board committee has been established to advise the Independent Shareholders in this regard. Messis Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Shareholders in this regard.

You are advised to read carefully the letter from Independent Financial Adviser as set out on pages 52 to 77 of this Circular. The Independent Financial Adviser considers that the terms of the (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares; (ii) the Reduction in Authorised Share Capital; (iii) the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate for issuing and allotment of the Placing Shares; (iv) the Whitewash Waiver; and (v) the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and these are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial

## LETTER FROM THE JPLS

Adviser recommends the Independent Shareholders to vote in favour of the proposed resolution approving (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares; (ii) the Reduction in Authorised Share Capital; (iii) the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate for issuing and allotment of the Placing Shares; (iv) the Whitewash Waiver; and (v) the Special Deal at the SGM.

Accordingly, the JPLs recommend the Independent Shareholders to vote for the resolution to approve (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares; (ii) the Reduction in Authorised Share Capital; (iii) the Placing Agreement and the transactions contemplated thereunder, including the grant of the Placing Specific Mandate for issuing and allotment of the Placing Shares; (iv) the Whitewash Waiver; and (v) the Special Deal at the SGM.

**Shareholders should note that (i) the effectiveness of the Creditors' scheme, the proposed capital restructuring and the issue of scheme shares and bonus shares are all subject to the Company's trading resumption; (ii) the Company's third delisting stage expired on 10 March 2019 and the Listing Committee has rejected the resumption proposal and recommended a cancellation of the Company's listing; and (iii) the Company has applied for a review of the delisting decision by the Listing (Review) Committee with the review hearing held on 28 September 2020. However, the Listing (Review) Committee considered that the proposal was not viable and decided to uphold the Listing Committee's decision.**

**On 6 November 2020, the Company made an application to the Listing Appeals Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision of the Listing (Review) Committee on the cancellation of the listing of the Shares on the Main Board. As at the Latest Practicable Date, the Listing Appeals Committee accepted the review application and the review hearing date has not been fixed. To the best of the JPLs' knowledge after making reasonable enquiries, the review hearing is anticipated to be held in late February 2021, subject to the further confirmation of the Listing Appeals Committee.**

**The publication of this Circular does not indicate any decision or conclusion from the Stock Exchange nor warrant any approval from the Stock Exchange on the resumption of trading in Shares. The Company will keep the public informed of the latest development by making further announcements as and when appropriate.**

For and on behalf of  
**Up Energy Development Group Limited**  
**(In Provisional Liquidation**  
**(For Restructuring Purposes))**

**Osman Mohammed Arab**  
**Roy Bailey**  
**Lai Wing Lun**  
*Provisional Liquidators*  
*who act without personal liability*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Shareholders for inclusion in this circular.*



31 December 2020

*To: The Independent Shareholders of  
Up Energy Development Group Limited  
(In Provisional Liquidation (For Restructuring Purposes))*

Dear Sir/Madam,

**(1) CREDITORS' SCHEME;  
(2) CONNECTED TRANSACTIONS IN RELATION TO  
PROPOSED ISSUING AND ALLOTMENT OF NEW SHARES  
UNDER SPECIFIC MANDATE; AND  
(3) APPLICATION FOR WHITEWASH WAIVER AND  
CONSENT FOR SPECIAL DEAL**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Shareholders in respect of (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares to the Connected Persons; (ii) the Whitewash Waiver; and (iii) the Special Deal, details of which are set out in the letter from the JPLs (the "**Letter from the JPLs**") contained in the circular of the Company dated 31 December 2020 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Scheme mainly comprises the debt restructuring and the issuing and allotment of New Shares. Under the Scheme, the Company will issue and allot Scheme Shares to the Creditors to discharge and release the Claims owed by the Company to the Creditors in full and issue Bonus Shares to ICA (subject to the terms of the Loan Facility Agreement) and Kaisun Consulting (subject to the terms of the Service Agreement).

As at the Latest Practicable Date, based on the available books and records of the Company, the estimated total amount of Claims against the Company is approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any Securities Interest pending valuation of the same by the Scheme Administrator). This figure is indicative only and will be subject to final determination made by the Scheme Administrator and adjudication under the Scheme, if applicable.

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Subject to the Scheme becoming effective, the Company will implement the issuing and allotment of New Shares, under which it is estimated that the Company will issue and allot, in aggregate, up to approximately 46,600,371,845 Scheme Shares at the Issue Price of HK\$0.129 per each Scheme Share for settlement of the Admitted Claims of the Creditors.

### **Implications under the Listing Rules**

Up Energy Group is a substantial Shareholder and there is an outstanding amount of HK\$2.38 billion in the form of convertible bonds issued by the Company to Up Energy Group arising from the acquisition of the Company in 2010. As at the Latest Practicable Date, Up Energy Group is interested in 1,377,073,492 Shares, representing approximately 30.34% of the total issued share capital of the Company.

Among the Creditors, Mr. Zhang Li is a Director and is deemed to be interested in the Shares. As at the Latest Practicable Date, Ms. Chen Wan, the wife of Mr. Zhang Li, is interested in 24,100,000 Shares, representing approximately 0.53% of the total issued share capital of the Company. Mr. Zhang Li therefore is taken to be interested in the relevant Shares by virtue of the SFO. Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng are the other Directors who will participate in the Scheme as Creditors. Accordingly, Up Energy Group, Mr. Zhang Li, Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng are connected persons of the Company under Chapter 14A of Listing Rules.

Therefore, so far as the issue of New Shares to the Connected Persons under the Creditors' Scheme are concerned, the Creditors' Scheme will upon implementation constitute connected transactions of the Company under Chapter 14A of Listing Rules, and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

### **Implications under the Takeovers Code**

Under the Proposed Restructuring, Up Energy Group (the controlling Shareholder) and parties acting in concert with it (including Deloitte Touche Tohmatsu (the appointed receivers to the assets of Up Energy Group) and Mr. Wang Chuan) may increase its existing shareholding of the Company of approximately 30.34% up to a maximum of approximately 50.32% subject to the adjudication of the claims against the Company to be done by the Scheme Administrator under the Scheme.

Pursuant to Rule 26.1 of the Takeovers Code, immediately upon completion of the proposed issuing and allotment of New Shares under the Scheme, Up Energy Group would be obliged to make a mandatory general offer to the Shareholders for all the issued shares and other securities of the Company not already owned or agreed to be acquired by Up Energy Group and parties acting in concert with it (including Deloitte Touche Tohmatsu as receivers and Mr. Wang Chuan), unless the Executive grant a Whitewash Waiver which is approved by the Independent Shareholders at the SGM and in accordance with the requirements of the Takeovers Code. In the circumstance where the maximum potential holding of voting rights resulting from the transactions contemplated under the Creditors Scheme will exceed 50% of the voting rights of the Company, Up Energy Group may increase its holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

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In this regard, the Proposed Restructuring will be conditional upon the grant of the Whitewash Waiver, and the Whitewash Waiver as well as the Proposed Restructuring having been approved by the Shareholders who are permitted to vote under the Takeovers Code at the SGM and such conditions in relation to the Whitewash Waiver cannot be waived. Up Energy Group has applied to the Executive for the Whitewash Waiver under Rule 26.1 of the Takeovers Code in relation to the Creditors Scheme.

If the Whitewash Waiver is granted by the Executive and the resolutions approving the Whitewash Waiver and the transactions contemplated under the Creditors' Scheme are approved by at least 75% and more than 50%, respectively of the votes cast by the Independent Shareholders at the SGM by poll, Up Energy Group will not be required to make a mandatory general offer which would otherwise be required as a result of completion of the issuing and allotment of the New Shares.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the transactions contemplated under the Creditors' Scheme will not proceed.

Among the Shareholders, Exploratory Capital Limited, Bank of Communications Trustee Limited, Mr. Zhang Li, Asia Light Enterprises Limited, Ms. Ma Hiu Ngai and Capital Sunlight Limited are Creditor Shareholders, and Hao Tian Group is a potential Creditor Shareholder. As at the Latest Practicable Date, Exploratory Capital Limited is interested in 300,000,000 Shares, representing approximately 6.61% of Shares; Bank of Communications Trustee Limited is interested in 62,134,000 Shares, representing approximately 1.37% of the Shares; Mr. Zhang Li is deemed to be interested in 24,100,000 Shares, representing approximately 0.53% of the Shares; Asia Light Enterprises Limited is interested in 20,000,000 Shares, representing approximately 0.44% of the Shares; Ms. Ma Hiu Ngai is deemed to be interested in 2,000,000 Shares, representing approximately 0.04% of the Shares; Capital Sunlight Limited is interested in 1,556,425 Shares, representing approximately 0.03% of the Shares; and Hao Tian Group is interested in 371,500,000 Shares, representing approximately 8.19% of the Shares. As at the Latest Practicable Date, the Creditor Shareholders have claims of approximately HK\$1,344 million in aggregate against the Company. The Creditor Shareholders may receive payments under the Creditors' Scheme if they become effective and such payments are not extended to other Shareholders who are not Creditors. As such, the Creditors' Scheme constitute a special deal under Note 5 to Rule 25 of the Takeovers Code, and requires the consent of the Executive. The Company has applied to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Creditors' Scheme.

### **INDEPENDENT BOARD COMMITTEE**

With the granting of additional power to the JPLs pursuant to the orders of the Bermuda Court dated 28 April 2017, the powers of the existing Directors have ceased since then. As such, no independent board committee has been established to advise the Independent Shareholders in this regard.

We, Messis Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Shareholders in relation to the issue of New Shares to the Connected Persons under the Creditors' Scheme, the Whitewash Waiver and the



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Special Deal. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Shareholders as to whether the terms of the issue of New Shares to the Connected Persons under the Creditors' Scheme, the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from, and are not associated with the Company, Up Energy Group, or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. In the last two years, we have not acted as the financial advisor nor the independent financial adviser to the Company and Up Energy Group. Apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, Up Energy Group, their respective controlling shareholders or any other party acting or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code to act as the Independent Financial Adviser to the Independent Shareholders in respect of the issue of New Shares to the Connected Persons under the Creditors' Scheme, the Whitewash Waiver and the Special Deal.

### BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provide to us by the JPLs. We have assumed that all statements, information and representations provided by the JPLs, for which they are solely responsible, were true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion and expectation made by the JPLs in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the JPLs. We believe that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the JPLs, nor have we conducted an independent investigation into the business and affairs of the Group.

The Circular, for which the JPLs jointly and severally accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The JPLs confirm that, having made all reasonable enquiries, that

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to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

This letter is issued for the information of the Independent Shareholders solely in connection with their consideration of (i) the transactions contemplated under the Creditors' Scheme, including the grant of the Specific Mandate for the issuing and allotment of the New Shares to the Connected Persons; (ii) the Whitewash Waiver; and (iii) the Special Deal, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

#### 1. Financial information of the Group

The principal activities of the Group were the mining of coking coal and the production and sale of raw coking coal, clean coking coal, coking and chemical products.

Set out below are the financial results of the Group for the four years ended 31 March 2016 ("FY15/16"), 2017 ("FY16/17"), 2018 ("FY17/18") and 2019 ("FY18/19"), as extracted from the Company's annual results announcements for FY15/16, FY16/17, FY17/18 and FY18/19.

**Table 1: Consolidated income statement of the Group**

	<b>For the year ended 31 March</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(note)</i>	<i>(note)</i>	<i>(note)</i>	<i>(note)</i>
<b>Revenue</b>				
— Coke	622,010	177,869	62,822	93,910
— Others	<u>72,008</u>	<u>12,761</u>	<u>34,627</u>	<u>37,950</u>
	<u>694,018</u>	<u>190,630</u>	<u>97,449</u>	<u>131,860</u>
<b>Gross profit/(loss)</b>	26,034	7,839	(7,710)	(53,263)
<b>Loss for the year</b>	(965,357)	(5,908,821)	(797,147)	(1,312,916)

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**Table 2: Consolidated statement of financial position of the Group**

	<b>As at 31 March</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(note)</i>	<i>(note)</i>	<i>(note)</i>	<i>(note)</i>
<b>Non-current assets</b>	11,287,602	11,777,311	18,386,616	18,560,697
<b>Current assets</b>	957,886	602,084	342,720	443,298
<b>Non-current liabilities</b>	1,587,801	1,725,942	3,426,177	3,902,910
<b>Current liabilities</b>	8,826,493	7,764,445	6,643,141	5,554,481
<b>Net current liabilities</b>	(7,868,607)	(7,162,361)	(6,300,421)	(5,111,183)
<b>Net assets</b>	1,831,194	2,889,008	8,660,018	9,546,604

*Note:* The auditor expressed a disclaimer of opinion on the Group's consolidated financial statements for each of FY15/16, FY16/17, FY17/18 and FY18/19 in relation to scope limitation on various accounting items. The auditor also expressed concerns in respect of going concern basis and non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries. Accordingly, the auditor did not express an opinion on the consolidated financial statements of the Group for each of FY15/16, FY16/17, FY17/18 and FY18/19.

As disclosed in the Company's annual results announcements for FY15/16, FY16/17, FY17/18 and FY18/19, the auditor expressed a disclaimer of opinion on the Group's consolidated financial statements for each of FY15/16, FY16/17, FY17/18 and FY18/19, due to not being able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements of the Group.

As mentioned in the annual results announcements for FY15/16, FY16/17, FY17/18 and FY18/19 under the section headed "Basis for disclaimer of opinion", the Company received winding-up petitions in March and May 2016 and the trading of the shares of the Company on the Stock Exchange has been suspended since 30 June 2016. Subsequently, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, together with Mr. Roy Bailey of EY Bermuda Limited were appointed as the JPLs of the Company pursuant to the Order of the Bermuda Court dated 7 October 2016 and amended on 28 October 2016. The Company, with the assistance of the JPLs have taken steps to prepare the outstanding financial statements for FY15/16, FY16/17, FY17/18 and FY18/19 in order to meet one of the resumption conditions as required by the Stock Exchange. However, previous management and many of the staff members, including key accounting personnel, have left the Group since the Group encountered liquidity issues in early 2016 and are now not contactable. Given these circumstances, the management of the Company and the JPLs have relied on the books and records which are available to them in preparing these financial statements.

The auditor expressed that the above events have given rise to limitations on the scope of its audit work, including but not limited to scope limitation on the Group's property, plant and equipment, revenue, cost of sales, inventories and related receivables and payables, recoverability of deposits and other receivables, amounts due from/to related parties, completeness of provisions and disclosures relating to pending litigations

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and recoverability of amounts due from de-consolidated subsidiaries. The auditor also expressed that had they been able to satisfy themselves in respect of the limitation matters, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 March 2016, 2017, 2018 and 2019 and its net loss for FY15/16, FY16/17, FY17/18 and FY18/19 and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

In addition, the auditor expressed concerns in respect of uncertainties relating to the Group's ability to continue as a going concern. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements. Further, the auditor had disagreements arising from non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries. Due to the Company's control over Up Energy (Canada) Limited and its subsidiaries (collectively the "**GCC Group**"), which currently owns the GCC Mine, was lost on 3 February 2017 when GCC Group was put into receivership and the Company lost access to the GCC Group's books and records, the JPLs excluded the financial positions, the financial performances and cash flows of GCC Group from the date of acquisition onwards, which is a departure from the requirements of HKFRS 10. Moreover, certain accounting records of Champ Universe Limited and its subsidiaries (collectively the "**Champ Universe Group**"), the Company's subsidiaries which owned and operated the Baicheng Mine, were missing due to the Group's ongoing dispute over the Champ Universe Group. The JPLs excluded the financial positions as at 31 March 2016, 2017, 2018 and 2019, the financial performances and cash flows of the Champ Universe Group for the period from the date of acquisition onwards in preparing these financial statements due to inaccessibility of historical financial information of Champ Universe Group, which is a departure from the requirements of HKFRS 10. As a result, the auditor was unable to ascertain the financial impact of the non-consolidation of the Champ Universe Group on the consolidated financial statements for FY15/16, FY16/17, FY17/18 and FY18/19.

### ***FY16/17 compared with FY15/16***

During FY15/16 and FY16/17, the principal source of revenue of the Group was derived from the sales of coke.

Revenue of the Group decreased from approximately HK\$132 million for FY15/16 to approximately HK\$97 million for FY16/17, representing a decrease of approximately HK\$35 million or 26.10%. According to the Company's annual results for FY16/17, the decrease in revenue was mainly due to the decrease in sales volume of coke. The Group recorded a gross loss of approximately HK\$53 million for FY15/16, which decreased to approximately HK\$8 million for FY16/17, which decreased by approximately HK\$45 million. As mentioned in the annual results announcement for FY16/17, the decrease in gross loss was mainly as a result of increase in average selling prices of coke. Loss for the year decreased from approximately HK\$1,313

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million for FY15/16 to approximately HK\$797 million, which decreased by approximately HK\$516 million or 39.28%. We note that the significant decrease in net loss was mainly due to the decrease in administrative expenses for FY16/17, which decreased by approximately HK\$572 million as compared with FY15/16. From the annual results announcement for FY16/17, the decrease in administrative expenses was mainly due to the significant decrease in bad debt provision on trade and other receivables which amounted to approximately HK\$538 million for FY15/16.

As set out in the Table 2 above, as at 31 March 2017, the Group recorded net assets of approximately HK\$8,660 million, which decreased by approximately HK\$887 million from approximately HK\$9,547 million as at 31 March 2016. The decrease in net assets was mainly due to the net loss of approximately HK\$797 million for FY16/17.

### *FY17/18 compared with FY16/17*

During FY16/17 and FY17/18, the principal source of revenue of the Group was derived from the sales of coke.

Revenue increased significantly from approximately HK\$97 million for FY16/17 to approximately HK\$191 million for FY17/18, representing an increase of approximately HK\$94 million or 95.62%. According to the annual results announcement for FY17/18, the increase in revenue was mainly due to the increase in sales volume of coke during the year. Gross profit for FY17/18 was approximately HK\$8 million, which increased by approximately HK\$16 million from a gross loss of approximately HK\$8 million for FY16/17. As stated in the annual results announcement for FY17/18, the increase in gross profit was due to the increase in sales volume of coke, which covered the fixed production costs such as depreciation. Loss for FY17/18 increased significantly to approximately HK\$5,909 million from approximately HK\$797 million, which increased by approximately HK\$5,112 million or 641.25%. The significant increase in net loss was mainly due to the combined of (i) impairment losses of non-current assets of approximately HK\$6,800 million for FY17/18, while the amount was nil for FY16/17; and (ii) income tax credit of approximately HK\$1,699 million for FY17/18, as compared with an income tax expense of approximately HK\$1 million for FY16/17. According to the annual results announcement for FY17/18, the impairment losses of non-current assets of approximately HK\$6,800 million was impairment of mining properties located in Xinjiang. The income tax credit for FY17/18 was due to the origination and reversal of temporary differences of deferred tax of approximately HK\$1,700 million arising from the fair value adjustment arising from acquisition of subsidiaries.

Non-current assets decreased from approximately HK\$18,387 million as at 31 March 2017 to approximately HK\$11,777 million as at 31 March 2018, which decreased by approximately HK\$6,610 million. The decrease in non-current assets was mainly due to the impairment losses of non-current assets of approximately HK\$6,800 million for FY17/18. Non-current liabilities decreased from approximately

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HK\$3,426 million as at 31 March 2017 to approximately HK\$1,726 million as at 31 March 2018, which decreased by approximately HK\$1,700 million. The decrease in non-current liabilities was as a result of origination and reversal of temporary differences of deferred tax of approximately HK\$1,700 million arising from the fair value adjustment arising from acquisition of subsidiaries for FY17/18. Net assets decreased from approximately HK\$8,660 million as at 31 March 2017 to approximately HK\$2,889 million, representing a decrease of approximately HK\$5,771 million. The decrease in net assets was mainly due to the loss for the year for FY17/18 of approximately HK\$5,909 million.

### *FY18/19 compared with FY17/18*

During FY17/18 and FY18/19, the principal source of revenue of the Group was derived from the sales of coke.

Revenue further increased from approximately HK\$191 million for FY17/18 to approximately HK\$694 million for FY18/19, representing an increase of approximately HK\$503 million or 264.07%. According to the annual results announcement for FY18/19, the increase in revenue was mainly due to the resumption of commercial production of the coal coking plant and hence an increase in the sales volume of coke during the year. Gross profit for FY18/19 was approximately HK\$26 million, which increased by approximately HK\$18 million from approximately HK\$8 million for FY17/18. As stated in the annual results announcement for FY18/19, the increase in gross profit was mainly due to the resumption of commercial production of the coal coking plant and hence an increase in the sales volume of coke to cover the fixed production costs, such as depreciation. Loss for FY18/19 decreased significantly to approximately HK\$965 million from approximately HK\$5,909 million for FY17/18, which decreased by approximately HK\$4,944 million or 83.66%. The significant decrease in net loss for FY18/19 was mainly due to (i) the decrease in impairment losses of non-current assets, which decreased by approximately HK\$6,225 million; and (ii) the decrease in income tax credit, which decreased by approximately HK\$1,562 million, as compared with FY17/18. According to the annual results announcement for FY18/19, the impairment losses of non-current assets of approximately HK\$6,800 million for FY17/18 was impairment of mining properties located in Xinjiang, and the impairment losses of approximately HK\$574 million for FY18/19 were mainly related to property, plant and equipment and prepaid land lease payments. The decrease in income tax credit for FY18/19 was due to the decrease in origination and reversal of temporary differences of deferred tax arising from the fair value adjustment arising from acquisition of subsidiaries, which decreased by approximately HK\$1,562 million as compared with FY17/18.

As at 31 March 2019, the Group recorded net assets of approximately HK\$1,831 million, which decreased by approximately HK\$1,058 million from approximately HK\$2,889 million as at 31 March 2018. The decrease in net assets was mainly due to the net loss of approximately HK\$965 million for FY18/19.

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### *Unavailability of the audited financial information for the year ended 31 March 2020*

As disclosed in the Circular under the section headed “Appendix I — Financial information of the Group — Unavailability of the audited financial information and indebtedness statement for the financial year of 2020”, the Company originally planned to commence the audit of its financial statements for the year ended 31 March 2020 after completion of the audit of the financial statements for FY18/19. However, due to the unexpected and unfortunate outbreak of COVID-19, the audit plan for the financial statements for the year ended 31 March 2020 has been delayed. As such, there were no other financial statements of the Group (audited or unaudited) published by the Company after the publication of the annual results for FY18/19.

The principal activities of the Group were the mining of coking coal and the production and sale of raw coking coal, clean coking coal, coking and chemical products. We note that due to the nature of the business of the Company, it has substantial fixed assets, with property, plant and equipment amounted to approximately HK\$9,448 million (which mainly comprised of mine properties), accounted for approximately 77% of the Group’s total assets as at 31 March 2019. We also note that the Company is heavily in debt, where borrowings, other payables and accruals and convertible notes summed up to approximately HK\$7,124 million as at 31 March 2019, which accounted for approximately 68% of the Group’s total liabilities. Further, the Group has also been making substantial yearly losses of approximately HK\$797 million to HK\$5,909 million for the four years ended 31 March 2019. As disclosed in the Circular, there has not been any material changes in the Company’s financial position given that there has not been any material change in its mining assets with no mining activities since the latest published accounts for the year ended 31 March 2019. Given the Company faces liquidity problems and is in provisional liquidation, it is expected that the overall financial position of the Company would remain in a similar situation to that of 31 March 2019. Further, as mentioned in the Circular under the section headed “Appendix I — Financial information of the Group — Unavailability of the audited financial information and indebtedness statement for the financial year of 2020”, the Circular is prepared for convening the SGM, for the principal purpose of approving the contemplated transactions of the Scheme, which was approved by the requisite statutory majorities of the Creditors at the Scheme Meeting convened and held on 30 September 2019. The Creditors also made reference only to the belated available financial results of the Company for the financial years ended 31 March 2016, 2017 and 2018 at the then time for approving the Scheme. Therefore, we concur with the Company’s view that it is justifiable for both the Creditors and the Shareholders (including the Independent Shareholders) to rely on the same sets of public financial information, which is published up to FY18/19.

**2. Background to and reasons for the Creditors' Scheme**

**(a) Background to the Creditors' Scheme**

*Winding up petition and appointment of JPLs*

On 29 March 2016, Satinu Markets Limited (previously known as HEC Securities Limited) presented a petition in the Hong Kong Court under HCCW 91 of 2016 to wind up the Company.

On 6 May 2016, Credit Suisse AG, Singapore Branch presented the petition in the Bermuda Court to wind up the Company under 2016 No. 183.

The JPLs were appointed pursuant to the order of the Bermuda Court dated 7 October 2016 and amended on 28 October 2016 and were authorised under the laws of Bermuda to, amongst other things, consult with the Company in respect of, and review, on an ongoing basis, the Company's restructuring proposal including with respect to the necessary steps which need to be taken, and conditions to be met, in order for the restructuring proposal to be successfully implemented and to consider and consent to the terms of any scheme of arrangement proposed by the Company under the provisions of section 99 of the Bermuda Companies Act prior to any applications being made to the Bermuda Court to proceed with the scheme.

*Listing status of the Company*

Trading in the Shares on the Main Board has been suspended since 30 June 2016. On 18 October 2016, the Company was placed into the first delisting stage under Practice Note 17 to the Listing Rules with the Resumption Conditions. The Resumption Conditions are as follows:

- (i) Demonstrate the Company has sufficient level of operation or assets of sufficient value as required under Rule 13.24 of the Listing Rules;
- (ii) Publish all outstanding financial results and address audit qualification (if any); and
- (iii) Having the winding-up petitions against the Company (and its subsidiaries) withdrawn or dismissed and the JPLs discharges.

By a letter dated 19 April 2017 issued by the Stock Exchange, the Stock Exchange informed the Company that the Company was placed in the second stage of delisting and that the Company must submit a viable resumption proposal at least 10 Business Days before the second delisting stage expires, i.e. 29 September 2017.



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Although a draft resumption proposal was submitted to the Stock Exchange on 29 September 2017, which was subsequently modified on 9 November 2017, the Listing Department of the Stock Exchange informed the Company that the draft resumption proposal was not viable and the Company was placed in the third stage of delisting on 17 November 2017.

On 28 November 2017, the Company applied to the Listing Committee of the Stock Exchange and subsequently applied to the Listing (Review) Committee of the Stock Exchange for a review of the decision. However, the decision was upheld and the Company was placed in the third stage of delisting stage by a letter dated 31 August 2018 issued by the Stock Exchange, that the Company must submit a viable resumption proposal at least 10 Business Days before the third delisting stage expired, i.e. 25 February 2019. On 25 February 2019, a fresh resumption proposal of the Company was submitted to the Stock Exchange.

By a letter dated 20 March 2020 issued by the Stock Exchange, the Stock Exchange informed the Company that the resumption proposal was not viable and decided to cancel the listing of the Shares on the Main Board under Practice Note 17 to the Listing Rules with effect from 6 April 2020.

On 30 March 2020, after considering legal and professional advice, the JPLs lodged a written request to the Listing Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision to cancel the listing of the Shares on the Main Board. The Listing (Review) Committee accepted the review application and the review hearing has been held on 28 September 2020. However, the Listing (Review) Committee considered that the proposal was not viable and decided to uphold the Listing Committee's decision. On 6 November 2020, the Company made an application to the Listing Appeals Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision of the Listing (Review) Committee on the cancellation of the listing of the Shares on the Main Board. As at the Latest Practicable Date, the Listing Appeals Committee accepted the review application and the review hearing date has not been fixed. To the best of the JPLs' knowledge after making reasonable enquiries, the review hearing is anticipated to be held in late February 2021, subject to the further confirmation of the Listing Appeals Committee.

### *Creditors' Scheme*

The Creditors' Scheme mainly comprises the debt restructuring and the issuing and allotment of New Shares. Under the Scheme, the Company will issue and allot Scheme Shares to the Creditors to discharge and release the Claims owed by the Company to the Creditors in full and issue Bonus Shares to ICA (subject to the terms of the Loan Facility Agreement) and Kaisun Consulting (subject to the terms of the Service Agreement).

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Based on the information and documents available to the JPLs up to the Latest Practicable Date, it was estimated that the total indebtedness owed by the Company to its Creditors amounts to approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any Securities Interest pending valuation of the same by the Scheme Administrator). Under the Scheme, upon the Effective Date, the Scheme Administrator will allot the Scheme Shares to the Creditors with Admitted Claims based on their Admitted Claims and all the liabilities of the Company due to the Creditors will be compromised and discharged in full by arrangements contemplated under the Scheme.

At the Scheme Meeting convened and held on 30 September 2019, the Scheme was approved by the requisite statutory majorities of the Creditors. Subsequent to the Scheme Meeting, on 1 November 2019, the Scheme was sanctioned by the Bermuda Court pursuant to section 99(2) of the Bermuda Companies Act. The Company will submit the Scheme to the Hong Kong Court for sanction upon completion of the SGM. After the sanction of the Hong Kong Court has been obtained, the Sanctioning Orders will be filed with the Companies Registry in Hong Kong and the equivalent in Bermuda for registrations respectively, and the Scheme will, subject to the fulfilment of the conditions precedent, then become effective.

From the Effective Date, each of the Creditors discharges and waives all its Claims in consideration for the right to participate with each of the other Creditors in the issuing and allotment of Scheme Shares pursuant to the terms of the Scheme.

### ***(b) Reasons for the Creditors' Scheme***

References are made to the Company's announcements dated 8 May 2019, 7 August 2019, 18 September 2019, 30 September 2019, 6 November 2019, 7 February 2020, 5 May 2020, 5 August 2020, 4 September 2020 and 9 November 2020 respectively in which the Company had announced that the Company proposed to implement the Creditors' Scheme, which has been sanctioned by the Bermuda Court and is subject to sanction by the Hong Kong Court.

As mentioned in the Letter from the JPLs, on 29 March 2016, Satinu Markets Limited (previously known as HEC Securities Limited) presented a petition in the Hong Kong Court under HCCW 91 of 2016 to wind up the Company. On 6 May 2016, Credit Suisse AG, Singapore Branch presented the petition in the Bermuda Court to wind up the Company under 2016 No. 183. The JPLs were appointed pursuant to the order of the Bermuda Court dated 7 October 2016 and amended on 28 October 2016 and were authorised under the laws of Bermuda to, amongst other things, consult with the Company in respect of, and review, on an ongoing basis, the Company's restructuring proposal including with respect to the necessary steps which need to be taken, and conditions to be met, in order for the restructuring proposal to be successfully implemented and to consider and consent to the terms of any scheme

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of arrangement proposed by the Company under the provisions of section 99 of the Bermuda Companies Act prior to any applications being made to the Bermuda Court to proceed with the scheme.

As stated in the Letter from the JPLs, on 18 October 2016, the Company was placed into the first delisting stage under Practice Note 17 to the Listing Rules with the Resumption Conditions. The Resumption Conditions are: (i) demonstrate the Company has sufficient level of operation or assets of sufficient value as required under Rule 13.24 of the Listing Rules; (ii) publish all outstanding financial results and address audit qualification (if any); and (iii) having the winding-up petitions against the Company (and its subsidiaries) withdrawn or dismissed and the JPLs discharges. By a letter dated 20 March 2020 issued by the Stock Exchange, the Stock Exchange decided to cancel the listing of the Shares on the Main Board under Practice Note 17 to the Listing Rules with effect from 6 April 2020. On 30 March 2020, after considering legal and professional advice, the JPLs lodged a written request to the Listing Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision to cancel the listing of the Shares on the Main Board. However, the Listing (Review) Committee considered that the proposal was not viable and decided to uphold the Listing Committee's decision. On 6 November 2020, the Company made an application to the Listing Appeals Committee of the Stock Exchange pursuant to Chapter 2B of the Listing Rules for reviewing the decision of the Listing (Review) Committee on the cancellation of the listing of the Shares on the Main Board. As at the Latest Practicable Date, the Listing Appeals Committee accepted the review application and the review hearing date was not fixed. To the best of the JPLs' knowledge after making reasonable enquiries, the review hearing is anticipated to be held in late February 2021, subject to the further confirmation of the Listing Appeals Committee. As a result of the foregoing, if the Scheme and the transactions contemplated were not approved by the Independent Shareholders at the SGM, the Company would have to suggest another proposal acceptable to the Creditors for settling their Claims and to withdraw the winding-up petitions against the Company (and its subsidiaries), which is also one of the Resumption Conditions.

Based on the information and documents available to the JPLs up to the Latest Practicable Date, it was estimated that the total indebtedness owed by the Company to its Creditors amounts to approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any Securities Interest pending valuation of the same by the Scheme Administrator). We note that from the annual results announcements for FY15/16, FY16/17, FY17/18 and FY18/19 that the Group had less than HK\$1 million of cash as at 31 March 2016, 2017, 2018 and 2019, which were at a minimal level as compared with the scale of operation of the Group. The Group had also been making tremendous losses for each of FY15/16, FY16/17, FY17/18 and FY18/19 with gross loss for FY15/16 and FY16/17. As such, it is unlikely that the Company would be able to fully settle the debts to the Creditors through internal resources. We also note that most of the Group's assets are non-current assets, with property, plant and equipment amounting to approximately HK\$9,448 million as at 31 March 2019. In which, approximately HK\$7,672 million

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represented the carrying amount of three coal mines, namely the Shizhuanggou Mine, the Quanshuigou Mine and the Xiaohuangshan Mine, and approximately HK\$779 million representing the carrying amount of construction in progress related to these mines. As mentioned in the Letter from the JPLs, all these three mines were mostly in the development stage and the Company was unable to support the development of these mines and the repayment of its debts when they became due. Given the mines are illiquid assets and are under development, a discount to the carrying amounts might be required if the mines are to be realised. Therefore, should the Creditors were to take further legal action to realise the assets of the Company, Shareholders might not be left with any residual assets after settlement of the debts due to the Creditors. The Company would also lose the chance to carry on developing its mining business on a going concern basis should it have to realise, if not all, a material portion of its assets for the repayment of its debts.

Under the Scheme, the Company will issue and allot Scheme Shares to the Creditors to discharge and release the Claims owed by the Company to the Creditors in full. We consider that the issue of the Scheme Shares under the Creditors' Scheme would strengthen the capital base, reduce the debt level and improve liquidity of the Company, as the Company had significant net current liabilities of approximately HK\$7,869 million as at 31 March 2019. Further, we consider the strengthening of capital base and improving liquidity of the Company would allow the Company to obtain further financing, such as the potential financing under the Loan Facility Agreement and the Placing Agreement, to finance the development and operation of its mines.

Considering the above, we are of the opinion that the issue of New Shares under the Creditors' Scheme is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

### **3. Principal terms of the Scheme**

The Scheme mainly comprises the debt restructuring and the issuing and allotment of New Shares. Under the Scheme, the Company will issue and allot Scheme Shares to the Creditors to discharge and release the Claims owed by the Company to the Creditors in full and issue Bonus Shares to ICA (subject to the terms of the Loan Facility Agreement) and Kaisun Consulting (subject to the terms of the Service Agreement).

As at the Latest Practicable Date, based on the available books and records of the Company, the estimated total amount of Claims against the Company is approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any Securities Interest pending valuation of the same by the Scheme Administrator). This figure is indicative only and will be subject to final determination made by the Scheme Administrator and adjudication under the Scheme, if applicable.

Subject to the Scheme becoming effective, the Company will implement the issuing and allotment of New Shares, under which it is estimated that the Company will issue and allot, in aggregate, up to approximately 46,600,371,845 Scheme Shares (or such other number of new Shares as the Scheme Administrators may determine, which in any event

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would not be more than a total of 18,428,570,965 Scheme Shares to be issued and allotted to Up Energy Group and parties acting in concert with it pursuant to the Scheme) at HK\$0.129 per Scheme Share to the Creditors for all the Admitted Claims of HK\$6,011,447,965.70 to settle claims and liabilities of the Company in full with the Creditors with Admitted Claims under the Scheme (taking into account all possible Unadmitted Claims), subject to a lock-up period of one year from the issuance of the Scheme Shares and pursuant to the terms of the Scheme.

Under the Scheme, upon the Effective Date, the Scheme Administrator will allot the Scheme Shares to the Creditors with Admitted Claims based on their Admitted Claims and all the liabilities of the Company due to the Creditors will be compromised and discharged in full by arrangements contemplated under the Scheme. From the Effective Date, each of the Creditors discharges and waives all its Claims in consideration for the right to participate with each of the other Creditors in the issuing and allotment of Scheme Shares pursuant to the terms of the Scheme.

Principal terms of the issuing and allotment of New Shares:

<b>Issuer:</b>	The Company
<b>Value of the New Shares to be issued to the Creditors:</b>	<p>Up to approximately HK\$6,011 million (subject to the determination of Admitted Claims in accordance with the terms of the Scheme) for the Creditors.</p> <p>Up to approximately HK\$30 million (subject to the terms of the Loan Facility Agreement) for ICA at the Issue Price of HK\$0.129.</p> <p>Up to approximately HK\$45 million (subject to the terms of the Service Agreement) for Kaisun Consulting at the Issue Price of HK\$0.129.</p>
<b>Issue Price:</b>	HK\$0.129 per New Share
<b>Total number of New Shares to be issued:</b>	<p>Up to 46,600,371,845 Scheme Shares (subject to the determination of Admitted Claims in accordance with the terms of the Scheme) for the Creditors, representing respectively:</p> <ul style="list-style-type: none"><li>(i) approximately 1,026.78% of the existing issued share capital of the Company as at the Latest Practicable Date; and</li><li>(ii) approximately 90.10% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.</li></ul>

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Up to 232,558,140 Bonus Shares (subject to the terms of the Loan Facility Agreement) for ICA, representing respectively:

- (i) approximately 5.12% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 0.45% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.

Up to 348,837,210 Bonus Shares (subject to the terms of the Service Agreement) for Kaisun Consulting, representing respectively:

- (i) approximately 7.69% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 0.67% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.

Assuming that there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Effective Date, the aggregate maximum number of New Shares represent respectively:

- (i) approximately 1,040% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 91% of the issued share capital of the Company as enlarged by the issuing and allotment of New Shares.

The Company will not issue and allot any fractions of New Shares.

**Lock-up period:**

The Scheme Shares are subject to a lock-up period of 12 months from the issuance of the Scheme Shares and pursuant to the terms of the Scheme.

**Ranking:**

The New Shares will rank pari passu in all respects with the Shares then in issue as at the date of the issue of the New Shares.

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- Listing:** Application will be made for the listing of New Shares on the Stock Exchange.
- Conditions precedent:**
- (a) The orders sanctioning the Scheme having been granted by the Bermuda Court and the Hong Kong Court separately;
  - (b) the Company having obtained the requisite approval from the Independent Shareholders and/or the Scheme Creditors on the Scheme;
  - (c) the resolutions in relation to (i) the transactions contemplated under the Creditors' Scheme; (ii) the grant of the Specific Mandate for the issuing and allotment of the New Shares; (iii) the Whitewash Waiver; and (iv) the Special Deal to be approved by the Independent Shareholders at the SGM by way of poll and the resolution in relation to the proposed Reduction in Authorised Share Capital to be approved by the Shareholders at the SGM;
  - (d) the resumption of the trading of the Shares in the Main Board of the Stock Exchange;
  - (e) the Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in the New Shares to be issued and such approval not being subsequently revoked;
  - (f) the Executive granting the Whitewash Waiver to Up Energy Group and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted and such Whitewash Waiver not being subsequently revoked; and
  - (g) the consent of the Executive in relation to the transactions contemplated under the Creditors' Scheme as a "special deal" under Rule 25 of the Takeovers Code having been obtained and not revoked prior to completion.

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**Completion:** Completion shall take place if and when allotment of Scheme Shares to all Creditors with Admitted Claims under the Scheme have been made or such other date as decided by the Company and approved by the Scheme Administrator provided that all conditions precedent of the issuing and allotment of New Shares (save for condition to thereunder) are satisfied.

All of the conditions precedent stated above are non-waivable.

The Issue Price of HK\$0.129 per Share represents:

- (a) the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date;
- (b) a discount of approximately 24.1% to the audited consolidated net asset value of approximately HK\$0.170 per Share as at 31 March 2019, calculated based on the audited consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$770 million as at 31 March 2019 and divided by the total number of 4,538,515,411 Shares in issue as at the Latest Practicable Date; and
- (c) a discount of approximately 5.8% to the unaudited adjusted consolidated net asset value of approximately HK\$0.137 per Share of the Group, calculated based on the unaudited adjusted consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$624 million (the audited consolidated net asset value of the Group attributable to the Shareholders as at 31 March 2019 with the unaudited adjustment on the asset value based on the latest valuation report as at 30 September 2020 as set out in Appendix III to the Circular) and divided by the total number of 4,538,515,411 Shares in issue as at the Latest Practicable Date.

As stated in the Letter from the JPLs, the Issue Price was determined after considering, among other things, the share price performance of the Company and the acceptability of the Creditors towards the terms of the Scheme. Approximately 1 New Share will be allotted and issued for every HK\$0.129 Admitted Claims, which implies a value of HK\$0.129 per Share. Under the Scheme, subject to adjudication of claims, Up Energy Group, Mr. Zhang Li, Mr. Wang Chuan, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng shall have the same entitlement as the other Creditors. As the Connected Persons will also be allotted 1 New Share for every HK\$0.129 Admitted Claims, we consider it is no less favourable to the Company than the terms available to other independent Creditors. As discussed with the JPLs, the implied value of HK\$0.129 per Scheme Share was determined with reference to the closing price of the Share of HK\$0.129 immediately before the suspension of trading in the Shares on 30 June 2016. Though suspension of trading in the Shares has been over three years and the closing price immediately prior to suspension of trading may not reflect the current condition and value of the Company, we note that the implied price of HK\$0.129 per



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Scheme Share is equivalent to the implied price per Bonus Share under the Loan Facility Agreement and the Deed and the Service Agreement and the placing price per Placing Share under the Placing Agreement.

As mentioned in the Letter from the JPLs, pursuant to the Loan Facility Agreement dated 6 March 2018 and the Deed dated 14 January 2019, ICA has conditionally agreed to provide a loan facility of up to HK\$800 million to the Company. If one or more successful drawing(s) is/are made by ICA to the Company (regardless of the amount of such drawing(s)) and the trading of the Shares is successfully resumed, ICA will be entitled to receive Bonus Shares in the amount of up to approximately HK\$30 million (i.e. 232,558,140 Bonus Shares) at an implied price of HK\$0.129 per Bonus Share. Pursuant to the Service Agreement dated 8 August 2018, the Company engaged Kaisun Consulting as a coordinator and introducer of financing, Kaisun Consulting will be entitled to receive Bonus Shares in the amount of up to approximately HK\$45 million (i.e. 348,837,210 Bonus Shares) at the implied price of HK\$0.129 per Bonus Share, upon (i) its successful introduction of a funder that the Company enter into any formal and legally binding agreements and/or other contractual arrangements with funders who all together will provide to the Group in total not less than HK\$400 million or such amount deemed sufficient to resume the Company's business; and (ii) the trading of the Shares is successfully resumed. Further, pursuant to the Placing Agreement dated 18 May 2018, SBI has conditionally agreed to place, on a best efforts basis, up to 2,000,000,000 Placing Shares at the placing price of HK\$0.129 per Placing Share. As each of ICA, Kaisun Consulting and SBI is an independent third party to the Company, and the implied price of HK\$0.129 per Bonus Share and the placing price of HK\$0.129 per Placing Share were respectively accepted by ICA, Kaisun Consulting and SBI, we consider that the HK\$0.129 reflects the implied market price of the Share.

### *Valuation of the subject assets and net asset value per Share*

Access Partner had performed the valuation of the Quanshuigou Mine, the Shizhuanggou Mine, the Xiaohuangshan Mine (collectively the “**Coal Mines**”), and the processing facilities including a coal preparation plant and a coke plant (together with the Coal Mines, collectively the “**Subject Assets**”) of the Group, which the valuation report (the “**Valuation Report**”) is set out in Appendix III to the Circular. According to the Valuation Report, the fair value of the Subject Assets as at 30 September 2020 was approximately RMB6,900 million.

We note that the audited consolidated net asset value per Share and the unaudited adjusted consolidated net asset value per Share as at 31 March 2019 taking in to account the valuation of the Subject Assets is approximately HK\$0.170 and HK\$0.137, respectively, which are higher than the issue price of HK\$0.129 per Scheme Share.

As disclosed in the annual results announcement for FY18/19, the recoverable amounts of the Coal Mines are determined by discounted cash flow forecasts prepared by the JPLs. The JPLs have assumed that the Coal Mines will continue to operate for the foreseeable future. Similarly, we note from the Valuation Report that the assumptions adopted in respect of the valuation, include, among others, the Subject Assets will continue to operate as a going concern and has sufficient liquidity and capability to

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achieve the financial projection. As advised by the JPLs, the Coal Mines are all currently under construction with work suspended since 2015. Given the Company is currently in provisional liquidation and is loss making with significant net current liabilities, it would be difficult for the Company to secure potential funding to continue with the development of the Coal Mines without the support of the Creditors' Scheme.

Considering the above, we consider that it is justifiable for the issue price per Scheme Share of HK\$0.129 to be lower than that of the audited consolidated net asset value per Share and the unaudited adjusted consolidated net asset value per Share as at 31 March 2019.

Having considered that (i) the Connected Persons shall have the same entitlement as the other independent Creditors under the Scheme, which is no less favourable to the Company than the terms available to other independent Creditors; and (ii) the issue price of each Scheme Share, which is implied at HK\$0.129 each, is equivalent to the implied price per Bonus Share and the placing price per Placing Share, we are of the view that the terms of the Scheme are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Financial effects of the Scheme**

It should be noted that the following analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Scheme.

##### *(a) Effects on net assets*

As disclosed in the annual results announcement for FY18/19, the Group had net assets of approximately HK\$1,831 million as at 31 March 2019. According to the Letter from the JPLs, as at the Latest Practicable Date, based on the available books and records of the Company, the estimated total amount of Claims against the Company is approximately HK\$6,011 million (excluding Preferential Claim(s) but without excluding the value of any Securities Interest pending valuation of the same by the Scheme Administrator). This figure is indicative only and will be subject to final determination made by the Scheme Administrator and adjudication under the Scheme, if applicable. With effect from the Effective Date of the Scheme, each of the Creditors discharges and waives all of its Claims against the Company in consideration of the right to participate with each of the other Creditors in the issuing and allotment of Scheme Shares pursuant to the terms of the Scheme. The issuing of the Scheme Shares to settle the Claims would increase the equity and reduce the liabilities of the Company. Therefore, following the completion of the Scheme, net assets of the Group is expected to increase, which will improve the financial position of the Group.

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### *(b) Effects on gearing*

As disclosed in the annual results announcement for FY18/19, the Group's gearing ratio, as calculated by non-current liability divided by total equity, was 86.7% as at 31 March 2019. As equity will increase as a result of the issuing of Scheme Shares to settle the Claims, the gearing ratio of the Group is expected to decrease following the completion of the Scheme.

### *(c) Effects on working capital*

As the Claims would be settled by the issuing of Scheme Shares, substantial future cash outflow would be avoided in repaying the Claims in cash. We also note from the annual results announcement for FY18/19 that the relevant Claims which were recognised as at 31 March 2019 were all classified as current liabilities. Following the completion of the Scheme, the Claims would be settled and current liabilities is expected to decrease, which would improve the working capital of the Group.

In view of the improvement in the net assets, gearing and working capital of the Group, we consider that the Scheme is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

## **5. Effects on the shareholding structure of the Company**

We note from the shareholding structure of the Company as stated in the Letter from the JPLs that, the shareholding of the existing public Shareholders (excluding the Creditors Shareholders) would be diluted from approximately 52.44% as at the Latest Practicable Date to (i) approximately 4.65% immediately after issuing and allotment of Scheme Shares (assuming all contingent claims admitted under the Scheme); (ii) approximately 4.60% immediately after issuing and allotment of Scheme Shares and Bonus Shares (assuming all contingent claims admitted under the Scheme); and (iii) approximately 4.43% immediately after issuing and allotment of Scheme Shares and Bonus Shares and the completion of placing of new Shares (assuming all contingent claims admitted under the Scheme).

Notwithstanding the significant dilution effect, having considered that (i) the Stock Exchange decided to cancel the listing of the Shares (the Company has lodged a second written request to the Stock Exchange pursuant to Chapter 2B of the Listing Rules to review the decision of the Listing (Review) Committee to cancel the listing status of the Company on 6 November 2020), and if the Scheme and the transactions contemplated were not approved by the Independent Shareholders at the SGM, the Company would have to suggest another proposal acceptable to the Creditors for settling their Claims and to withdraw the winding-up petitions against the Company (and its subsidiaries), which is also one of the Resumption Conditions; (ii) the Company's mines are mostly in the development stage which are also illiquid assets, a discount to the carrying amounts might be required if the mines are to be realised and Shareholders might not be left with any residual assets should the Creditors were to take further legal action to realise the assets of the Company; (iii) the issue of the Scheme Shares under the Creditors' Scheme would discharge and release the Claims owed by the Company to the Creditors in full; and (iv)

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the issuing of the Scheme Shares would strengthen the capital base and improve liquidity of the Company, which might allow the Company to obtain further financing, such as the potential financing under the Loan Facility Agreement and the Placing Agreement, to finance the development and operation of its mines, we are of the view that the potential dilution effect to the existing public Shareholders (excluding the Creditors Shareholders) is acceptable.

### **6. The Whitewash Waiver and the Special Deal**

Under the Proposed Restructuring, Up Energy Group (the controlling Shareholder) and parties acting in concert with it (including Deloitte Touche Tohmatsu (the appointed receivers to the assets of Up Energy Group) and Mr. Wang Chuan) may increase its existing shareholding of the Company of approximately 30.34% up to a maximum of approximately 50.32% subject to the adjudication of the claims against the Company to be done by the Scheme Administrator under the Scheme.

Pursuant to Rule 26.1 of the Takeovers Code, immediately upon completion of the proposed issuing and allotment of New Shares under the Scheme, Up Energy Group would be obliged to make a mandatory general offer to the Shareholders for all the issued shares and other securities of the Company not already owned or agreed to be acquired by Up Energy Group and parties acting in concert with it (including Deloitte Touche Tohmatsu as receivers and Mr. Wang Chuan), unless the Executive grant a Whitewash Waiver which is approved by the Independent Shareholders at the SGM and in accordance with the requirements of the Takeovers Code. In the circumstance where the maximum potential holding of voting rights resulting from the transactions contemplated under the Creditors Scheme will exceed 50% of the voting rights of the Company, Up Energy Group may increase its holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

In this regard, the Proposed Restructuring will be conditional upon the grant of the Whitewash Waiver, and the Whitewash Waiver as well as the Proposed Restructuring having been approved by the Shareholders who are permitted to vote under the Takeovers Code at the SGM and such conditions in relation to the Whitewash Waiver cannot be waived. Up Energy Group has applied to the Executive for the Whitewash Waiver under Rule 26.1 of the Takeovers Code in relation to the Creditors Scheme.

If the Whitewash Waiver is granted by the Executive and the resolutions approving the Whitewash Waiver and the transactions contemplated under the Creditors' Scheme are approved by at least 75% and more than 50%, respectively of the votes cast by the Independent Shareholders at the SGM by poll, Up Energy Group will not be required to make a mandatory general offer which would otherwise be required as a result of completion of the issuing and allotment of the New Shares.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the transactions contemplated under the Creditors' Scheme will not proceed.

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Among the Shareholders, Exploratory Capital Limited, Bank of Communications Trustee Limited, Mr. Zhang Li, Asia Light Enterprises Limited, Ms. Ma Hiu Ngai and Capital Sunlight Limited are Creditor Shareholders, and Hao Tian Group is a potential Creditor Shareholder. As at the Latest Practicable Date, Exploratory Capital Limited is interested in 300,000,000 Shares, representing approximately 6.61% of the Shares; Bank of Communications Trustee Limited is interested in 62,134,000 Shares, representing approximately 1.37% of the Shares; Mr. Zhang Li is deemed to be interested in 24,100,000 Shares, representing approximately 0.53% of the Shares; Asia Light Enterprises Limited is interested in 20,000,000 Shares, representing approximately 0.44% of the Shares; Ms. Ma Hiu Ngai is deemed to be interested in 2,000,000 Shares, representing approximately 0.04% of the Shares; Capital Sunlight Limited is interested in 1,556,425 Shares, representing approximately 0.03% of the Shares; and Hao Tian Group is interested in 371,500,000 Shares, representing approximately 8.19% of the Shares.

As at the Latest Practicable Date, the Creditor Shareholders have claims of approximately HK\$1,344 million in aggregate against the Company. The Creditor Shareholders may receive payments under the Creditors' Scheme if they become effective and such payments are not extended to other Shareholders who are not Creditors. As such, the Creditors' Scheme constitute a special deal under Note 5 to Rule 25 of the Takeovers Code, and requires the consent of the Executive. The Company has applied to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Creditors' Scheme. As stated in the Letter from the JPLs, the conditions precedent of the issuing and allotment of Scheme Shares and Bonus Shares also include the Special Deal being approved by the Independent Shareholders at the SGM and the consent of the Executive in relation to the Special Deal having been obtained and not revoked prior to completion. Also, the Independent Financial Adviser will have to publicly state in his opinion the terms of the Special Deal are fair and reasonable for the Executive in considering to consent the Special Deal.

Given the grant of the Whitewash Waiver and the consent for the Special Deal are part of the conditions for the Proposed Restructuring, the Scheme would not proceed if the Whitewash Waiver and the Special Deal were voted down at the SGM. Having considered that (i) as one of the Resumption Conditions is having the winding-up petitions against the Company (and its subsidiaries) withdrawn or dismissed, if the Scheme was voted down at the SGM, the Company would have to suggest another proposal acceptable to the Creditors for settling their Claims, which the approval from the Creditors is not guaranteed; (ii) the Company had been loss making in recent financial years and is in unfavourable financial conditions which render it lacking the ability to repay the Claims through internal resources; (iii) the Company's mines are illiquid assets and are under development, should the Creditors were to take further legal action to realise the assets of the Company, a discount to the carrying amounts might be required and Shareholders might not be left with any residual assets after settlement of the debts due to the Creditors; (iv) the Company would lose the chance to carry on developing its mining business on a going concern basis should it have to realise, if not all, a material portion of its assets for the repayment of its debts; (v) the Company will issue and allot Scheme Shares to the Creditors to discharge and release the Claims owed by the Company to the Creditors in full if the Scheme was approved at the SGM; (vi) the issue of the Scheme Shares under the Creditors' Scheme would strengthen the capital base, reduce the

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debt level and improve liquidity of the Company, which might allow the Company to obtain further financing, such as the potential financing under the Loan Facility Agreement and the Placing Agreement, to finance the development and operation of its mines; (vii) the Connected Persons shall have the same entitlement as the other independent Creditors under the Scheme, which is no less favourable to the Company than the terms available to other independent Creditors; and (viii) the issue price of each Scheme Share, which is implied at HK\$0.129 each, is equivalent to the implied price per Bonus Share and the placing price per Placing Share, we are of a view that the terms of the Scheme are fair and reasonable so far as the Independent Shareholders are concerned, and the Whitewash Waiver and the Special Deal is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

### RECOMMENDATION

Having considered the abovementioned principal factors and reasons, in particular that:

- (i) as one of the Resumption Conditions is having the winding-up petitions against the Company (and its subsidiaries) withdrawn or dismissed, if the Scheme was voted down at the SGM, the Company would have to suggest another proposal acceptable to the Creditors for settling their Claims, which the approval from the Creditors is not guaranteed;
- (ii) Shareholders might not be left with any residual assets after settlement of the debts due to the Creditors should the Creditors were to take further legal action to realise the assets of the Company;
- (iii) the Scheme Shares to be issued to the Creditors under the Scheme will discharge and release the Claims owed by the Company to the Creditors in full; and
- (iv) the settlement of the Claims might allow the Company to obtain further financing, such as the potential financing under the Loan Facility Agreement and the Placing Agreement, to finance the development and operation of its mines,

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

we consider the terms of the Creditors' Scheme, the Whitewash Waiver and the Special Deal and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Creditors' Scheme, the Whitewash Waiver and the Special Deal.

Yours faithfully,  
For and on behalf of  
**Messis Capital Limited**  
**Thomas Lai**                      **Wallace Cheung**  
*Chief Executive Officer*                      *Director*

*Note:* Mr. Thomas Lai is a licensed person registered with the SFC and a responsible officer of Mesis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 26 years of experience in corporate finance industry.

Mr. Wallace Cheung is a licensed person registered with the SFC and a responsible officer of Mesis Capital Limited to carry out type 6 (advising on corporate finance) regulatory activity under the SFO and has over 10 years of experience in corporate finance industry.

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 March 2017, 2018 and 2019 as extracted from the respective published annual results announcement of the Company for the years ended 31 March 2017, 2018 and 2019.

	<b>For the year ended 31 March</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<i>(In Hong Kong dollars)</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Revenue</b>	694,018	190,630	97,449
Cost of sales	<u>(667,984)</u>	<u>(182,791)</u>	<u>(105,159)</u>
<b>Gross profit/(loss)</b>	26,034	7,839	(7,710)
Other revenue	3,237	2	752
Other net gain/(loss)	298,922	(6,192)	(34,638)
Distribution costs	—	—	(155)
Impairment losses of non-current assets	(574,190)	(6,799,595)	—
Administrative expenses	<u>(65,971)</u>	<u>(78,016)</u>	<u>(68,459)</u>
<b>Loss from operations</b>	(311,968)	(6,875,962)	(110,210)
Finance costs	<u>(789,796)</u>	<u>(731,365)</u>	<u>(685,557)</u>
<b>Loss before taxation</b>	(1,101,764)	(7,607,327)	(795,767)
Income tax	<u>136,407</u>	<u>1,698,506</u>	<u>(1,380)</u>
<b>Loss for the year</b>	<u><u>(965,357)</u></u>	<u><u>(5,908,821)</u></u>	<u><u>(797,147)</u></u>
<b>Attributable to:</b>			
Equity shareholders of the Company	(898,047)	(4,462,830)	(761,832)
Non-controlling interests	<u>(67,310)</u>	<u>(1,445,991)</u>	<u>(35,315)</u>
<b>Loss for the year</b>	<u><u>(965,357)</u></u>	<u><u>(5,908,821)</u></u>	<u><u>(797,147)</u></u>
<b>Loss per share</b>			
Basic and diluted	<u><u>(20.71) cents</u></u>	<u><u>(102.89) cents</u></u>	<u><u>(17.56) cents</u></u>
<b>Dividend</b>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
<b>Dividend per share</b>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>



The Group's auditor, KPMG, expressed a disclaimer of opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2017, 2018 and 2019. The basis for disclaimer of opinion is extracted as follows:

**For the year ended 31 March 2019**

*Disclaimer of Opinion*

We were engaged to audit the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

*Basis for disclaimer of opinion*

As disclosed in note 2(b), the Company received winding up petitions in March and May 2016 and the trading of the shares of the Company on the Stock Exchange has been suspended since 30 June 2016. Subsequently, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, together with Mr. Roy Bailey of EY Bermuda Ltd. were appointed the JPLs of the Company pursuant to the Order of the Supreme Court of Bermuda dated 7 October 2016 and amended on 28 October 2016.

The then appointment of the JPLs was on a "soft-touch" approach in that the executive management power of the Company still rested with the directors of the Company at that time while the key role of the JPLs was to consult with the Company in respect of, and review, all issues relating to the feasibility of the restructuring proposal.

On 28 April 2017, the JPLs were given the full powers as provisional liquidators of the Company by the Supreme Court of Bermuda and the powers of the directors of the Company have ceased. The JPLs have and may exercise such powers as are available to them as a matter of Bermuda law and would be available to them under the laws of Hong Kong as if they had been appointed provisional liquidators of the Company under the laws of Hong Kong, in particular, to enter into any agreements necessary or desirable effectively to restructure the affairs of the Company.

The JPLs are working with the Company's financial and legal advisors to prepare additional documents and replies to the Stock Exchange to fulfil the resumption conditions, including but not limited to, the outstanding financial statements for the financial year ended 31 March 2019. However, previous management and many of the staff members have left the Group since the Group encountered liquidity issues in early

2016. They continue to be uncontactable and have not been replaced. As a result of the continuing difficulties in preparing these financial statements, the JPLs have continued to rely on the books and records which are available to them.

These events and actions have given rise to the following limitations on the scope of our audit work:

*(a) Scope limitation on existence and accuracy of property, plant and equipment*

Property, plant and equipment is carried in the consolidated statement of financial position at an amount of HK\$9,448.0 million as at 31 March 2019, with a further subanalysis in note 12 to these financial statements. Included in the carrying amount of property, plant and equipment as at 31 March 2019 is HK\$7,672.0 million representing the carrying amount of three coal mines, namely Shizhuanggou coal mine, Quanshuigou coal mine and Xiaohuangshan coal mine, and HK\$778.6 million representing the carrying amount of construction in progress related to these mines.

Since early 2016 when the Group encountered liquidity issues, previous management and many of the staff members have left the Group and have not been replaced. Therefore, there continues to be a heightened risk that management's access controls over property, plant and equipment, including construction in progress, and internal controls over the accuracy of the books and records relating to these assets may not have been operating effectively throughout that period.

As reported in our auditor's reports on the Group's financial statements for the years ended 31 March 2016, 2017 and 2018, we attempted to conduct an inspection in September 2018 during the course of our audit but we were unable to conduct the inspection underground at the mines where most of the property, plant and equipment was located because of the safety concerns caused by the dangerous gas accumulated after the suspension of the mine construction work. In addition, we were unable to locate certain property, plant and equipment on the ground and we were unable to obtain the requested documentation.

During the course of our audit of the Group's financial statements for the year ended 31 December 2019, we made another attempt to conduct an inspection in December 2019 but we encountered the same issues as described above. We continued to request the JPLs to provide supporting documentation, including relevant contracts and progress reports, and to perform a full physical inspection over the property, plant and equipment with our attendance to substantiate the existence and accuracy of property, plant and equipment as at the date of our inspection, and the movement between the inspection date and the end of the reporting period. As of the date of this report, these issues remain unresolved and a date when a full physical inspection can be performed has not yet been set.

Apart from the above, we have been unable to obtain relevant contracts and progress reports to ascertain the progress of construction projects as at 31 March 2019. Consequently, we have been unable to ascertain the work done and the estimated value of the construction in progress and the relevant payables as at that

date. The total amount of construction in progress carried in the consolidated statement of financial position and included in the amount of property, plant and equipment as at 31 March 2019 was HK\$1,145.9 million, of which HK\$737.5 million is related to the three coal mines as noted above. The relevant payables related to construction projects as stated in the consolidated statement of financial position amounted to HK\$144.9 million as at 31 March 2019.

Given these circumstances, we have been unable to satisfactorily complete our audit procedures to assess the existence of the property, plant and equipment and the accuracy of the amounts recognised in respect of these assets as at 31 March 2019.

*(b) Scope limitation on the valuation of property, plant and equipment*

The JPLs have prepared discounted cash flow forecasts to determine the recoverable amounts of the above mentioned property, plant and equipment assets as at 31 March 2019. On the basis of these cash flow forecasts, the amounts at which these items of property, plant and equipment are stated in the consolidated statement of financial position are arrived at after recognising impairment losses of HK\$492.9 million and HK\$73.5 million against mine properties and construction in progress, respectively. These losses have been recognised in the consolidated statement of profit or loss for the year ended 31 March 2019.

In preparing the discounted cash flow forecast to determine the recoverable amount of the mine properties and related assets, the JPLs have assumed that the Group will be able to successfully renew all the mining licenses and the assets are recoverable through continuing use. We therefore requested the JPLs to provide sufficient explanations and supporting documents relating to the basis of their judgements in this matter, including the application documents and correspondence with the local authorities and key assumptions. However we have been unable to obtain such information up to the date of this report.

Given these circumstances, we have been unable to complete satisfactorily our audit procedures to assess the valuation of the mining properties and related assets.

*(c) Scope limitation on revenue, cost of sales, inventories and related receivables and payables*

The financial statements assert that during the year ended 31 March 2019, revenue and cost of inventories sold amounted to HK\$694.0 million and HK\$668.0 million respectively. As at 31 March 2019, inventories on hand are stated to be HK\$44.5 million; trade and other taxes payable are stated to be HK\$738.6 million; contract liabilities are stated to be HK\$31.9 million; and trade receivables, advances to suppliers and other prepayments and VAT and other tax recoverable are stated to be HK\$698.0 million, HK\$60.3 million and HK\$4.5 million respectively (in aggregate HK\$762.8 million), of which HK\$675.6 million was not yet recovered as of the date of this report.

During our audit of revenue, cost of inventories sold and inventories, we selected a sample of sales and purchase transactions recorded during the year and requested the relevant documentation evidencing the delivery, processing or receipt of goods. However, the information that we obtained up to the date of this report was insufficient to substantiate the sales or purchase transactions. In addition, the JPLs conducted a physical inventory counting in December 2019 and identified significant differences between the inventory records and the actual physical inventory quantities, which were not yet reflected in the accounting records. We attended the physical inventory counting, but we have not been able to obtain supporting documentation to assess whether changes of inventory between the count date and end of the reporting period were properly recorded. All these have called into question the reliability of the books and records relating to sales, cost of inventories sold and inventory management. Therefore, we have been unable to satisfactorily complete our audit procedures to assess whether revenue, cost of sales, inventories and related receivables and payables were appropriately accounted for and presented in these financial statements. Given the circumstances, we were also unable to obtain sufficient appropriate evidence to evaluate the reasonableness of the loss allowance estimates of the related receivables.

In addition, during the financial year, the Group started using a spreadsheet to record and perform calculation of inventory costing. However, in assessing the operating effectiveness of the Group's controls over inventory costing, apart from the spreadsheet, we were unable to obtain documentation supporting the calculation of the overhead absorption, usage of raw materials and volume of finished products produced for the samples we selected. This has undermined our ability to rely on the Group's system of controls over inventory costing. Therefore, we were unable to obtain sufficient appropriate audit evidence concerning the unit cost of the inventories. Since inventories are carried at the lower of cost and net realisable value, we were unable to determine whether adjustments might have been necessary in respect of the valuation of the inventories as at 31 March 2019.

*(d) Scope limitation on the loss allowance of deposits and other receivables*

As at 31 March 2019, as disclosed in note 19, deposits and other receivables were stated in the consolidated statement of financial position at HK\$80.7 million and HK\$14.6 million respectively (an aggregate of HK\$95.3 million). As further disclosed in note 19, HK\$91.8 million of this balance was aged over two years as at 31 March 2019 and HK\$91.6 million was not yet utilised or recovered as of the date of this report. Despite the long ageing, the JPLs cannot provide an assessment on the loss allowance under the expected credit loss model. We were unable to obtain sufficient explanations and supporting documentation to satisfy ourselves in this regard.

*(e) Scope limitation on existence and accuracy of cash and cash equivalents*

Since the time when the Company received winding-up petitions and became involved in a number of litigations, certain of the Group's bank accounts have been frozen or otherwise deactivated by the banks and the Group has not received bank statements. As disclosed in note 20 to the consolidated financial statements, the carrying amount of these bank accounts was HK\$0.43 million as at 31 March 2019. The JPLs have informed us that they have requested issuance of bank statements, but they have not received any of those statements as at the date of this report.

In addition, we have independently sent requests for confirmations to 39 banks, but we have not received the requested confirmations from six banks as at the date of this report. The Group recorded cash at bank of HK\$0.01 million and bank loans of HK\$247.84 million relating to these six banks.

In the absence of sufficient supporting documents relating to the balance of cash at these banks, we were unable to obtain satisfactory audit evidence as to the existence and accuracy of the balance of cash at bank and other balances and transactions such as loans and pledge of assets that might have been entered into by the Group with these banks as at 31 March 2019 and the accuracy of the consolidated cash flow statement disclosed for the year ended 31 March 2019.

*(f) Scope limitation on amounts due from/to related parties*

As disclosed in notes 19 and 24, the Group has recorded amounts due from related parties of HK\$52.4 million and amounts due to related parties of HK\$108.2 million, which were brought forward from prior years. As disclosed in those notes, the related parties mainly consist of the founder of a trust that indirectly owns the controlling shareholder of the Company, companies controlled by the founder of the aforementioned trust and the former Chairman and Chief Executive Officer of the Company who is also a beneficiary of the aforementioned trust.

The former Chairman and Chief Executive Officer resigned from the Company on 6 August 2016 after he was adjudged bankrupt by a bankruptcy order dated 27 July 2016 by the High Court of Hong Kong. After his resignation from the Company, there was no regular communication between the Company and the former Chairman. The JPLs have been unable to obtain financial information relating to the related parties. We have independently sent requests for confirmation to the related parties, but we have not received the requested confirmations as at the date of this report.

We were therefore unable to obtain sufficient appropriate evidence as to the existence and accuracy of these amounts and the reasonableness of nil loss allowance of these receivables.

*(g) Scope limitation on completeness of provisions and disclosures relating to pending litigations*

As disclosed in note 28, there have been a number of pending litigations against the Group, for which no provision has been recognised in these financial statements. The JPLs have begun work on compiling a list of pending litigations and assessing whether the pending litigations indicate the existence of present or possible obligations which may require an outflow of resources in the future. However, as of the date of this report, they have not been able to complete the compilation of the list or the assessment of whether outflow of resources would be probable or possible.

Given these circumstances, there were no practicable audit procedures that we could perform to assess whether additional provisions should have been recognised in these financial statements and/or whether additional information should have been disclosed in these financial statements in respect of pending litigations.

*(h) Scope limitation on completeness and accuracy of other payables and accruals*

As at 31 March 2019, other payables and accruals (excluding interest payables, other taxes payable, payables related to construction projects and amounts due to related parties) are stated in the consolidated statement of financial position to be HK\$274.7 million. However, because previous management and many of the staff members have left the Group since the Group encountered liquidity issues in early 2016 and have not been replaced, there continues to be a heightened risk that management's controls over timely and accurate accrual of expenses may not have been operating effectively throughout the period and as at the reporting date.

In particular, in our auditor's reports on the Group's financial statements for the years ended 31 March 2016, 2017 and 2018, we reported that the Group did not have a formal process to request all departments to submit invoices or make accruals during the year-end financial reporting process and we were unable to obtain the requested supporting documents.

During the audit of the Group's financial statements for the year ended 31 March 2019, we identified the same weakness in the Group's system. We therefore requested the JPLs to provide us with the supporting documents and calculations relating to the completeness and accuracy of other payables and accruals. However, we have been unable to obtain sufficient supporting evidence to substantiate that these payables are free from material misstatements.

- (i) *Scope limitation on recoverability of amounts due from Up Energy (Canada) Limited and its subsidiaries (collectively “GCC Group”) and Champ Universe Limited and its subsidiaries (collectively “Champ Universe Group”)*

As disclosed in notes 2(b)(2) and 15, included in the amounts due from deconsolidated subsidiaries were amounts due from GCC Group and Champ Universe Group of HK\$537.8 million and HK\$1,553.0 million, respectively, as at 31 March 2019. The JPLs continue to make full provision against the former, but nil provision against the latter.

Because of insufficient information about GCC Group and Champ Universe Group made available to us, we have been unable to obtain sufficient appropriate evidence to determine whether the amounts due from these entities as at 31 March 2019 were free from material misstatement as compared to the basis of preparation of these financial statements. In addition, we have been unable to obtain sufficient appropriate evidence to determine whether the full loss allowance made against the balance against GCC Group and the nil loss allowance made against the balance with Champ Universe Group were free from material misstatement as compared to basis of preparation.

- (j) *Scope limitation on recoverability of amounts due from Up Energy Development (Hong Kong) Limited (“UE Development HK”), Up Energy Trading Limited (“UE Trading”) and Up Energy Management Limited (“UE Management”)*

As disclosed in note 2(b)(2), the Group deconsolidated UE Trading and UE Development HK from 8 June 2018 and 29 March 2019, respectively. UE Development HK and another wholly owned subsidiary of the Group each held 50% interest in UE Management. As a result of deconsolidation of UE Development HK, the Group also excluded UE Management from consolidation since 29 March 2019.

As disclosed in note 15, the amounts due from deconsolidated subsidiaries as at 31 March 2019 include amounts due from UE Development HK, UE Trading and UE Management of HK\$0.03 million, HK\$61.0 million and HK\$105.9 million, respectively. No provision has been made by the JPLs against the amounts due from these entities. Because of insufficient information about these entities made available to us, we have been unable to obtain sufficient appropriate evidence to determine whether the amounts due from these entities as at 31 March 2019 were free from material misstatement as compared to the basis of preparation of these financial statements. In addition, we have been unable to obtain sufficient appropriate evidence to determine whether the nil loss allowance made against the balances with these entities were free from material misstatement as compared to the basis of preparation.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (a) to (j) above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 March 2019 and

its net loss for the year ended and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

In our auditor's report on the Group's consolidated financial statements for the year ended 31 March 2018 we disclaimed our opinions due to, amongst other matters, the same limitations on items (a) to (i) in the scope of our audit in respect of the amounts reported in those financial statements. Accordingly, we are unable to complete our audit of the opening balances as of 1 April 2018 and any adjustments to the consolidated statement of financial position as at 31 March 2018 might affect the loss for the year ended 31 March 2019. In addition, the corresponding amounts for the consolidated statement of profit or loss and consolidated cash flow statement for the year ended 31 March 2018 may not be comparable to the current year.

***Multiple uncertainties related to going concern basis***

As set out in note 2(b) to the financial statements, a creditor of the Company filed a winding up petition against the Company in the Court of First Instance of the High Court of Hong Kong on 29 March 2016 and another creditor of the Company filed a winding up petition against the Company in the Supreme Court of Bermuda on 6 May 2016. Subsequently, the JPLs of the Company were appointed by the Supreme Court of Bermuda in October 2016. In addition, certain loan principal repayments and interest payments were overdue and as a result, the Group also breached the default clauses of the lending arrangements with financial institutions. Up to the date of the approval of these consolidated financial statements, the Group is also facing a significant number of legal actions from creditors demanding immediate repayments.

The JPLs have been undertaking certain measures to restructure the Company and ensure its continuing existence as a going concern, which are set out in note 2(b) to these consolidated financial statements. These consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (1) whether the Group is able to complete the planned debt to equity swap; (2) whether the Group is able to obtain sufficient funds from the potential lenders; (3) whether the Company can successfully complete the planned placement of new shares; and (4) whether the Company can successfully obtain the renewed mining licenses of Shizhuanggou, Quanshuigou and Xiaohuangshan coal mines to operate the mines continuously for the foreseeable future.

These conditions, further details of which are described in note 2(b), indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.



*Disagreement arising from non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries*

Even had there been no limitation in the scope of our audit and even had there not been multiple material uncertainties relating to going concern as described in the “Basis for disclaimer of opinion” paragraphs which precluded us from expressing an opinion on the consolidated financial statements, our opinion would have been qualified in respect of our disagreement with the following accounting treatment:

As disclosed in note 2(b), the Group had ongoing dispute over Champ Universe Limited and its subsidiaries (together “**Champ Universe Group**”), being the Company’s subsidiaries which owned and operated a mine in Xinjiang Baicheng County (“**Baicheng Mine**”) with its former shareholder. In addition, according to a notice of Xinjiang Government dated 16 February 2017, Baicheng Mine was listed as one of the mines to be closed down by the Xinjiang Government because its annual capacity was below the specified threshold. Soon after the said notice, the mining licence of Baicheng Mine was revoked by the relevant authority unilaterally. Thereafter, Champ Universe Group, which was set up solely for the operations of Baicheng Mine, ceased its business and the JPLs advised that certain accounting records of Champ Universe Group were missing.

Given these circumstances, in preparing these financial statements, the JPLs excluded the financial position as at 31 March 2019, the financial performance and cash flows of Champ Universe Group with effect from 1 April 2015.

The exclusion of the financial position, financial performance and cash flows of Champ Universe Group from these consolidated financial statements, and the presentation of the investment in the Champ Universe Group at cost less impairment are departures from the requirements of HKFRS 10. We reported the same matter in our auditor’s report on the consolidated financial statements for all years since the year ended 31 March 2016. Given that insufficient financial information about Champ Universe Group was made available to us, we were unable to ascertain the financial impact of the non-consolidation of Champ Universe Group on these consolidated financial statements for the year ended 31 March 2019 or on the comparability of the current year’s figures and the corresponding figures.

**For the year ended 31 March 2018**

*Disclaimer of opinion*

We were engaged to audit the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at 31 March 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis

for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

*Basis for disclaimer of opinion*

As disclosed in note 2(b), the Company received winding up petitions in March and May 2016 and the trading of the shares of the Company on the Stock Exchange has been suspended since 30 June 2016. Subsequently, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, together with Mr. Roy Bailey of EY Bermuda Limited were appointed the JPLs of the Company pursuant to the Order of the Supreme Court of Bermuda dated 7 October 2016 and amended on 28 October 2016.

The then appointment of the JPLs was on a “soft-touch” approach in that the executive management power of the Company still rested with the directors of the Company at the time while the key role of the JPLs was to consult with the Company in respect of, and review, all issues relating to the feasibility of the restructuring proposal.

On 28 April 2017, the JPLs were given the full powers as provisional liquidators of the Company by the Supreme Court of Bermuda and the powers of the directors of the Company have ceased. The JPLs have and may exercise such powers as are available to them as a matter of Bermuda law and would be available to them under the laws of Hong Kong as if they had been appointed provisional liquidators of the Company under the laws of Hong Kong, in particular, to enter into any agreements necessary or desirable effectively to restructure the affairs of the Company.

The JPLs are working with the Company’s financial and legal advisors to prepare a latest resumption proposal to the Stock Exchange. In this connection, the JPLs have taken steps to prepare the outstanding financial statements for the financial years ended 31 March 2016, 2017 and 2018 in order to meet one of the resumption conditions as required by the Stock Exchange. However, previous management and many of the staff members, including key accounting personnel, have left the Group since the Group encountered liquidity issues in early 2016 and are now not contactable. Given these circumstances, the JPLs have relied on the books and records which are available to them in preparing these financial statements.

We were engaged by the JPLs, on behalf of the Company, to audit the financial statements for the years ended 31 March 2016, 2017 and 2018 in August 2018.

These events and actions and the timing of our appointment as auditors for the years ended 31 March 2016, 2017 and 2018 have given rise to the following limitations on the scope of our audit work:

*(a) Scope limitation on existence and accuracy of property, plant and equipment*

Property, plant and equipment is carried in the consolidated statement of financial position at an amount of HK\$10,083.3 million as at 31 March 2018, with a further sub-analysis in note 12 to the financial statements. Included in the carrying amount of property, plant and equipment as at 31 March 2018 is HK\$8,221.8 million representing the carrying amount of three coal mines, namely Shizhuanggou coal mine, Quanshuigou coal mine and Xiaohuangshan coal mine, and HK\$822.6 million representing the carrying amount of construction in progress related to these mines.

As we were not engaged by the Company nor the JPLs to audit the financial statements for the years ended 31 March 2016, 2017 and 2018 until August 2018, we were unable to physically inspect the property, plant and equipment at the end of each of these financial years to ascertain their existence and evaluate their condition as at those dates. In addition, because previous management and many of the staff members have left the Group since the Group encountered liquidity issues in early 2016, there was a heightened risk that management's access controls over property, plant and equipment, including construction in progress, and internal controls over the accuracy of the books and records relating to these assets may not have been operating effectively throughout that period.

We attempted to conduct an inspection in September 2018 during the course of our audit. However, we were unable to conduct the inspection underground at the mines where most of the property, plant and equipment was located because of the safety concerns caused by the dangerous gas accumulated after the suspension of the mine construction work. In addition, we were unable to locate certain property, plant and equipment on the ground. We therefore requested the JPLs to provide supporting documentation, including relevant contracts and progress reports, and to perform a full physical inspection over the property, plant and equipment with our attendance to substantiate the existence and accuracy of property, plant and equipment as at the date of our inspection, and the movement between the inspection date and the end of the reporting period. As of the date of this report, these issues remain unresolved and a date when a physical inspection can be performed has not yet been set.

Apart from the above, we have been unable to obtain relevant contracts and progress reports to ascertain the progress of construction projects as at 31 March 2018. Consequently, we have been unable to ascertain the work done and the estimated value of the construction in progress and the relevant payables as at that date. The total amount of construction in progress carried in the consolidated statement of financial position and included in the amount of property, plant and equipment as at 31 March 2018 was HK\$1,411.2 million, of which HK\$822.6

million is represented to relate to the three coal mines as noted above. The relevant payables related to construction projects as stated in the consolidated statement of financial position amounted to HK\$275.5 million as at 31 March 2018.

Given these circumstances, we have been unable to satisfactorily complete our audit procedures to assess the existence of the property, plant and equipment and the accuracy of the amounts recognised in respect of these assets as at 31 March 2018.

*(b) Scope limitation on the valuation of property, plant and equipment*

The JPLs have prepared discounted cash flow forecasts to determine the recoverable amounts of the above mentioned property, plant and equipment assets as at 31 March 2018. On the basis of these cash flow forecasts, the amounts at which these items of property, plant and equipment are stated in the consolidated statement of financial position are arrived at after recognising impairment losses of HK\$6,032.0 million and HK\$690.3 million against mine properties and construction in progress, respectively. These losses have been recognised in the consolidated statement of profit or loss for the year ended 31 March 2018.

In preparing the discounted cash flow forecast to determine the recoverable amount of the mine properties and related assets, the JPLs have assumed that the Group will be able to successfully renew all the mining licenses. We therefore requested the JPLs to provide sufficient explanations and supporting documents relating to the basis of their judgements in this matter, including the application documents and correspondence with the local authorities. However, we have been unable to obtain such information up to the date of this report.

Given these circumstances, we have been unable to complete satisfactorily our audit procedures to assess the valuation of the mining properties and related assets.

*(c) Scope limitation on revenue, cost of sales, inventories and related receivables and payables*

The financial statements assert that during the year ended 31 March 2018, revenue and cost of inventories sold amounted to HK\$190.6 million and HK\$182.8 million respectively. As at 31 March 2018, inventories on hand are stated to be HK\$62.2 million; trade and other taxes payable are stated to be HK\$313.3 million; receipts in advance from customers are stated to be HK\$145.2 million; and trade receivables, advances to suppliers and other prepayments and VAT and other tax receivables are stated to be HK\$228.9 million, HK\$54.9 million and HK\$18.6 million respectively (in aggregate HK\$302.4 million), of which HK\$249.9 million was not yet recovered as of the date of this report.

During our audit of revenue, cost of inventories sold and inventories, we selected a sample of sales and purchase transactions recorded during the year and requested the relevant documentation evidencing the delivery, processing or receipt of goods. However, we have been unable to obtain the requested documentation up to the date of this report. This has called into question the completeness of the books

and records relating to sales, cost of inventories sold and inventory management. Therefore, we have been unable to satisfactorily complete our audit procedures to assess whether revenue, cost of sales, inventories and related receivables and payables were appropriately accounted for and presented in these financial statements. Given the circumstances, we were also unable to obtain sufficient appropriate evidence to evaluate the recoverability of the related receivables.

In addition, in assessing the operating effectiveness of the Group's controls over inventory costing, for the samples selected, we were unable to obtain documentation supporting the calculation of the overhead absorption, usage of raw material and volume of finished products produced for the samples we selected. This has undermined our ability to rely on the Group's system of internal control relating to inventory costing. Therefore, we were unable to obtain sufficient appropriate audit evidence concerning the unit cost of the inventories. Since inventories are carried at the lower of cost and net realisable value, we were unable to determine whether adjustments might have been necessary in respect of the valuation of the inventories as at 31 March 2018.

*(d) Scope limitation on the recoverability of deposits and other receivables*

As at 31 March 2018, as disclosed in note 20, deposits and other receivables were stated in the consolidated statement of financial position at HK\$86.9 million and HK\$45.5 million respectively (an aggregate of HK\$132.4 million). As further disclosed in note 20, HK\$114.0 million of this balance was aged over one year as at 31 March 2018 and HK\$104.0 million was not yet utilised or recovered as of the date of this report. Despite the long ageing, the JPLs cannot form a view about whether the Group is not able to utilise the amounts or otherwise recover them in future periods. However, we were unable to obtain sufficient explanations and supporting documentation to satisfy ourselves in this regard.

*(e) Scope limitation on existence and accuracy of cash and cash equivalents*

Since the time when the Company received winding-up petitions and became involved in a number of litigations, certain of the Group's bank accounts have been frozen or otherwise deactivated by the banks and the Group has not received bank statements. As disclosed in note 21 to the consolidated financial statements, the carrying amount of these bank accounts as at 31 March 2018 was HK\$0.07 million.

The JPLs have informed us that they have requested issuance of bank statements but they have not received any of those statements as at the date of this report. We have independently sent requests for confirmation to these banks but we have not received the requested confirmations as at the date of this report.

In the absence of sufficient supporting documents relating to the balance of cash at these banks, we were unable to obtain satisfactory audit evidence as to the existence and accuracy of the balance of cash at bank and other balances and transactions such as loans and pledge of assets that might have been entered into by the Group with these banks as at 31 March 2018 and the accuracy of the consolidated statement of cash flows disclosed for the year ended 31 March 2018.

*(f) Scope limitation on amounts due from/to related parties*

As disclosed in notes 20 and 25, the Group has recorded an amount due from related parties of HK\$100.9 million and an amount due to related parties of HK\$122.2 million. As disclosed in those notes, the related parties mainly consist of the founder of a trust that indirectly owns the controlling shareholder of the Company, companies controlled by the founder of the aforementioned trust and the former Chairman and Chief Executive Officer of the Company who is also a beneficiary of the aforementioned trust.

The former Chairman and Chief Executive Officer resigned from the Company on 6 August 2016 after he was adjudged bankrupt by a bankruptcy order dated 27 July 2016 by the High Court of Hong Kong. After his resignation from the Company, there was no regular communication between the Company and the former Chairman. The JPLs have been unable to obtain financial information relating to the related parties. We have independently sent requests for confirmation to the related parties but we have not received the requested confirmations as at the date of this report.

We were therefore unable to obtain sufficient appropriate evidence as to the existence and accuracy of these amounts and the recoverability of the receivables.

*(g) Scope limitation on completeness of provisions and disclosures relating to pending litigations*

As disclosed in note 29 to the financial statements, there have been a number of pending litigations against the Group, for which no provision has been recognised in these financial statements. The JPLs have begun work on compiling a list of pending litigations and assessing whether the pending litigations indicate the existence of present or possible obligations which may require an outflow of resources in the future. However, as of the date of this report, they have not been able to complete the compilation of the list or the assessment of whether outflow of resources would be probable or possible.

Given these circumstances, there were no practicable audit procedures that we could perform to assess whether additional provisions should have been recognised in these financial statements and/or whether additional information should have been disclosed in these financial statements in respect of pending litigation.

*(h) Scope limitation on completeness and accuracy of other payables and accruals*

As at 31 March 2018, other payables and accruals (excluding interest payables, receipts in advance, other taxes payable, payables related to construction projects and amounts due to related parties) are stated in the consolidated statement of financial position to be HK\$129.8 million. However, because previous management and many of the staff members have left the Group since the Group encountered liquidity issues in early 2016, there is a heightened risk that management's controls over timely and accurate accrual of expenses may not have been operating effectively throughout the period and as at the reporting date.

In particular, we identified that the Group did not have a formal process to request all departments to submit invoices or make accruals during the year-end financial reporting process. We therefore requested the JPLs to provide us with the supporting documents and calculations relating to the completeness and accuracy of other payables and accruals. However, we have been unable to obtain sufficient supporting evidence to substantiate that these payables are free from material misstatements.

*(i) Scope limitation on recoverability of amounts due from de-consolidated subsidiaries*

As described in the "disagreement arising from non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries" section below, the JPLs excluded GCC Group and Champ Universe Group in the preparation of these consolidated financial statements. As such, as disclosed in note 15, the financial statements include amounts due from GCC Group and from Champ Universe Group of HK\$537.8 million and HK\$1,553.3 million, respectively, as at 31 March 2018. The JPLs have made full provision against the former, but no provision has been made against the latter.

Because of the insufficient financial information about the GCC Group and Champ Universe Group as described in that section, we have been unable to obtain sufficient appropriate evidence to determine whether the amounts due from GCC Group and from Champ Universe Group as at 31 March 2018 were free from material misstatement as compared to the basis of preparation of these financial statements. In addition, we have been unable to obtain sufficient appropriate evidence to determine whether the full impairment loss made against the balance with GCC Group, the nil impairment loss made against the balance with Champ Universe and the gain on deconsolidation were free from material misstatement as compared to the basis of preparation of these financial statements.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (a) to (i) above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 March 2018 and its net loss for the year ended and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

In our auditor's reports on the Group's consolidated financial statements for the years ended 31 March 2016 and 31 March 2017 we disclaimed our opinions due to, amongst other matters, the same limitations as mentioned above in the scope of our audit in respect of the amounts reported in those financial statements. Accordingly, we are unable to complete our audit of the opening balances as of 1 April 2017 and any adjustments to the consolidated statement of financial position as at 31 March 2017 might affect the loss for the year ended 31 March 2018. In addition, the corresponding amounts for the consolidated statement of profit or loss and consolidated cash flow statement for the year ended 31 March 2017 may not be comparable to the current year.

***Multiple uncertainties related to going concern basis***

As set out in note 2(b) to the financial statements, a creditor of the Company filed a winding up petition against the Company in the Court of First Instance of the High Court of Hong Kong on 29 March 2016 and another creditor of the Company filed a winding up petition against the Company in the Supreme Court of Bermuda on 6 May 2016. Subsequently, the JPLs of the Company were appointed by the Supreme Court of Bermuda in October 2016. In addition, certain loan principal repayments and interest payments were overdue and as a result, the Group also breached the default clauses of the lending arrangements with financial institutions. Up to the date of the approval of the consolidated financial statements, the Group is also facing a significant number of legal actions from creditors demanding immediate repayments.

The JPLs have been undertaking certain measures to restructure the Company and ensure its continuing existence as a going concern, which are set out in note 2(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (1) whether the Group is able to complete the planned debt to equity swap; (2) whether the Group is able to obtain sufficient funds from the potential lenders; (3) whether the Company can successfully complete the planned placement of new shares and (4) whether the Company can successfully obtain the renewed mining licenses of Shizhuanggou, Quanshuigou and Xiaohuangshan coal mines to operate the mines continuously for the foreseeable future.

These conditions, further details of which are described in note 2(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.



*Disagreement arising from non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries*

Even had there been no limitation in the scope of our audit and even had there not been multiple material uncertainties relating to going concern as described in the “basis for disclaimer of opinion” paragraphs which precluded us from expressing an opinion on the consolidated financial statements, our opinion would have been qualified in respect of our disagreement with certain accounting treatments as set out below:

- (i) As disclosed in note 2(b) to the consolidated financial statements, the Company completed the acquisition of Grande Cache Coal Corporation and Grande Cache Coal LP in September 2015 and thereafter Up Energy (Canada) Limited became the parent company of these entities (together referred to as the “**GCC Group**”). As further set out in that note, the Company’s control over GCC Group was lost on 3 February 2017 when the GCC Group was put into receivership and the Company lost access to the GCC Group’s books and records.

Given these circumstances, in preparing these financial statements, the JPLs excluded the financial position, the financial performance and cash flows of GCC Group from the date of acquisition onwards. The exclusion of the financial position, financial performance and cash flows of GCC Group from the consolidated financial statements prior to 3 February 2017 is a departure from the requirements of HKFRS 10.

Our auditor’s reports on the Group’s financial statements for the years ended 31 March 2016 and 31 March 2017 was modified, amongst other reasons, in respect of this departure from HKFRS 10. Our auditor’s report on the current year’s financial statements is also modified, amongst other reasons, because of the effect of this matter on the comparability of the current year’s figures and the corresponding figures.

- (ii) As disclosed in note 2(b) to the consolidated financial statements, the Group had ongoing dispute over Champ Universe Limited and its subsidiaries (together “**Champ Universe Group**”), being the Company’s subsidiaries which owned and operated a mine in Xinjiang Baicheng County (“**Baicheng Mine**”) with its former shareholder. In addition, according to a notice of Xinjiang Government dated 16 February 2017, Baicheng Mine was listed as one of the mines to be closed down by the Xinjiang Government because its annual capacity was below the specified quantity. Soon after the said notice, the mining licence of Baicheng Mine was revoked by the relevant authority unilaterally. Thereafter, Champ Universe Group, which was set up solely for the operations of Baicheng Mine, ceased its business and the JPLs advised that certain accounting records of Champ Universe Group were missing.

Given these circumstances, in preparing these financial statements, the JPLs excluded the financial position as at 31 March 2018, the financial performance and cash flows of Champ Universe Group with effect from 1 April 2015.

The exclusion of the financial position, financial performance and cash flows of Champ Universe Group from the consolidated financial statements, and the presentation of the investment in the Champ Universe Group at cost less impairment are departures from the requirements of HKFRS 10. We reported the same matter in our auditor's reports on the consolidated financial statements for the years ended 31 March 2016 and 31 March 2017. Given that insufficient financial information about Champ Universe Group was made available to us, we were unable to ascertain the financial impact of the non-consolidation of Champ Universe Group on the consolidated financial statements for the year ended 31 March 2018 or on the comparability of the current year's figures and the corresponding figures.

### **For the year ended 31 March 2017**

#### ***Disclaimer of opinion***

We were engaged to audit the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

#### ***Basis for disclaimer of opinion***

As disclosed in note 2(b), the Company received winding-up petitions in March and May 2016 and the trading of the shares of the Company on the Stock Exchange has been suspended since 30 June 2016. Subsequently, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, together with Mr. Roy Bailey of EY Bermuda Limited were appointed the JPLs of the Company pursuant to the Order of the Supreme Court of Bermuda dated 7 October 2016 and amended on 28 October 2016.

The then appointment of the JPLs was on a "soft-touch" approach in that the executive management power of the Company still rested with the directors of the Company at the time while the key role of the JPLs was to consult with the Company in respect of, and review, all issues relating to the feasibility of the restructuring proposal.

On 28 April 2017, the JPLs were given the full powers as provisional liquidators of the Company by the Supreme Court of Bermuda and the powers of the directors of the Company have ceased. The JPLs have and may exercise such powers as are available to them as a matter of Bermuda law and would be available to them under the laws of Hong Kong as if they had been appointed provisional liquidators of the Company under the laws of Hong Kong, in particular, to enter into any agreements necessary or desirable effectively to restructure the affairs of the Company.

The JPLs are working with the company's financial and legal advisors to prepare a latest resumption proposal to the Stock Exchange. In this connection, the JPLs have taken steps to prepare the outstanding financial statements for the financial years ended 31 March 2016, 2017 and 2018 in order to meet one of the resumption conditions as required by the Stock Exchange. However, previous management and many of the staff members, including key accounting personnel, have left the Group since the Group encountered liquidity issues in early 2016 and are now not contactable. Given these circumstances, the JPLs have relied on the books and records which are available to them in preparing these financial statements.

We were engaged by the JPLs, on behalf of the Company to audit the financial statements for the years ended 31 March 2016, 2017 and 2018 in August 2018.

These events and actions and the timing of our appointment as auditors for the years ended 31 March 2016, 2017 and 2018 have given rise to the following limitations on the scope of our audit work:

*(a) Scope limitation on existence and accuracy of property, plant and equipment*

Property, plant and equipment is carried in the consolidated statement of financial position at an amount of HK\$16,697.5 million as at 31 March 2017, with a further sub-analysis in note 12 to the financial statements. Included in the carrying amount of property, plant and equipment as at 31 March 2017 is HK\$14,274.7 million representing the carrying amount of three coal mines, namely Shizhuanggou coal mine, Quanshuigou coal mine and Xiaohuangshan coal mine, and HK\$1,432.9 million representing the carrying amount of construction in progress related to these mines.

As we were not engaged by the Company nor the JPLs to audit the financial statements for the years ended 31 March 2016, 2017 and 2018 until August 2018, we were unable to physically inspect the property, plant and equipment at the end of each of these financial years to ascertain their existence and evaluate their condition as at those dates. In addition, because previous management and many of the staff members have left the Group since the Group encountered liquidity issues in early 2016, there was a heightened risk that management's access controls over property, plant and equipment, including construction in progress, and internal controls over the accuracy of the books and records relating to these assets may not have been operating effectively throughout that period.

We attempted to conduct an inspection in September 2018 during the course of our audit. However, we were unable to conduct the inspection underground at the mines where most of the property, plant and equipment was located because of the safety concerns caused by the dangerous gas accumulated after the suspension of the mine construction work. In addition, we were unable to locate certain property, plant and equipment on the ground. We therefore requested the JPLs to provide supporting documentation, including relevant contracts and progress reports, and to perform a full physical inspection over the property, plant and equipment with our attendance to substantiate the existence and accuracy of property, plant and equipment as at the date of our inspection, and the movement between the inspection date and the end of the reporting period. As of the date of this report, these issues remain unresolved and a date when a physical inspection can be performed has not yet been set.

Apart from the above, we have been unable to obtain relevant contracts and progress reports to ascertain the progress of construction projects as at 31 March 2017. Consequently, we have been unable to ascertain the work done and the estimated value of the construction in progress and the relevant payables as at that date. The total amount of construction in progress carried in the consolidated statement of financial position and included in the amount of property, plant and equipment as at 31 March 2017 was HK\$1,992.5 million, of which HK\$1,432.9 million is represented to relate to the three coal mines as noted above. The relevant payables related to construction projects as stated in the consolidated statement of financial position amounted to HK\$250.2 million as at 31 March 2017.

Given these circumstances, we have been unable to satisfactorily complete our audit procedures to assess the existence of the property, plant and equipment and the accuracy of the amounts recognised in respect of these assets as at 31 March 2017.

*(b) Scope limitation on the valuation of property, plant and equipment*

Subsequent to the suspension of trading of the Company's shares in June 2016, certain of its key management left the Group and the activities to formulate mine development plans were suspended. Therefore, in preparing the financial statements for the year ended 31 March 2017, the JPLs do not have sufficient information to perform an assessment of recoverable amount of the property, plant and equipment as at 31 March 2017, due to the fact that no reliable discounted cash flow can be prepared without valid mine development plan.

Given these circumstances, we have been unable to complete satisfactorily our audit procedures to assess the valuation of the mining properties and related assets as at 31 March 2017.

*(c) Scope limitation on revenue, cost of sales, inventories and related receivables and payables*

The financial statements assert that during the year ended 31 March 2017, revenue and cost of inventories sold amounted to HK\$97.4 million and HK\$105.2 million respectively. As at 31 March 2017, inventories on hand are stated to be HK\$14.5 million; trade and other taxes payable are stated to be HK\$186.9 million; receipts in advance from customers are stated to be HK\$22.0 million; and trade receivables, advances to suppliers and other prepayments and VAT and other tax receivables are stated to be HK\$59.8 million, HK\$34.6 million and HK\$12.8 million respectively (in aggregate HK\$107.2 million), of which HK\$72.0 million was not yet recovered as of the date of this report.

During our audit of revenue, cost of inventories sold and inventories, we selected a sample of sales and purchase transactions recorded during the year and requested the relevant documentation evidencing the delivery, processing or receipt of goods. However, we have been unable to obtain the requested documentation up to the date of this report. This has called into question the completeness of the books and records relating to sales, cost of inventories sold and inventory management. Therefore, we have been unable to complete satisfactorily our audit procedures to assess whether revenue, cost of sales, inventories and related receivables and payables were appropriately accounted for and presented in these financial statements. We were also unable to obtain sufficient appropriate evidence to evaluate the recoverability of the receivables.

In addition, in assessing the operating effectiveness of the Group's controls over inventory costing, for the samples selected, we were unable to obtain documentation supporting the calculation of the overhead absorption, usage of raw material and volume of finished products produced for the samples we selected. This has undermined our ability to rely on the Group's system of internal control relating to inventory costing. Therefore, we were unable to obtain sufficient appropriate audit evidence concerning the unit cost of the inventories. Since inventories are carried at the lower of cost and net realisable value, we were unable to determine whether adjustments might have been necessary in respect of the valuation of the inventories as at 31 March 2017.

*(d) Scope limitation on recoverability of deposits and other receivables*

As at 31 March 2017, as disclosed in note 20, deposits and other receivables were stated in the consolidated statement of financial position at HK\$81.1 million and HK\$29.3 million respectively (an aggregate of HK\$110.4 million). As further disclosed in note 20, HK\$106.5 million of this balance was aged over one year as at 31 March 2017 and HK\$98.5 million was not yet utilised or recovered as of the date of this report. Despite the long ageing, the JPLs cannot form a view about whether the Group is not able to utilise the amounts or otherwise recover them in future periods. However, we were unable to obtain sufficient explanations and supporting documentation to satisfy ourselves in this regard.

*(e) Scope limitation on existence and accuracy of cash and cash equivalents*

Since the time when the Company received winding-up petitions and became involved in a number of litigations, certain of the Group's bank accounts have been frozen or otherwise deactivated by the banks and the Group has not received bank statements. As disclosed in note 21 to the consolidated financial statements, the carrying amount of these bank accounts as at 31 March 2017 was HK\$0.24 million.

The JPLs have informed us that they have requested issuance of bank statements but they have not received any of those statements as at the date of this report. We have independently sent requests for confirmation to these banks but we have not received the requested confirmations as at the date of this report.

In the absence of sufficient supporting documents relating to the balance of cash at these banks, we were unable to obtain satisfactory audit evidence as to the existence and accuracy of the balance of cash at bank and other balances and transactions such as loans and pledge of assets that might have been entered into by the Group with these banks as at 31 March 2017 and the accuracy of the consolidated statement of cash flows disclosed for the year ended 31 March 2017.

*(f) Scope limitation on amounts due from/to related parties*

As disclosed in notes 20 and 25, the Group has recorded an amount due from related parties of HK\$88.3 million and an amount due to related parties of HK\$113.3 million. As disclosed in those notes, the related parties mainly consist of the founder of a trust that indirectly owns the controlling shareholder of the Company, companies controlled by the founder of the aforementioned trust and the former Chairman and Chief Executive Officer of the Company who is also a beneficiary of the aforementioned trust.

The former Chairman and Chief Executive Officer resigned from the Company on 6 August 2016 after he was adjudged bankrupt by a bankruptcy order dated 27 July 2016 by the High Court of Hong Kong. After his resignation from the Company, there was no regular communication between the Company and the former Chairman. The JPLs have been unable to obtain financial information relating to the related parties. We have independently sent requests for confirmation to the related parties but we have not received the requested confirmations as at the date of this report.

We were therefore unable to obtain sufficient appropriate evidence as to the existence and accuracy of these amounts and the recoverability of the receivables.

*(g) Scope limitation on completeness of provisions and disclosures relating to pending litigations*

As disclosed in note 29 to the financial statements, there have been a number of pending litigations against the Group, for which no provision has been recognised in these financial statements. The JPLs have begun work on compiling a list of pending litigations and assessing whether the pending litigations indicate the existence of present or possible obligations which may require an outflow of resources in the future. However, as of the date of this report, they have not been able to complete the compilation of the list or the assessment of whether outflow of resources would be probable or possible.

Given these circumstances, there were no practicable audit procedures that we could perform to assess whether additional provisions should have been recognised in these financial statements and/or whether additional information should have been disclosed in these financial statements in respect of pending litigation.

*(h) Scope limitation on completeness and accuracy of other payables and accruals*

As at 31 March 2017, other payables and accruals (excluding interest payables, receipts in advance, other taxes payable, payables related to construction projects and amounts due to related parties) are stated in the consolidated statement of financial position to be HK\$83.6 million. However, because previous management and many of the staff members have left the Group since the Group encountered liquidity issues in early 2016, there is a heightened risk that management's controls over timely and accurate accrual of expenses may not have been operating effectively throughout the period and as at the reporting date.

In particular, we identified that the Group did not have a formal process to request all departments to submit invoices or make accruals during the year-end financial reporting process. We therefore requested the JPLs to provide us with the supporting documents and calculations relating to the completeness and accuracy of other payables and accruals. However, we have been unable to obtain sufficient supporting evidence to substantiate that these payables are free from material misstatements.

*(i) Scope limitation on recoverability of amounts due from de-consolidated subsidiaries*

As described in the “disagreement arising from non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries” section below, the JPLs excluded GCC Group and Champ Universe Group in the preparation of these consolidated financial statements. As such, as disclosed in note 15, the financial statements include amounts due from GCC Group and from Champ Universe Group of HK\$537.8 million and HK\$1,553.3 million, respectively, as at 31 March 2017. The JPLs have made full provision against the former, but no provision has been made against the latter.

Because of the insufficient financial information about the GCC Group and Champ Universe Group as described in that section, we have been unable to obtain sufficient appropriate evidence to determine whether the amounts due from GCC Group and from Champ Universe Group as at 31 March 2017 were free from material misstatement as compared to the basis of preparation of these financial statements. In addition, we have been unable to obtain sufficient appropriate evidence to determine whether the full impairment loss made against the balance with GCC Group, the nil impairment loss made against the balance with Champ Universe and the gain on deconsolidation were free from material misstatements as compared to the basis of preparation of these financial statements.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (a) to (i) above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 March 2017 and its net loss for the year ended and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

In our auditor's reports on the Group's consolidated financial statements for the year ended 31 March 2016 we disclaimed our opinions due to, amongst other matters, the same limitations as mentioned above in the scope of our audit in respect of the amounts reported in those financial statements. Accordingly, we are unable to complete our audit of the opening balances as of 1 April 2016 and any adjustments to the consolidated statement of financial position as at 31 March 2016 might affect the loss for the year ended 31 March 2017. In addition, the corresponding amounts for the consolidated statement of profit or loss and consolidated cash flow statement for the year ended 31 March 2016 may not be comparable to the current year.

***Multiple uncertainties related to going concern basis***

As set out in note 2(b) to the financial statements, a creditor of the Company filed a winding up petition against the Company in the Court of First Instance of the High Court of Hong Kong on 29 March 2016 and another creditor of the Company filed a winding up petition against the Company in the Supreme Court of Bermuda on 6 May 2016. Subsequently, the JPLs of the Company were appointed by the Supreme Court of Bermuda in October 2016. In addition, certain loan principal repayments and interest payments were overdue and as a result, the Group also breached the default clauses of the lending arrangements with financial institutions. Up to the date of the approval of the consolidated financial statements, the Group is also facing a significant number of legal actions from creditors demanding immediate repayments.

The JPLs have been undertaking certain measures to restructure the Company and ensure its continuing existence as a going concern, which are set out in note 2(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (1) whether the Group is able to complete the planned debt to equity swap; (2) whether the Group is able to obtain



sufficient funds from the potential lenders; (3) whether the Company can successfully complete the planned placement of new shares and (4) whether the Company can successfully obtain the renewed mining licenses of Shizhuanggou, Quanshuigou and Xiaohuangshan coal mines to operate the mines continuously for the foreseeable future.

These conditions, further details of which are described in note 2(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

***Disagreement arising from non-compliance with HKFRS 10 in respect of de-consolidation of subsidiaries***

Even had there been no limitation in the scope of our audit and even had there not been multiple material uncertainties relating to going concern as described in the "basis for disclaimer of opinion" paragraphs which precluded us from expressing an opinion on the consolidated financial statements, our opinion would have been qualified in respect of our disagreements with certain accounting treatments as set out below:

- (i) As disclosed in note 2(b) to the consolidated financial statements, the Company completed the acquisition of Grande Cache Coal Corporation and Grande Cache Coal LP in September 2015 and thereafter Up Energy (Canada) Limited became the parent company of these entities (together referred to as the "**GCC Group**"). As further set out in that note, the Company's control over the GCC Group was lost on 3 February 2017 when the GCC Group was put into receivership and the Company lost access to the GCC Group's books and records.

Given these circumstances, the JPLs excluded the financial position, the financial performance and cash flows of the GCC Group from the date of acquisition onwards in preparing these financial statements due to inaccessibility of the historical financial information of GCC Group. The exclusion of the financial position, financial performance and cash flows of the GCC Group from the consolidated financial statements prior to 3 February 2017 is a departure from the requirements of HKFRS 10.

We reported the same matter in our auditor's reports on the consolidated financial statements for the year ended 31 March 2016. Given that insufficient financial information about the GCC Group was made available to us, we were unable to ascertain the financial impact of the non-consolidation of the GCC Group on the consolidated financial statements for the year ended 31 March 2017 or on the comparability of the current year's figures and the corresponding figures.

- (ii) As disclosed in note 2(b) to the consolidated financial statements, the Group had ongoing dispute over Champ Universe Limited and its subsidiaries (together “**Champ Universe Group**”), being the Company’s subsidiaries which owned and operated a mine in Xinjiang Baicheng County (“**Baicheng Mine**”) with its former shareholder. In addition, according to a notice of Xinjiang Government dated 16 February 2017, Baicheng Mine was listed as one of the mines to be closed down by the Xinjiang Government because its annual capacity was below the specified quantity. Soon after the said notice, the mining licence of Baicheng Mine was revoked by the relevant authority unilaterally. Thereafter, Champ Universe Group, which was set up solely for the operations of Baicheng Mine, ceased its business and the JPLs advised that certain accounting records of Champ Universe Group were missing.

Given these circumstances, in preparing these financial statements, the JPLs excluded the financial position as at 31 March 2017, the financial performance and cash flows of Champ Universe Group with effect from 1 April 2015.

The exclusion of the financial position, financial performance and cash flows of Champ Universe Group from the consolidated financial statements, and the presentation of the investment in Champ Universe Group at cost less impairment are departures from the requirements of HKFRS 10. We reported the same matter in our auditor’s reports on the consolidated financial statements for the years ended 31 March 2016. Given that insufficient financial information about Champ Universe Group was made available to us, we were unable to ascertain the financial impact of the non-consolidation of Champ Universe Group on the consolidated financial statements for the year ended 31 March 2017 or on the comparability of the current year’s figures and the corresponding figures.

## 2. FINANCIALS STATEMENTS OF THE GROUP

The Company is required to set out or refer to in this Circular the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the last published audited accounts, together with the notes to the relevant published financial statements which are of major relevance to the appreciation of the above financial information.

The audited consolidated annual results of the Group for the year ended 31 March 2019 (the “**2019 Financial Statements**”) was published on 28 October 2020 and posted on the websites of the Stock Exchange and the Company. Please see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1028/2020102801540.pdf>

The audited consolidated annual results of the Group for the year ended 31 March 2018 (the “**2018 Financial Statements**”) was published on 18 September 2019 and posted on the websites of the Stock Exchange and the Company. Please see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0918/2019091800694.pdf>

The audited consolidated annual results of the Group for the year ended 31 March 2017 (the “**2017 Financial Statements**”) was published on 18 September 2019 and posted on the websites of the Stock Exchange and the Company. Please see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0918/2019091800692.pdf>

The 2017 Financial Statements, 2018 Financial Statements and the 2019 Financial Statements are incorporated by reference into this Circular and form part of this Circular.

As the financial information of the Company for the financial year ended 31 March 2020 was not readily available as at the Latest Practicable Date, the Company excluded the financial information of the Company for the financial year ended 31 March 2020 and the indebtedness statement from this Circular for the reasons set out below.

#### **Unavailability of the audited financial information and indebtedness statement for the financial year of 2020**

The Company originally planned to commence the audit of financial statements for the year ended 31 March 2020 (the “**2020 Financial Statements**”) after completion of audit of 2019 Financial Statements. However, due to the unexpected and unfortunate pandemic, the audit plan of 2020 Financial Statements has been delayed correspondingly to that of FY2019.

As such, there were no other financial statements of the Group (audited or unaudited) published by the Company after the 2019 Financial Statements have published.

Due to the unavailability of 2020 Financial Statements, the Company is unable to extract the relevant information to prepare for the indebtedness statement.

#### **Relevance of the latest financial information and indebtedness statement for the purpose of this Circular**

This Circular is prepared for convening the SGM, for the principal purpose of approving the contemplated transactions of the Scheme. As mentioned in this Circular, the Scheme was approved by the requisite statutory majorities of the Creditors at the Scheme Meeting convened and held on 30 September 2019. While the creditors considered to approve the Scheme, they also made reference only to the belated available financial results of the Company for the financial years ended 2016, 2017 and 2018. It is also justifiable that two groups of the stakeholders rely on the same sets of financial information.

In any event, the Company is a mining company with very substantial assets and in such case, there has not been any material changes in the Company’s financial position given that there has not been any material change in its mining assets with no mining activities since the latest published accounts for the year ended 31 March 2019.

**Upcoming court hearings in Hong Kong and Bermuda**

The petition hearings in Hong Kong and Bermuda are scheduled on 8 February 2021 and 29 January 2021 respectively. Any adjournments of the petition hearings are subject to the agreement with the respective petitioners and the Hong Kong Court and the Bermuda Court.

In the circumstances, it is urgent for the Company to have the Scheme and the contemplated transactions thereunder approved by the Shareholders and sanctioned by the Hong Kong Court prior to the petition hearings.

**3. MATERIAL CHANGES**

The JPLs confirm that there are no material changes in the financial or trading position or outlook of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up, and up to the Latest Practicable Date.

**1. RESPONSIBILITY STATEMENT**

The JPLs jointly and severally accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular the omission of which would make any statement in this Circular misleading.

**2. DISCLOSURE OF INTERESTS AND DEALINGS OF UP ENERGY GROUP**

As at the Latest Practicable Date,

- (a) Up Energy Group is interested in 1,377,073,492 Shares, representing approximately 30.34% of the total issued share capital of the Company;
- (b) Save for Ms. Wang Jue, a director of Up Energy Group Limited, as disclosed in the sub-section headed “(b) Substantial Shareholders’ and Other Persons’ Interests and Short Positions in the Shares and Underlying Shares” under the section headed “4. FURTHER DISCLOSURE OF INTERESTS” below, none of the directors of Up Energy Group Limited and the parties acting in concert with Up Energy Group Limited had any interests in any Shares, convertible securities, warrants, options or derivatives of the Company;
- (c) none of Up Energy Group and the parties acting in concert with it had received any irrevocable commitment to vote for or against the transactions contemplated under the Creditors’ Scheme, the Whitewash Waiver and the Special Deal;
- (d) none of Up Energy Group and the parties acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person; and
- (e) none of Up Energy Group and the parties acting in concert with it had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

During the period beginning 6 months prior to the date of the Announcement and ending with the Latest Practicable Date, Up Energy Group, the directors of Up Energy Group Limited and the parties acting in concert with Up Energy Group Limited have not dealt in any Shares, convertible securities, warrants, options or derivatives of the Company.

### 3. DISCLOSURE OF INTERESTS AND DEALINGS OF THE GROUP

As at the Latest Practicable Date,

- (a) the Company is not interested in any shares, convertible securities, warrants, options or derivatives of Up Energy Group;
- (b) Ms. Chen Wan, the wife of Mr. Zhang Li, a Director, is interested in 24,100,000 Shares, representing approximately 0.53% of the total issued share capital of the Company. Mr. Zhang Li therefore is taken to be interested in the relevant Shares by virtue of the SFO. Save for Mr. Zhang Li, no Directors are interested in any shares, convertible securities, warrants, options or derivatives of the Company;
- (c) Save for Mr. Wang Chuan as disclosed in the section headed “EFFECTS ON THE SHAREHOLDERS STRUCTURE OF THE COMPANY” in the letter from the JPLs, none of the Company and the Directors are interested in any shares, convertible securities, warrants, options or derivatives of Up Energy Group;
- (d) none of the subsidiaries of the Company and the pension fund of the Company or of a subsidiary of the Company, or a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders and exempt fund managers) owned or controlled any Shares, convertible securities, warrants, options or derivatives of any Shares of the Company;
- (e) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of any Shares of the Company;
- (f) no Shares, convertible securities, warrants, options or derivatives of any Shares of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (g) the Directors who are interested in the Shares (including Mr. Wang Chuan, Mr. Zhang Li, Mr. Zheng Yuan, Mr. Li Bao Guo, Mr. Liu Yongshun and Mr. Wu Yanfeng) are all interested in the Creditors’ Scheme and will be required to abstain from voting on the transactions contemplated under the Creditors’ Scheme, the Whitewash Waiver and the Special Deal; and
- (h) none of the Company and the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

During the period beginning 6 months prior to the date of the Announcement and ending with the Latest Practicable Date, the Company and the Directors have not dealt in any shares, convertible securities, warrants, options or derivatives of the Company or Up Energy Group.

#### 4. FURTHER DISCLOSURE OF INTERESTS

##### (a) Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange or which were required to be disclosed under the Takeover Code, were as follows:

##### *Interests and short positions in the Shares and Underlying Shares in the Company*

Name of Director	Capacity	Number of Shares/underlying Shares held in the Company			Approximate percentage of issued capital of the Company	Notes
		Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares		
Zhang Li	Spouse Interest	24,100,000 (L)	—	24,100,000 (L)	0.53%	2

Abbreviations:

“L” stands for long position

Notes:

- The information above is based on the latest public information and the available books and records of the Company. No representation is made by the Company and the JPLs as to the accuracy and completeness of the information.
- Mr. Zhang Li is the husband of Ms. Chen Wan. Mr. Zhang Li is therefore taken to be interested in the relevant Shares and short position by virtue of the SFO.
- As at Latest Practicable Date, the number of issued Shares was 4,538,515,411 Shares.

Save as disclosed above, none of the Directors, chief executive of the Company or their associates had, as at the Latest Practicable Date, any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to

the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange or which were required to be disclosed under the Takeover Code.

**(b) Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares**

As at the Latest Practicable Date, the persons or corporations, other than a director or chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of Part XV of the SFO or had otherwise been notified to the Company were as follows:

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued capital of the Company	Notes
Qin Jun	Beneficiary Interest of Trust	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	2
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	2
	Corporate Interest	—	318,578,135 (L)	318,578,135 (L)	7.02%	2
Up Energy Group	Beneficiary Interest	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	3
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Up Energy Holding Limited	Corporate Interest	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	3
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Perfect Harmony Holdings Limited	Corporate Interest	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	3
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Seletar Limited	Corporate Interest	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	3
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Serangoon Limited	Corporate Interest	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	3
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Credit Suisse Trust Limited	Trustee	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	4
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Liu Huihua	Beneficiary Interest of Trust	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	5
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Wang Mingquan	Founder of Trust	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	5
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Wang Jue	Beneficiary Interest of Trust/Spouse Interest	1,377,073,492 (L)	3,070,757,880 (L)	4,447,831,372 (L)	98.00%	6
		1,331,051,890 (S)	2,628,101,945 (S)	3,959,153,835 (S)	87.23%	
Ho Kwok Leung Glen	Agent	1,331,051,890 (L)	2,936,619,718 (L)	4,267,671,608 (L)	94.03%	7
Lai Kar Yan	Agent	1,331,051,890 (L)	2,936,619,718 (L)	4,267,671,608 (L)	94.03%	7
Yeung Lui Ming	Agent	1,331,051,890 (L)	2,936,619,718 (L)	4,267,671,608 (L)	94.03%	7
China Minsheng Banking Corp., Ltd.	Person having a security interest in shares	1,563,453,890 (L)	2,936,619,718 (L)	4,500,073,608 (L)	99.15%	7, 14
Up Energy Capital Limited	Corporate Interest	—	318,578,135 (L)	318,578,135 (L)	7.02%	8
Capital Sunlight Limited	Beneficiary Interest	—	744,182,236 (L)	744,182,236 (L)	16.40%	9
ICBC International Holdings Limited	Corporate Interest	—	744,182,236 (L)	744,182,236 (L)	16.40%	10
ICBC International Investment Management Limited	Corporate Interest	—	744,182,236 (L)	744,182,236 (L)	16.40%	9
Industrial and Commercial Bank of China Limited	Corporate Interest	—	744,182,236 (L)	744,182,236 (L)	16.40%	9
Central Huijin Investment Limited	Corporate Interest	—	1,240,601,131 (L)	1,240,601,131 (L)	27.33%	9 to 12



Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued capital of the Company	Notes
CCB International Asset Management Limited	Investment Manager/ Beneficiary Interest	—	496,418,895 (L)	496,418,895 (L)	10.94%	10
CCB International (Holdings) Limited	Corporate Interest/ Beneficiary Interest	—	496,418,895 (L)	496,418,895 (L)	10.94%	10
CCB Financial Holdings Limited	Corporate Interest	—	496,418,895 (L)	496,418,895 (L)	10.94%	10
CCB International Group Holdings Limited	Corporate Interest	—	496,418,895 (L)	496,418,895 (L)	10.94%	10
China Construction Bank Corporation	Corporate Interest	—	496,418,895 (L)	496,418,895 (L)	10.94%	10
Yun Dahui	Beneficiary Interest	300,000,000 (L)	—	300,000,000 (L)	6.61%	13
		300,000,000 (S)	—	300,000,000 (S)	6.61%	
Exploratory Capital Limited	Beneficiary Interest	300,000,000 (L)	—	300,000,000 (L)	6.61%	13
		300,000,000 (S)	—	300,000,000 (S)	6.61%	
Wong Ben Koon	Corporate Interest	291,116,000 (L)	—	291,116,000 (L)	6.41%	14
Chan Ho Yin	Agent	232,402,000 (L)	—	232,402,000 (L)	5.12%	14
Tai Shaw Hoong	Agent	232,402,000 (L)	—	232,402,000 (L)	5.12%	14
Hao Tian Group	Beneficiary Interest	367,500,000 (L)	—	367,500,000 (L)	8.10%	
		140,000,000 (S)	—	140,000,000 (S)	3.08%	
	Corporate Interest	4,000,000 (L)	134,138,162 (L)	138,138,162 (L)	3.04%	
Asia Link Capital Investment Holdings Limited	Beneficiary Interest	367,500,000 (L)	—	367,500,000 (L)	8.10%	
		140,000,000 (S)	—	140,000,000 (S)	3.08%	
	Corporate Interest	4,000,000 (L)	134,138,162 (L)	138,138,162 (L)	3.04%	
Li Shao Yu	Beneficiary Interest	367,500,000 (L)	—	367,500,000 (L)	8.10%	
		140,000,000 (S)	—	140,000,000 (S)	3.08%	
	Corporate Interest	4,000,000 (L)	134,138,162 (L)	138,138,162 (L)	3.04%	

## Abbreviations:

“L” stands for long position

“S” stands for short position

## Notes:

- Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms (the “DI Forms”) when certain criteria are fulfilled and the full details of the requirements are available on the Stock Exchange’s official website. When a shareholder’s shareholdings in the Company changes, it is not necessary to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, substantial shareholders’ latest shareholdings in the Company may be different to the shareholdings filed with the Company and the Stock Exchange. The above statements of substantial shareholders’ interests are prepared based on the public information and the available books and records of the Company. No representation is made by the Company and the JPLs as to the accuracy and completeness of the information.
- Mr. Qin Jun and his wife, Ms. Wang Jue, are the beneficiaries of the J&J Trust. The J&J Trust is a discretionary trust found by Mr. Wang Mingquan, the father in-law of Mr. Qin Jun. Mr. Qin Jun and Ms. Wang Jue are therefore taken to be interested in the relevant Shares and short position by virtue of the SFO. 318,578,135 derivatives interests are beneficially owned by Up Energy Capital Limited. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun. Mr. Qin Jun is therefore taken to be interested in the relevant Shares by virtue of the SFO.

3. These Shares were the same parcel of Shares held by the J&J Trust of which Mr. Wang Mingquan was the founder. Up Energy Group is wholly owned by Up Energy Holding Ltd. (“**UEHL**”). UEHL is wholly owned by Perfect Harmony Holdings Limited (“**Perfect Harmony**”). Perfect Harmony is a company incorporated in Bahamas and owned by Seletar Limited (“**Seletar**”) and Serangoon Limited (“**Serangoon**”) as nominees in trust of Credit Suisse Trust Limited, the trustee of the J&J Trust. Accordingly, Up Energy Group, UEHL, Seletar, Serangoon and Perfect Harmony are also deemed to be interested in the relevant Shares and short position by virtue of the SFO.
4. Credit Suisse Trust Limited, as a trustee of the J&J Trust, is deemed to be interested in the relevant Shares and the short position by virtue of the SFO.
5. Mr. Wang Mingquan is the founder of the J&J Trust and Ms. Liu Huihua is the spouse of Mr. Wang Mingquan. Mr. Wang Mingquan and Ms. Liu Huihua are therefore taken to be interested in the relevant Shares and short position by virtue of the SFO.
6. Ms. Wang Jue is the beneficiary of the J&J Trust, the daughter of Mr. Wang Mingquan and the wife of Mr. Qin Jun. Ms. Wang Jue is therefore taken to be interested in the relevant Shares and short position by virtue of the SFO.
7. Messrs. Lai Kar Yan, Yeung Lui Ming and Ho Kwok Leung Glen have been appointed as Joint and Several receivers and managers for China Minsheng Banking Corp., Ltd. Hong Kong Branch as chargee to enforce security of certain ordinary shares and underlying shares of equity derivatives (in the form of convertible notes) of the Company, granted by Up Energy Group.
8. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun. Accordingly, Mr. Qin Jun is deemed to be interested in the same parcel of Shares by virtue of the SFO. On 27 July 2016, Mr. Qin Jun was adjudged bankrupt. On 26 August 2016, Mr. Mak Hau Yin and Ms. Chan Pui Sze were appointed joint and several trustees of the estate of Mr. Qin Jun and subsequently took control of Up Energy Capital Limited.
9. Capital Sunlight Limited (“**Capital Sunlight**”) is wholly owned by ICBC International Investment Management Limited (“**ICBC Investment**”). ICBC Investment is wholly owned by ICBC International Holdings Limited (“**ICBC Holdings**”). ICBC Holdings is wholly owned by Industrial and Commercial Bank of China Limited (“**ICBC**”). By virtue of the SFO, Capital Sunlight, ICBC Investment, ICBC Holdings and ICBC and are deemed to be interested in the same parcel of Shares.
10. CCB International Asset Management Limited (“**CCB-IAM**”) is wholly owned by CCB International (Holdings) Limited (“**CCB International**”). CCB International is wholly owned by CCB Financial Holdings Limited (“**CCB Financial**”). CCB Financial is wholly owned by CCB International Group Holdings Limited (“**CCBI Group**”). CCBI Group is wholly owned by China Construction Bank Corporation (“**CCB Corp**”). By virtue of the SFO, CCB International, CCB Financial, CCBI Group, CCB Corp and Central Huijin Investment Ltd. (“**Central Huijin**”) are deemed to be interested in the same parcel of Shares.
11. CCB Corp is in turn 57.31% beneficially owned by Central Huijin. By virtue of the SFO, Central Huijin is deemed to be interested in the Shares in which CCB Corp was interested.
12. ICBC is in turn 35.00% beneficially owned by Central Huijin. By virtue of the SFO, Central Huijin is deemed to be interested in the Shares in which ICBC was interested.
13. Exploratory Capital Limited is 80.12% owned by Ms. Yun Dahui. Accordingly, Ms. Yun Dahui is deemed to be interested in the same parcel of Shares in the Company by virtue of the SFO.
14. Messrs. Chan Ho Yin and Tai Shaw Hoong have been appointed as joint and several receivers for China Minsheng Banking Corp., Ltd., Hong Kong Branch as chargee to enforce security of certain ordinary shares of the Company charged by Wong Ben Koon.
15. As at the Latest Practicable Date, the number of issued Shares of the Company was 4,538,515,411 Shares.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified of any persons, other than a director or chief executive of the Company, who had interests or short positions in the shares or underlying Shares which would fall to be disclosed to the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO.

## 5. UP ENERGY GROUP'S INTENTION REGARDING THE GROUP

Up Energy Group has no intention to develop new business that is outside the existing businesses of the Group upon the Scheme becoming effective.

In addition, Up Energy Group has no intention to introduce any major changes to be introduced in the Group's business, including any redeployment of the fixed assets of the Company.

Further, Up Energy Group has the intention for the continued employment of the current employees of the Group.

## 6. SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$4,040,000,000 divided into 22,000,000,000 Shares of HK\$0.20 each, of which 4,538,515,411 shares had been issued and were fully paid or credited as fully paid up. All the Shares in issue rank *pari passu* in all respects with each other, including as to rights in respect of capital, dividends and voting.

The Company has not issued any Shares since 31 March 2019, being the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had no outstanding share options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interest.

## 7. MATERIAL CONTRACTS

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

- (i) The Loan Facility Agreement dated 6 March 2018, the Deed dated 14 January 2019 and the Supplemental Agreement dated 18 August 2020 entered into among the Company as Borrower, ICA as Lender and the JPLs, pursuant to which the loan facility in the principal amount of up to HK\$800 million provided to the Company granted by ICA.

## 8. DIRECTORS' ARRANGEMENTS

As at the Latest Practicable Date,

- (a) no benefit (other than statutory compensation) was or will be given to any Directors as compensation for loss of office or otherwise in connection with the transactions contemplated under the creditors' scheme;
- (b) there was no agreement or arrangement between any Directors and any other person who is conditional on or dependent upon the outcome of the creditors' scheme or otherwise connected with the creditors' scheme; and
- (c) no material contracts have been entered into by the Up Energy Group in which any Director has a material personal interest.

## 9. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any subsidiaries or associated companies of the Company which:

- (i) have been entered into or amended (including both continuous and fixed term contracts) within 6 months before the commencement of the offer period;
- (ii) are continuous contracts with a notice period of 12 months or more; or
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 10. LITIGATION

On 22 March 2016, a writ of summons endorsed with a full statement of claim was issued in the Court of First Instance of the High Court of The Hong Kong Special Administrative Region by Simagi Finance Company Limited as the Plaintiff against Up Energy Trading Limited, a wholly owned subsidiary of the Company, as the 1st Defendant and the Company as the 2nd Defendant under action number HCA 752 of 2016 in respect of a loan agreement entered into between Up Energy Trading Limited and Simagi Finance Company Limited (an assignee to the original lender pursuant to a deed of assignment dated 16 March 2016) on 17 June 2015. The Plaintiff claims against the 1st Defendant and the 2nd Defendant for reliefs including, among others, the amount of the debt under the loan agreement and the agreed interest until repayment.

On 12 August 2016, a writ of summons endorsed with indorsement of claim was issued in the Court of First Instance of the Hong Kong Court by Hao Tian Group as the Plaintiff against Up Energy Mining Limited, a wholly owned subsidiary of the Company, as the 1st Defendant and the Company as the 2nd Defendant under action number HCA 2111 of 2016 in respect of the Plaintiff's claim of the allotment and issue of the Shares as an additional consideration pursuant to the very substantial acquisition transaction in the circular dated 11 June 2013, or cash payment in lieu if there is a shortfall in the Shares. The Company is in the course of

seeking legal advice in respect of the above matter. The Company will keep its Shareholders and potential investors informed of any further significant development when appropriate. Shareholders, convertible noteholders and potential investors of the Company should accordingly exercise caution when dealing in the securities of the Company. The JPLs representing the Company and UE Mining are in the course of mediation with Hao Tian Group and the case management summons hearing was ordered to be adjourned sine die with liberty to restore.

As at the Latest Practicable Date, (i) there is no other winding up petition presented against the Company, (ii) no member of the Group is engaged in any litigation or arbitration of material importance; and (iii) there is no litigation of material importance known to the JPLs to be pending against any member of the Group.

## 11. EXPERT AND CONSENT

The following are the names and qualifications of the experts who have given opinion or advice contained or referred to in this Circular:

<b>Name</b>	<b>Qualification</b>
Messis Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.
Access Partner Professional Services Limited (“Access Partner”)	Independent professional valuer
Kingston Corporate Finance Limited	A corporation licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO.
Moore Stephens CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts had no beneficial interest in the share capital of any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group or have any interest, either directly or indirectly, in any assets which have been, since 31 March 2019, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Company.

Each of the above experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its reports and/or its letters and/or references to its name and/or its advice in the form and context in which they respectively appear.

**12. GENERAL**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at 29/F, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong.
- (b) The Board of Directors of the Company comprises Mr. Wang Chuan, Mr. Zhang Li and Mr. Zheng Yuan as Executive Directors; and Mr. Li Bao Guo, Mr. Liu Yongshun, and Mr. Wu Yanfeng as Independent Non-executive Directors. The names of the Board members referred hereto are based on the latest register of directors of the Company. For the avoidance of doubt, the composition of the Board is a matter in dispute as Mr. Gao Shufang (subsequently resigned with effect from 30 September 2017) and Mr. Ji Lianming claimed themselves being appointed as Executive Directors whereas Mr. Chan Ming Sun Jonathan, Mr. Lee Chi Hwa, Joshua and Mr. Mak Yiu Tong claimed themselves to be appointed as Independent Non-executive Directors in replacement of the entire Board members (inter alia including Mr. Chui Man Lung, Everett who has purported resigned on 30 August 2018) in a SGM held on 25 April 2017.
- (c) The registered office of Up Energy Group is at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The ultimate controlling shareholder of Up Energy Group is J&J Trust and the sole directors of Up Energy Group is Ms. Wang Jue.
- (d) The parties acting in concert with Up Energy Group are Mr. Lai Kar Yan, Mr. Yeung Lui Ming and Mr. Ho Kwok Leung Glen, all of Deloitte Touche Tohmatsu, and Mr. Wang Chuan. The registered offices of Deloitte Touche Tohmatsu and Mr. Wang Chuan is at 35th Floor, One Pacific Place, 88 Queensway, Hong Kong and Section A, Minzu Lane Commercial Street, Fukang City, Xinjiang Uygur Autonomous Region, the PRC, respectively.
- (e) The registered office of Kingston Corporate Finance Limited, the financial adviser to the Company, is at 72/F, The Center, 99 Queen's Road Central, Central, Hong Kong.
- (f) The registered office of the Independent Financial Adviser is at Room 1606, 16/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Hong Kong.
- (g) The registered office of Access Partner, the independent professional valuer to the Company, is at Unit 2603, 26/F, Tung Wai Commercial Building, Nos. 109–111 Gloucester Road, Wanchai, Hong Kong.
- (h) The registered office of Moore Stephens CPA Limited, the accountant to the Company, is at 801–806 Silvercord, Tower 1, 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (i) on the website of the SFC (<http://www.sfc.hk>); (ii) on the website of the Company (<http://www.upenergy.com>); and (iii) at the principal place of business of the Company in Hong Kong at 29/F, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong during normal business hours from 9:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays in Hong Kong) from the date of this Circular and up to and including the date of the SGM:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of Up Energy Group;
- (c) the annual results announcements of the Company for each of the two financial years ended 31 March 2018 and 2019;
- (d) the letter from the JPLs, the text of which is set out on pages 11 to 51 of this Circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 52 to 77 of this Circular;
- (f) the valuation report on the subject assets of the Group prepared by Access Partner, which is set out in “Appendix III — Valuation Report” of this Circular;
- (g) the letters of the financial adviser and the accountant of the Company in connection with the valuation of the Company’s subject assets conducted by an independent professional valuer as required under the Takeovers Code;
- (h) the written consents from the experts referred to in the section headed “11. EXPERT AND CONSENT” in this appendix;
- (i) the material contracts referred to in the section headed “7. MATERIAL CONTRACTS” in this appendix; and
- (j) this Circular.

*The following is the text of letter and valuation report prepared for the purpose of incorporation in this Circular, received from Access Partner Professional Services Limited, an independent valuer, in connection with its valuation as at 30 September 2020 of the Subject Assets held by the Company in the PRC.*

**Access Partner Professional Services Limited**

Rm 2603, 26/F  
Tung Wai Commercial Building  
109–111 Gloucester Road  
Wanchai, Hong Kong

31 December 2020

**Up Energy Development Group Limited  
(In Provisional Liquidation (For Restructuring Purposes))**

c/o 29th Floor, Lee Garden Two  
28 Yun Ping Road,  
Causeway Bay,  
Hong Kong

Dear Sirs/Madams,

**INSTRUCTIONS**

This report has been prepared solely for Up Energy Development Group Limited (In Provisional Liquidation (For Restructuring Purposes)) (“Company”), which has engaged Access Partner Professional Services Limited (“Access Partner” or “we”) to perform valuation of the three underground coal mines located separately in Quanshuigou (“Quanshuigou Mine”), Shizhuanggou (“Shizhuanggou Mine”) and Xiaohuangshan (“Xiaohuangshan Mine”) (collectively the “Coal Mines”) and the processing facilities including a coal preparation plant (“CPP”) and a coke plant (“Coke Plant”) (together with the “Coal Mines”, collectively the “Subject Assets”) located in Xinjiang Uygur Autonomous Region (“Xinjiang”), the People’s Republic of China (“PRC”) as of 30 September 2020 (“Date of Valuation”).

This report states the purpose of valuation, basis of valuation, scope of work, independence statement, competence statement, scope of work, limitations in scope of work, sources of information, an overview of the Subject Assets, an overview of general market and industry, valuation methodology, major assumptions, limiting conditions, remarks and opinion of value.



**1. SUMMARY OF VALUATION**

Subject Asset Valued	Quanshuigou Mine, Shizhuanggou Mine, Xiaohuangshan Mine, CPP and Coke Plant
Coal Mines Location	<p>Quanshuigou Mine:  Latitudes from 44°02'00" N to 44°04'14" N and longitudes from 88°28'43" E to 88°31'30" E</p> <p>Shizhuanggou Mine:  Latitudes from 44°02'48" N to 44°04'00" N and longitudes from 88°27'00" E to 88°29'37" E</p> <p>Xiaohuangshan Mine:  Latitudes from 44°04'38" N to 44°05'10" N and longitudes from 88°10'37" E to 88°13'00" E</p>
Date of Valuation	30 September 2020
Reporting Date	31 December 2020
Value Conclusion	<p>Xiaohuangshan Mine:  RMB2,500,000,000</p> <p>Quanshuigou Mine and Shizhuanggou Mine:  RMB2,400,000,000</p> <p>CPP:  RMB200,000,000</p> <p>Coke Plant:  RMB1,800,000,000</p>

**2. PURPOSE OF VALUATION**

This report is prepared solely for the use of the directors and management of the Company. In addition, Access Partner acknowledges that this report may be made available to the Company for public disclosure purpose.

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

### 3. BASIS OF VALUATION

Our valuation was performed on the fair-value basis. According to the Hong Kong Financial Reporting Standard 13 — Fair Value Measurement, fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

Other than the Coal Reserves adopted in our valuation previously estimated by the JTB for the Coal Mines, this valuation report is, in all material aspects, in compliance with the requirements of a valuation report pursuant to Chapter 18 of the Listing Rules.

### 4. PREMISE OF VALUATION

The premise of our valuation is founded on the going concern assumption where the Company and its Subject Assets are expected to continue the planned operation without the intention or threat of liquidation in the foreseeable future, generating the greatest return to the stakeholders of the assets in the manner which is physically possible, financially feasible and legally permissible.

### 5. INDEPENDENCE STATEMENT

Access Partner certifies that neither Access Partner, nor its directors, shareholders, staffs have any present or prospective interests in the Company or its Subject Assets. Access Partner is to receive the professional fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

### 6. COMPETENCE STATEMENT

Mr Leung Kar Fai, as the Director of Access Partner and being responsible for the overall project management of this report, graduated with Honours with a Bachelor of Science (major Earth Sciences) and a Master of Philosophy in Earth Sciences, both from The University of Hong Kong.

He has more than fifteen years of extensive experience in the mining industry including project generation, prospecting, field exploration, mineral resource definition, HSE management, mineral assets valuation, mineral assets acquisition, M&A and IPO process for energy, base metals, non-ferrous metals and precious metals in the PRC, Southeast Asia, North Asia, Central-Asia, Mid-East, Africa, Australasian, North and South Americas.

He possesses relevant education, qualifications, experience and professional expertise so as to have a reputation that gives authority to statements made in relation to the valuation matters of this report. He meets all the requirements for “Competent Person” as defined in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (“JORC Code”).

## 7. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Subject Assets and/or their representative(s) (collectively the “Management”).

In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions available to us:

- Discussed with the Management in relation to the development, operations and other relevant information of the Subject Assets;
- Conducted site inspections;
- Reviewed relevant financial information, operational information and other relevant data concerning the Subject Assets provided to us by the Management;
- Reviewed and discussed with the Management on the business development and financial projections concerning the Subject Assets provided to us by the Management;
- Performed market research and relevant statistical figures from public sources in relation to the valuation of the Subject Assets;
- Examined relevant basis and assumptions of both the financial and operational information of the Subject Assets provided to us by the Management;
- Prepared a valuation model to derive the fair value of the Subject Assets; and
- Presented all relevant information on the scope of work, limitations in scope of work, sources of information, an overview of the Subject Assets, an overview of general market and industry, valuation methodology, major assumptions, limiting conditions, remarks and opinion of values in this report.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

## 8. LIMITATIONS IN SCOPE OF WORK

In the course of our valuation work, our scope of work for the purpose of the valuation is subject to the following limitations:

- In performing our services, we have relied on the accuracy of the information provided by the Management with regards to the Subject Assets’ financial projections and business affairs as well as the outlook for the business. The procedures and enquiries undertaken by us in preparing this report do not include any verification work, nor do they constitute an examination made in accordance

with generally accepted auditing standards. As such, we do not express an opinion or offer any forms of assurance regarding the accuracy, reasonableness, completeness, or reliability of these information we are based;

- Information furnished by others, upon which all or portions of this report are based, is believed to be reliable. However, we did not independently verify this information and no warranty is given as to the accuracy of such information;
- The results of our work are dependent on the financial projections of the Subject Assets. However, because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We take no responsibility for the achievement of predicted results;
- Our analysis relied on information provided by the Management. We are not required to verify the legal titles of the Subject Assets; and
- We have considered published market data and other public information, where appropriate, for which we are not responsible for their content and accuracy. Such information was obtained from sources such as Bloomberg, S&P Capital IQ and publicly available industry reports.

## 9. SOURCES OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Subject Assets prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Background information in relation to the business operation of the Subject Assets;
- Management accounts of the Subject Assets for the period ended 31 March 2020;
- The feasibility study of the Subject Assets (“Feasibility Study”) published by 新疆煤炭設計研究院, dated November 2008;
- Competent Person’s Report of the Subject Assets published by John T. Boyd Company (“JTB”), dated October 2010 (“JTB’s CPR”);
- Competent Person’s Report of the Xiaohuangshan Mine published by Access Partner (“AP”), dated December 2018 (“AP’s CPR”);
- Various licences and agreements;
- Legal opinion regarding the annual production capacity of the Subject Assets published by 新疆仕誠律師事務所, dated February 2019 (“Legal Opinion”);
- The economic outlook in general and the specific economic environment and market elements affecting the Subject Assets, industry and market; and

- Bloomberg Database and other reliable sources of market data.

## 10. SITE INSPECTION

During Access Partner's site visit, the following tasks were carried out as part of our analysis process:

- Tour of the coal mines and site office of the Subject Assets; and
- Meetings with the Management from different operational and supporting departments.

## 11. OVERVIEW OF THE SUBJECT ASSETS

### 11.1. General Background

In July 2010, the Company entered into an acquisition agreement to acquire Up Energy Investment (China) Limited and its Subject Assets including the Xiaohuangshan Mine, Shizhuanggou Mine, Quanshuigou Mine, CPP and Coke Plant which are located approximately 60 kilometres ("km") northeast to Urumqi, capital of Xinjiang. The acquisition was completed in January 2011 and thereafter, the Company's business scope was formally extended to the business of coal production, washing and coking.

The Subject Assets are planned to operate essentially as an integrated business unit with five sub-units (three underground coal mines currently under construction: Shizhuanggou Mine, Quanshuigou Mine, and Xiaohuangshan Mine, and two processing facilities, including the CPP and Coke Plant). The CPP and the Coke Plant are planned to be constructed at the Shizhuanggou Mine. Coal mined from the three mines will be trucked from the Quanshuigou and Xiaohuangshan Mines to and will be conveyed from the Shizhuanggou Mine to the CPP. Finished products are represented by coking coal, coke, and coke plant by-products.

### 11.2. Overview of the Quanshuigou Mine

The geographic location of the Quanshuigou Mine covered by the mining license is defined by latitudes from 44°02'00" N to 44°04'14" N and longitudes from 88°28'43" E to 88°31'30" E. The Quanshuigou Mine's dimensions from west to east and north to south are approximately 3 and 2km respectively.

According to the JTB's CPR, the permitted production capacity of the Quanshuigou Mine is 0.9 million tonnes per annum ("mtpa") and its designed production capacity is 1.05mtpa.

The Company, as of the suspension of construction in December 2015, invested around RMB296 million into the project representing about 46% of completion of the construction in monetary terms. To put the Quanshuigou Mine into commercial

production, the construction will require further RMB344 million and three years to complete, based on the Management's estimation. The schedule of the construction and production was provided by the Management.

### **11.3. Overview of the Shizhuanggou Mine**

The geographic location of the Shizhuanggou Mine covered by the mining license is defined by latitudes from 44°02'48" N to 44°04'00" N and longitudes from 88°27'00" E to 88°29'37" E. The Shizhuanggou Mine's dimensions from west to east and north to south are approximately 3.5 and 3.3km respectively.

According to the JTB's CPR, the permitted production capacity of Quanshuigou Mine is 0.9 mtpa and its designed production capacity is 1.05mtpa.

The Company, as of the suspension of the construction in December 2015, invested around RMB392 million into the project representing about 52% of completion of the construction in monetary terms. To put the Shizhuanggou Mine into commercial production, the construction will require further RMB361 million and three years to complete based on the Management's estimation. The schedule of the construction and production was provided by the Management.

### **11.4. Overview of the Xiaohuangshan Mine**

The geographic location of the Xiaohuangshan Mine covered by the mining license is defined by latitudes from 44°04'38" N to 44°05'10" N and longitudes from 88°10'37" E to 88°13'00" E. The Xiaohuangshan Mine's dimensions from west to east and north to south are approximately 2.9 and 1.0km respectively.

The construction of Xiaohuangshan Mine commenced in September 2009. According to JTB's CPR, the permitted production capacity is 0.9mtpa while its designed production capacity is 2.4mtpa.

The Company, as of the suspension of the construction in December 2015, invested over RMB279 million into the project, representing approximately 30% of the completion in monetary terms. The civil works have been substantially completed and the construction of vertical shafts have reached the main coal seam which is located approximately 300 metres ("m") beneath ground surface as well as the inclined tunnel to the upper coal seam. A further investment of RMB687 million will be required for the remaining construction work of the Xiaohuangshan Mine based on the Management's estimation. The schedules of the construction and production were provided by the Management. The operating expenditure and capital expenditure were updated in the AP's CPR.

### 11.5. Mining Rights

The Coal Mines are owned indirectly by the Company through different holding entities. The license details such as license ID, effective date, area, valid period and permitted production capacity of the Coal Mines are tabulated below.

**Table 1: License Details of the Quanshuigou Mine**

<b>License Holder</b>	Up Energy (Xinjiang) Mining Ltd. (70%-owned subsidiary of the Company)
<b>Coal Mine</b>	Quanshuigou Coal Mine
<b>License Type</b>	Mining
<b>License ID</b>	C6500002010111120105407
<b>Area (km<sup>2</sup>)</b>	6.6049
<b>Elevation (m)</b>	500–1,304
<b>Permitted Production Capacity</b>	0.9mtpa
<b>Type of Commodities</b>	Coal
<b>Mining Method</b>	Underground
<b>Mining Right Grant Date</b>	28 December 2011

**Table 2: License Details of the Shizhuanggou Mine**

<b>License Holder</b>	Up Energy (Xinjiang) Mining Ltd. (70%-owned subsidiary of the Company)
<b>Coal Mine</b>	Shizhuanggou Coal Mine
<b>License Type</b>	Mining
<b>License ID</b>	C6500002010111120105408
<b>Area (km<sup>2</sup>)</b>	7.1569
<b>Elevation (m)</b>	400–1,304
<b>Permitted Production Capacity</b>	0.9mtpa
<b>Type of Commodities</b>	Coal
<b>Mining Method</b>	Underground
<b>Mining Right Grant Date</b>	28 December 2011

**Table 3: License Details of the Xiaohuangshan Mine**

<b>License Holder</b>	Up Energy (Fukang) Coal Mining Ltd. (79.2%-owned subsidiary of the Company)
<b>Coal Mine</b>	Xiaohuangshan Coal Mine
<b>License Type</b>	Mining
<b>License ID</b>	C6500002009041120018623
<b>Area (km<sup>2</sup>)</b>	2.178
<b>Elevation (m)</b>	400–1,090
<b>Permitted Production Capacity</b>	0.9mtpa
<b>Type of Commodities</b>	Coal
<b>Mining Method</b>	Underground
<b>Mining Right Grant Date</b>	30 June 2010

We are given to understand that the Company is currently in the process of renewing those mining licenses in order to achieve the planned production.

#### **11.6. Previous Construction Work**

Prior to 2015, substantial construction work was carried out at the sites of the Coal Mines, which are summarized respectively as below.

##### *Xiaohuangshan Mine*

The completed part of shaft sinking and drifting included the construction work of shaft bottom, underground chambers, haulage crosscuts, main ventilation drifts and district rises. For the ground-level infrastructure, the construction of material warehouses, equipment repair houses, hoist rooms of main and auxiliary vertical shafts, boiler rooms, main buildings at shaft entrance, pipelines on surface level, plant area hardening were completed.

In addition, the Group completed the installation, testing and construction of shaft equipment, including hoists of the main and auxiliary vertical shafts as well as installation and testing of underground equipment.

##### *Shizhuanggou Mine*

The completed part of shaft sinking and drifting included the construction work of ventilation drifts, haulage crosscuts (roads and rails), shaft station of district rise and the final stage of construction work of district rise. For the ground-level infrastructure, the construction of 110kv electricity transmitting and transforming facilities, buildings at the shaft entrance, material warehouses, hoist rooms of auxiliary inclined shafts and gas drainage pump houses on the surface level were completed.

In addition, the Group completed the testing and tuning of lifting hoists of the auxiliary inclined shafts.

##### *Quanshuigou Mine*

The completed part of shaft sinking and drifting included the construction work of a vertical ventilation shaft with a depth of 534 meters, main ventilation drifts, +680-meter shaft bottom stations, underground chamber and haulage crosscuts. For the ground-level infrastructure, the construction work of 35kv electricity transmitting and transforming facilities, hoist rooms of auxiliary inclined shafts, material warehouses, mine office buildings, canteens, staff duty-shift quarters, buildings at the shaft entrance, boiler rooms and gas drainage pump houses on surface level were completed.

In addition, the Group completed the testing and tuning of lifting hoists of the auxiliary inclined shafts and equipment of gas drainage pump houses on the surface level.



### 11.7. Coal Resources

The Coal Resources estimated by the JTB for the Coal Mines in conformity with the requirements of the JORC Code as of 30 August 2010 defines a total of 158 million tons of Measured Resources, 65.7 million tons of Indicated Resources and 46.2 million tons of Inferred Resources. The Coal Resources estimation of each coal seam of the Coal Mines are summarized as below:

**Table 4: Coal Resources estimated for the Coal Mines as of 30 August 2010**

Mine	Coal Resources (kt)			Total
	Measured	Indicated	Inferred	
Quanshuigou	62,974	1,610	12,431	77,015
Shizhuanggou	65,819	3,578	9,151	78,548
Xiaohuangshan	<u>29,707</u>	<u>60,519</u>	<u>24,630</u>	<u>114,856</u>
<b>Total</b>	<u>158,500</u>	<u>65,707</u>	<u>46,212</u>	<u>270,419</u>

Source: JTB's CPR

Note: Figures may not add due to rounding

### 11.8. Coal Reserves

The Coal Reserves estimated by the JTB for the Coal Mines in conformity with the requirements of the JORC Code as of 30 August 2010 defines a total of 52.0 million tons of Proven Reserves and 18.3 million tons of Probable Reserves. The Coal Reserves estimation of each coal seam of the Coal Mines are summarized as below:

**Table 6: Coal Reserves estimated for the Coal Mines as of 30 August 2010**

Mine	Marketable Reserves (kt)		Total
	Proven	Probable	
Quanshuigou	20,306	272	20,578
Shizhuanggou	22,399	1,124	23,523
Xiaohuangshan	<u>9,253</u>	<u>16,881</u>	<u>26,134</u>
<b>Total</b>	<u>51,958</u>	<u>18,277</u>	<u>70,235</u>

Source: JTB's CPR

Note: Figures may not add due to rounding

### 11.9. Coal Classification

Three types of coal have been identified from the coal quality of the Coal Mines according to the Chinese coal classification scheme, namely, 1/3 Coking Coal, Fat Coal and Gas Coal.

1/3 Coking Coal (1/3 JM) is a bituminous coal with middle to high volatile matter and strong caking properties. It is a transitional quality type from JM coal to FM and QF coal. It produces a coke with strong intensity fusion properties. Its spalling-resistance is comparable to that of QF coals. The coke's abrasive resistance is significantly higher than that of FM or QF coal.

Fat Coal (FM) is a medium to high volatile matter bituminous coal with strong caking properties that produces a large plastic mass when heated. FM coal produces a coke with a spalling-resistance better than that of a blended coke. However, the coke produced from FM coal typically has many transverse cracks, and sponge coke exists in the roof of the coke.

Gas Coal (QM) is a lower rank coal used as a coking blend. Heating produces significant tar oils. The thermal stability of the plastic mass is lower than FM coal, which can be coked independently. The coke appears as a fine long strip easy to break and contains many longitudinal cracks. Therefore, the coke's spalling-resistance and abrasive resistance are less favorable than other coking coal

### 11.10. Overview of the Coke Plant

The Coke Plant consist of two batteries with 65 stamp charged ovens per battery, a by-product recovery facility (Phase I), and a methanol recovery plant (Phase II). Construction of the one of the batteries has not completed as of to date but is projected to commence operation by 2021 and to reach full capacity by 2022. When operational, the proposed facilities will receive the majority of its raw coal from the Coal Mines. The 5.5-m ovens will be among the largest in the PRC utilizing stamp charging. Annual coke-making designed full capacity is 1.3 million dry tonnes of coke. According to the Management, the production capacity of the Coke Plant is equally distributed into two products, gas coke and grade two metallurgical coke.

### 11.11. Production Profile of the Coke Plant

Production profile of the Coke Plant with projected product mix is summarized as below.

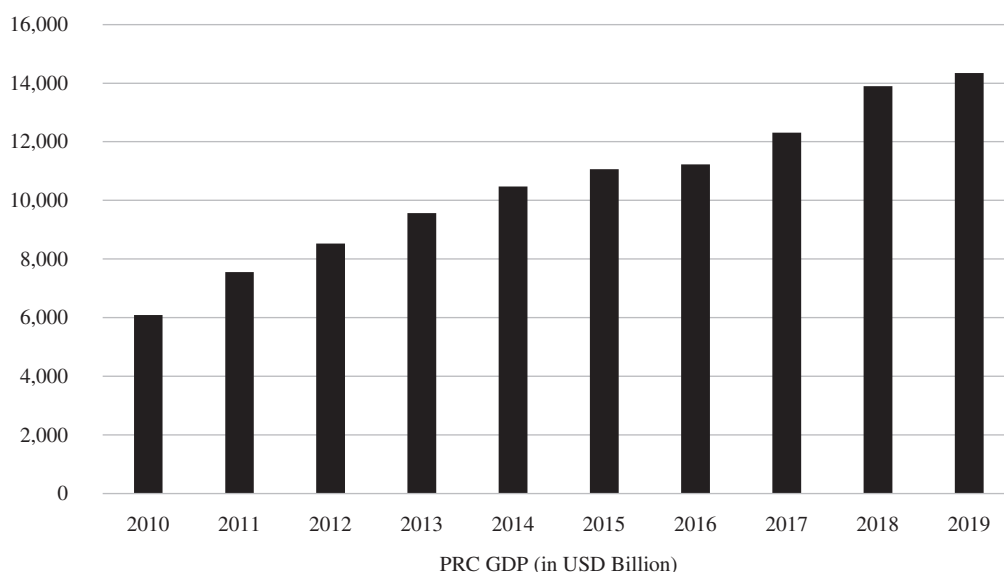
**Table 7: Projected Product Mix of the Coke Plant**

Main Products Size (mm)	Gas Coke (tonnes)		Metallurgical Coke (tonnes)	
	<i>Annual Production</i>	<i>Proportion</i>	<i>Annual production</i>	<i>Proportion</i>
25–50mm	487,500	75%	533,000	82%
10–25mm	65,000	10%	71,500	11%
0–10mm	97,500	15%	45,500	7%
<b>By-Products</b>		<b>Coke Tar (Tonnes)</b>	<b>Crude Benzene (Tonnes)</b>	<b>Coal Gas (Cubic metres)</b>
Annual Production		54,600	18,530	386,750,000

*Source: Production profile provided by the Management*

## 12. ECONOMIC OVERVIEW OF THE MARKET

The PRC is the second largest global economy, the largest exporter and has the largest exchange reserves in the world. However, even though the PRC has one of the fastest growing Gross Domestic Product (“GDPs”) in the world in 2019, its economic growth slowed slightly, reaching 6.1%, against 6.8% in 2018. This is largely resulted from a structural slowdown, as the economy moves away from an investment-led growth model and the government implements policies to reduce financial vulnerabilities. Resilient external demand and robust domestic household consumption bolstered this growth, despite rising concerns about financial risks amid an economic restructuring led by the Beijing government. New sectors like e-commerce and online financial services are gaining momentum in an economy dominated by export-oriented sectors. The Chinese GDP trend is projected to fall to 1.2% in 2020 resulted from the global outbreak of the COVID-19 pandemic and to pick up to 9.2% by 2021, according to the World Economic Outlook released by the International Monetary Fund (“IMF”) in April 2020.



**Figure 1 — GDP of the PRC (in USD Billion) from 2010 to 2019**

*(Source: World Bank)*

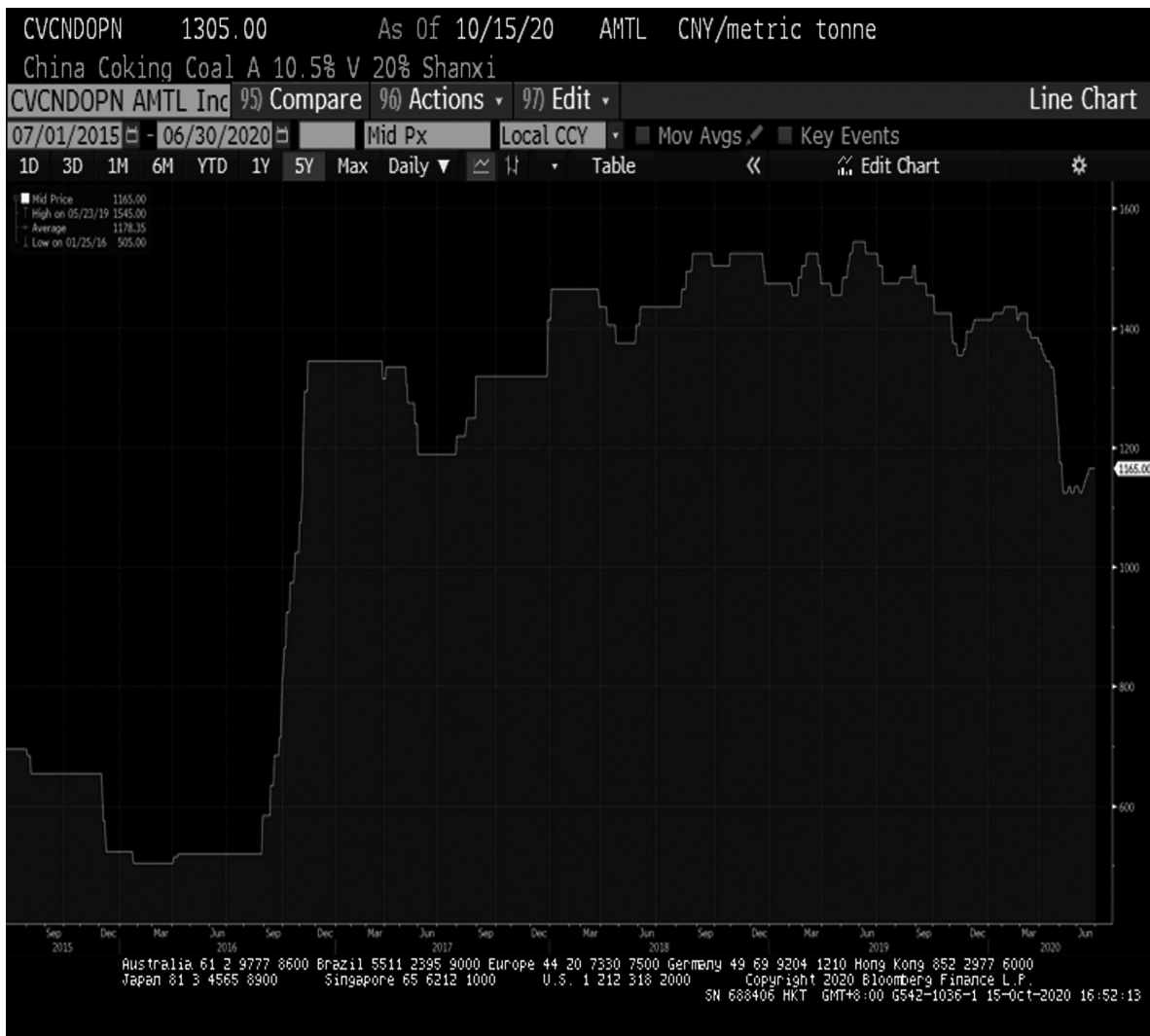
As shown in Figure 1, the Chinese GDP was worth USD14,342.90 billion in 2019, representing 11.81% of the world economy. The Chinese GDP averaged USD2,375.29 billion from 1960 until 2019, reaching an all-time high of USD14,342.90 billion in 2019 and a record low of USD47.21 billion in 1962. In the long-term, the Chinese GDP is projected to trend around USD14,200.00 billion in 2020, according to the Trading Economics’ models.

### 13. OVERVIEW OF THE COKING COAL AND COKE INDUSTRY

In the history of the coal industry of the PRC, Shanxi Province has been playing an important role in determining the shape of the industry. According to the news released by Xinhua News on 27 January 2018, up to the end of 2014, Shanxi possesses a combined coal resources of over 260 billion tonnes, accounting for 17% of the PRC’s total. As a result, Shanxi is a leading producer of coal in the PRC and has more coal companies than any other provinces. Among those companies, Shanxi Coking Coal Group Co., Ltd. and Shanxi Coking Co., Ltd. are two of the most prominent market players in the coking coal industry of the PRC with most of their resources and productions being within Shanxi. As such, the market activities and coal prices of Shanxi are widely referred to as an important benchmark in the nation that market players will pay attention to.

In 2016, in order to enforce stringent environmental protection policies, the PRC Government announced the “Suggestions for Solving Overcapacity, Overcoming Difficulties and Achieving Development in the Coal Industry” (Guofa 2016 No.7), leading to an extensive consolidation of coal mines across the nation, including elimination of a combined 200 million tonnes of coal production capacity, termination of illegal production, production beyond capacity, production of low-quality coal and coal mines with a production capacity of less than 90,000 tonnes per annum. In addition, coal mining companies are required to reduce the number of working days from 330 to 276 resulted in a drop of coal production by over 10%. However, according to the Bureau of Statistic of the China, in 2017, investments in estate

development and infrastructure construction increased by 7% and 14.93% respectively compared to 2016. As shown in Figure 2, coking coal prices have surged rapidly to a relatively high level since August 2016 in response to the change of domestic supply and demand triggered by the national coal policy. As a matter of fact, the coke prices are standing around RMB2,000/tonne in September and October 2020, according to the Dalian Commodity Exchange.



**Figure 2 — China Coking Coal Prices (in RMB/tonne) for the Past 5 Years**  
 (Source: Bloomberg Database)

Impacted by the worldwide COVID-19 epidemic, the first half year of 2020 has witnessed a continuous slowdown in the macro economy and a drastic fluctuation in the coal market. As the economy resumes steadily, the supply and demand in coal market regained overall balance compared with the slightly tight supply at the beginning of 2020. However, regional and structural imbalance between supply and demand still exist as certain periods were affected by factors such as the epidemic, transportation constraint, safety and environmental protection. In addition, as the supply-side structural reform is deepening, the coal production capacity

remained basically balanced with the expansion of efficient production capacity and the accelerated reduction of inefficient one, and the coal price moved in a fluctuated way generally in 2020 first half as shown in Figure 2.

The output of coal recorded a strong rebound amid the economic recovery from COVID-19 lockdown in the second quarter of 2020. Many mining production activities have ramped up by March 2020 in an attempt to meet the growing demand for coal. The coal industry in China, therefore, has returned to relatively stable operation and production during the first half of 2020, and it is expected to see a surge in coal consumption in the second half of 2020 as affirmed by the China National Coal Association.

## **14. VALUATION METHODOLOGY**

Conventional valuation approaches include Income Approach, Market Approach and Cost Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing the Subject Assets that are similar in nature.

### **14.1. Market Approach**

Market Approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

### **14.2. Income Approach**

Income Approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

### **14.3. Cost Approach**

Cost Approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

### **14.4. Adopted Approach for the Valuation of the Subject Assets**

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Company is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the operations, nature of the industry that the Subject Assets and Company are participating in, professional judgment and technical expertise.

We have adopted Income Approach with reference to the development plan as provided by the Management in arriving at the Subject Assets. In particular, the Discounted Cash Flow (the “DCF”) method was adopted in the valuation of the Subject Assets.

#### 14.5. Discounted Cash Flow Method

The DCF method begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset’s projected cash flows. The present value of the estimated cash flows is then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the value of the specific asset.

#### 14.6. Coal Reserves

The Coal Reserves adopted in our valuation were previously estimated by the JTB for the Coal Mines in conformity with the requirements of the JORC Code. Details of the Coal Reserves estimation can be referred to Section 11.8.

#### 14.7. Production Capacity and Schedule

As the construction work is underway, the projected production capacity and schedule for the Subject Assets are shown as below.

**Table 8: Production Capacity and Schedule**

	Xiaohuangshan Mine	Quanshuigou Mine	Shizhuanggou Mine	CPP	Coke Plant
<b>Year to Reach Full Production</b>	2025	2023	2023	2025	2023
<b>Production Capacity (tonnes)</b>	2,400,000	1,050,000	1,050,000	4,500,000	1,300,000

#### 14.8. Basis of Revenue

Annual revenue is determined by applying estimated coal and coke prices to the estimated annual payable products for each operating year. The Management, based on the available market data, forecasted the selling prices of coal and coke products which are adopted in our valuation and are summarized as below.

**Table 9: Projected Selling Prices of Coal and Coke Products**

	<b>Selling Prices with VAT</b> <i>(RMB/tonne)</i>
<b>Coke</b>	
Metallurgical Coke (Grade Two)	1,700
Gas Coke	1,300
<b>Washed Coal</b>	
Gas Coal	750
Lean Coal	800
1/3 Coking Coal	800
Fat Coal	900

**14.9. Basis of Operating Expenditure**

Operating Expenditure (“OPEX”) can be classified into operating cash costs and total production costs. The operating cash costs generally include mining costs, washing costs, G&A costs, selling costs, environmental protection costs, taxes, resource compensation levy, interests on loans and other cash cost items. The total production costs comprise the operating cash costs, depreciation/amortization costs and other non-cash cost items. We understand that the OPEX projections adopted in our valuation of the Subject Assets is provided by the Management based on their best estimation with reference to the JTB’s CPR and Feasibility Study.

**14.10. Basis of Capital Expenditure**

Capital Expenditure (“CAPEX”) generally includes the costs for underground mine development, infrastructures, mining equipment, support facilities and surface rehabilitation program for the Subject Assets. We understand that the CAPEX projections adopted in our valuation of the Subject Assets is provided by the Management based on their best estimation with reference to the JTB’s CPR and Feasibility Study. The CAPEX applied in our valuation are summarized as below.

**Table 10: Projected Capital Expenditure**

	Xiaohuangshan Mine	Quanshuigou Mine	Shizhuanggou Mine	CPP	Coke Plant
<b>Projected CAPEX</b> <b>(RMB in million)</b>	371.39	415.64	401.52	0.80	119.50

**14.11. Basis of Working Capital Requirement**

The working capital requirement for the projection period were projected by the Management. It was made reference to the market data, including account receivables turnover days, inventories turnover days and account payables turnover days.



### 14.12. Comparable Companies

In applying the DCF method, the estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows, or the discount rate. The appropriate discount rate for the Subject Assets was determined with reference to the business nature and financial information of publicly listed companies that are considered to be comparable to the operation of Subject Assets (the "Comparable Companies"). According to our screening criteria, Perennial Energy Holdings Limited ("PEHL") (stock code: 2798.HK) is also considered to be a comparable company. However, PEHL is only listed in HKEx for approximately 2 years, we do not consider the beta of PEHL is appropriate to be a reference of discount rate of the Subject Assets due to short trading duration.

Given that there is no company that is exactly the same as the Subject Assets, a set of the Comparable Companies must be identified in valuing the Subject Assets. To determine the set of the Comparable Companies, we adopted the following principles during our selection process:

- (i) The companies are principally engaged in the production and sales of clean coking coal and/or coke in the PRC; and
- (ii) Sufficiency of information (such as listing and operating histories, and availability of the financial information to the public).

Based on the abovementioned selection criteria, we consider the set of the Comparable Companies adopted in the valuation is comprehensive and exhaustive. Details of the Comparable Companies are listed as follows:

**Table 11: Comparable Companies Adopted for Valuation**

<b>Company Name</b>	<b>Bloomberg Ticker</b>	<b>Business Description</b>
<b>Guizhou Panjiang Refined Coal Company Ltd</b>	600395 CH Equity	Guizhou Panjiang Refined Coal Company Ltd. operates in the coal mining and processing industry. The company's products include raw coal, refined coal, blended coal, and other related products.
<b>Henan Dayou Energy Co., Ltd</b>	600403 CH Equity	Henan Dayou Energy Co., Ltd. engages in the exploitation and distribution of coal in China. The company, through its subsidiaries, is also involved in the production and sale of mining equipment and accessories, as well as the provision of consulting services of coal mine technologies.

<b>Company Name</b>	<b>Bloomberg Ticker</b>	<b>Business Description</b>
<b>Pingdingshan Tianan Coal. Mining Co., Ltd</b>	601666 CH Equity	Pingdingshan Tianan Coal. Mining Co., Ltd. mines and processes coal products. The Company produces coking coal, fat coal, steam coal, smelting coal, and other products. Pingdingshan Tianan Coal. Mining also provides transportation services.
<b>Kailuan Energy Chemical Co., Ltd</b>	600997 CH Equity	Kailuan Energy Chemical Co., Ltd. offers coal mining and operation services. The Company produces washed coal, metallurgical coke, and other coal chemicals. Kailuan Energy Chemical markets its products domestically and internationally.
<b>Shanxi Coking Co., Ltd</b>	600740 CH Equity	Shanxi Coking Co., Ltd. manufactures and markets metallurgical coke, ammonium sulfate, industrial naphthalene, and other chemical products.
<b>Shanxi Meijin Energy Co, Ltd</b>	000723 CH Equity	Shanxi Meijin Energy Co., Ltd. is a PRC-based company principally engaged in the production and sales of coke and related by-products. The Company's principal products include coke, coal and natural gas. The Company mainly provides coke products to large iron and steel enterprises in North China, East China and Central China.
<b>Shanxi Xishan Coal &amp; Electricity Power Co., Ltd</b>	000983 CH Equity	Shanxi Xishan Coal & Electricity Power Co., Ltd. offers coal mining and washing services. The Company produces raw coal, coking coal, and gas coal products. Shanxi Xishan Coal & Electricity Power also conducts power generation and electric equipment manufacturing businesses.

Company Name	Bloomberg Ticker	Business Description
<b>Shaanxi Coal Industry Co Ltd</b>	601225CH Equity	Shaanxi Coal Industry Company Limited produces, sells and transports coal. The Company offers coal used by the power, chemical, and metallurgical industries.

*Source: Bloomberg*

#### 14.13. Discount Rate

In order to estimate the value of the Subject Assets and perform an overall reasonability assessment, it is required to determine the appropriate discount rate for the operating assets of the Subject Assets.

As such, we adopted the weighted average cost of capital (“WACC”) as a basic discount rate for the Subject Assets. WACC represents the weighted average return attributable to all of the Subject Assets. WACC was computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1 - T_c)$$

*In which*

*R<sub>e</sub> = Cost of equity;*

*R<sub>d</sub> = Cost of debt;*

*W<sub>e</sub> = Weight of equity value to enterprise value;*

*W<sub>d</sub> = Weight of debt value to enterprise value; and*

*T<sub>c</sub> = Corporate tax rate.*

The cost of equity was calculated by using the following formula:

$$R_e = R_f + \beta \times \text{Market Risk Premium} + \text{Other Risk Premiums}$$

*In which*

*R<sub>e</sub> = Cost of equity;*

*R<sub>f</sub> = Risk-free rate; and*

*β = Beta coefficient.*

Accounting for the above formulas, 11% was adopted as the rounded WACC as of the Date of Valuation.

#### 14.14. Discount of Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest in privately held company is not readily marketable. Therefore, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In determining a reasonable lack of marketability, we have made reference to a number of research studies including restricted stock studies including research from FMV Opinions, Institutional Investors and Hall & Polacek. Given that there is no evidence that the discount for lack of marketability of the Subject Assets varies from the overall market, we considered that it is fair and appropriate to adopt 25% as a marketability discount in our valuation.

#### 15. SENSITIVITY ANALYSIS

By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation. Thus, the following sensitivity analysis has been applied to determine the impact of change in discount rate on the fair value of the Subject Assets.

**Table 12: Sensitivity Analysis for the Valuation as of 30 September 2020**

<b>Change in Discount Rate</b>	<b>Fair Value of the Subject Assets</b> <i>(RMB in million)</i>	<b>Change in Fair Value of the Subject Assets</b> <i>(%)</i>
<b>+10%</b>	6,400	-7.3%
<b>+5%</b>	6,600	-4.4%
<b>Base case</b>	6,900	—
<b>-5%</b>	7,100	2.9%
<b>-10%</b>	7,400	7.2%

#### 16. RISK FACTORS

##### 16.1 Resources and Reserves

Estimations of tonnage, grade and overall content of a deposit are not precise calculations but are based on interpretation and on sampling. There is always a potential error in the projection of sampling data when estimating the tonnage and grade of the surrounding strata, and significant variations may occur. It is possible that some resources

may not be economically mineable. Additionally, historical recovery rate might not be able to be sustained in future operations. The value of the Subject Assets may be diminished if any of these events happen.

#### **16.2 Fluctuation of the Selling Price and Demand**

Commodity price and demand are fluctuated. If the selling price decreases substantially or the demand for coking coal diminishes in the long run, the fair value of the Subject Assets will be adversely affected.

#### **16.3 Implementation for Future Development Plan**

Future development of the Subject Assets may be subject to the approval by the local government. Any delays in the proposed future development plan may adversely affect the fair value of the Subject Assets.

#### **16.4 Renewal of Mining Licenses**

Future production of the Coal Mines is subject to the renewal of the mining licenses. Since the fair value of the Coal Mines are founded on the execution of the mine planning and production strategy, any defects in the validity of the mining licenses may have adverse impact on our conclusion of the fair value.

#### **16.5 Social and Environmental Issues**

If there are any complaints or protests by the local community or any changes on the environmental regulation or requirement, the operation of the Subject Assets may suffer adverse impact and thus negatively affect our conclusion of the fair value.

#### **16.6 Government Policy Change**

Our DCF-based evaluation of the Subject Assets are reliant on the existing government policy as it existed at the time of the evaluation. Any changes in existing government policy may affect our conclusion of the fair value.

### **17. MAJOR ASSUMPTIONS**

In the course of our valuation work, the following assumptions have been adopted in order to sufficiently support our conclusion of value, including, but not limited to:

- The information provided and the representations made by the Management with regard to the Subject Assets' financial and business affairs are accurate and reliable;
- According to the Legal Opinion, the production schedule (e.g., tonnes of coal mined per annum) provided by the Management, which is more than the licence permit, is achievable, legitimate, and will be materialized;

- As advised by the Management, the fixed assets (e.g., construction in progress) are solely relied on the net carrying amount shown in the Company's management account as of 31 March 2020 and additional capital expenditure to be incurred provided by the Management are reasonable and are in line with the production schedule provided;
- As advised by the Management, there is no material difference in financial position of the Company between 31 March 2020 and 30 September 2020;
- the Subject Assets will continue to operate as a going concern and has sufficient liquidity and capability to achieve the financial projection;
- the Company has obtained/will obtain all necessary permits, business certificates, licences and legal approvals to operate the businesses;
- Upon expiry of the current permits, business certificates, licences and legal approvals, the Company is able to renew all such to operate the Subject Assets with reasonable expenses;
- The projections outlined in the financial projection provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;
- The coal and coke extracted from/produced by the Subject Assets will be sold in the domestic market;
- The amounts of coal and coke to be extracted from/produced by the Subject Assets throughout the projection period are assumed by the Management to be reasonable and achievable;
- There will be sufficient supply of technical staff in the industry in which the Company operates or intends to operate, and the Company will retain competent management, key personnel and technical staff to support their ongoing operations and developments;
- There will be no major changes in the current taxation laws in the localities in which the Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Company;
- There will be no material changes in the relevant interest rates and exchange rates that would impact the Company's business; and

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Subject Assets as of the Date of Valuation.

In the event actual events do not accord with one or more of the above assumptions, the value attributable to the Subject Assets may vary substantially from the figures as set out in this report.

## 18. LIMITING CONDITIONS

The valuation reflects facts and conditions existing as of the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us.

We would particularly point out that our valuation was based on the information such as the projections made by the Management, company background, business nature of the Subject Assets provided to us. Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in **Section 2 — Purpose of Valuation**, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

**19. REMARKS**

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

**20. OPINION OF VALUE**

Based on the investigation and analysis stated above, our scope of work and limitations in scope of work, the assumptions adopted and the valuation method employed, the fair value of the Subject Assets as of 30 September 2020 (i.e., the Date of Valuation), in our opinion, was reasonably stated as **below**:

<b>Subject Assets</b>	<b>Fair Value as of 30 September 2020 (RMB)</b>
Xiaohuangshan Mine	2,500,000,000
Quanshuigou Mine and Shizhuanggou Mine	2,400,000,000
Coke Plant	1,800,000,000
CPP	<u>200,000,000</u>
<b>Total</b>	<u><u>6,900,000,000</u></u>

We hereby confirm that we have neither present nor prospective interests in the Company, the Subject Assets, or the value reported herein.

Yours faithfully,  
For and on behalf of  
**Access Partner Professional Services Limited**

**Leung Kar Fai**  
*MAusIMM, Competent Person*  
*Director*



**Kingston Corporate Finance Limited**  
72/F, The Center  
99 Queen's Road Central  
Central, Hong Kong

31 December 2020

**The Joint Provisional Liquidators**  
**Up Energy Development Group Limited**  
**(In Provisional Liquidation (For Restructuring Purposes))**

c/o 29th Floor, Lee Garden Two  
28 Yun Ping Road,  
Causeway Bay, Hong Kong

Dear Sirs,

We refer to the circular (the "**Circular**") dated 31 December 2020 issued by Up Energy Development Group Limited (In Provisional Liquidation (For Restructuring Purposes)) (the "**Company**"), of which this letter forms part, and the valuation report (the "**Valuation Report**") dated 31 December 2020 by Access Partner Professional Services Limited (the "**Valuer**"), an independent professional valuer, engaged by the Company in respect of the valuation of the subject assets of the Company (the "**Valuation**").

We note that since the Valuation was derived from the discounted future cash flows method, the Valuation constitutes a profit forecast under Rule 10 of the Takeovers Code (the "**Profit Forecast**"). Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings given to them in the Circular.

This letter is issued in compliance with the requirement under Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code. We have reviewed the Profit Forecast and discussed with the JPLs and the Valuer regarding the Profit Forecast, including, in particular, the valuation methodologies, the qualifications, the bases and assumptions adopted in the Valuation Report and the reasons thereof.

We have also considered the letter from Moore Stephens CPA Limited (the "**Accountant**") dated 31 December 2020 addressed to the Company regarding their opinion on whether, so far as the calculations are concerned, the discounted future cash flows have been properly compiled on the basis of the assumptions set out in the Valuation Report.

We have not independently verified the computations leading to the Valuation. We have had no role or involvement and have not provided and will not provide any assessment of the Valuation. We have assumed that all information, materials and representations provided to us by the Company and the Valuer, including all information, materials, and representations referred to or contained in the Circular, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, whether express or implied, is made by us on the accuracy, truth or completeness of such information, materials or representations. Accordingly, we accept no responsibility, whether expressly or implicitly, on the Valuation as set out in the Valuation Report.

This letter also constitutes a report pursuant to Rule 11.1(b) of the Takeovers Code and sets out our assessment and review of the qualifications and experience of the Valuer, and the key responsible person for the Valuation Report, being Mr. Leung Kar Fai. We have conducted reasonable checks and assessment of the relevant qualification, experience and expertise of the Valuer and Mr. Leung Kar Fai, including, among other things, reviewing the professional licences and other supporting documents of the Valuer and Mr. Leung Kar Fai, and discussing with representatives of the Valuer the qualifications and experience of the Valuer and Mr. Leung Kar Fai and confirm that their qualifications and experience meet the applicable legal and regulatory requirements for issuing the Valuation Report.

On the basis of the foregoing, and the calculations reviewed by the Accountant, we are of the opinion that the adoption of the income approach as the valuation methodology as well as the bases and assumptions adopted in the Valuation Report have been made with due care and objectivity and on a reasonable basis, and that the Profit Forecast, for which the JPLs are jointly and severally responsible, has been made with due care and consideration. We are also satisfied that the Valuer and Mr. Leung Kar Fai are suitably qualified and experienced with sufficient current knowledge, skills and understanding necessary to undertake the Valuation competently.

Yours faithfully,  
For and on behalf of  
**Kingston Corporate Finance Limited**

**Gregory Ho**  
*Managing Director*

**Moore Stephens CPA Limited**  
801–806 Silvercord, Tower 1, 30  
Canton Road, Tsim Sha Tsui,  
Kowloon

31 December 2020

**Up Energy Development Group Limited**  
**(In Provisional Liquidation (For Restructuring Purposes))**

c/o 29th Floor, Lee Garden Two  
28 Yun Ping Road,  
Causeway Bay, Hong Kong

Joint Provisional Liquidators

Dear Sirs,

**UP ENERGY DEVELOPMENT GROUP LIMITED (IN PROVISIONAL LIQUIDATION**  
**(FOR RESTRUCTURING PURPOSES)) (“THE COMPANY”)**

**Report from reporting accountants on the profit forecast in connection with the valuation**  
**of subject assets**

We have been engaged to report on arithmetic calculations of a profit forecast (the “**Forecast**”) on which the business valuation (the “**Valuation**”) dated 31 December 2020 prepared by Access Partner Professional Services Limited (the “**Valuer**”) in respect of the valuation of three underground coal mines located separately in Quanshuigou (“**Quanshuigou Mine**”), Shizhuanggou (“**Shizhuanggou Mine**”) and Xiaohuangshan (“**Xiaohuangshan Mine**”) (collectively the “**Coal Mines**”) and the processing facilities including a coal washing plant, a coking plant and a water recycling plant (together with the “**Coal Mines**”, collectively the “**Subject Assets**”) located in Xinjiang Uygur Autonomous Region (“**Xinjiang**”), the People’s Republic of China (“**PRC**”) as of 30 September 2020 (“**Date of Valuation**”). The report of Valuation is disclosed in the circular of the Company dated 31 December 2020 (the “**Circular**”) which is determined based on a discounted cash flow forecast and required to be reported on under Rule 10 of the Codes on Takeovers and Mergers issued by the Securities and Futures Commission.

**Joint Provisional Liquidators’ Responsibilities**

The joint provisional liquidators (the “**JPLs**”) acting as agents of the Company (without liability and recourse), who depended on the documents and information provided by the local managements of Subject Assets, are solely responsible for the preparation of the Forecast by using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the JPLs. The Assumptions are set out in the section headed “17 Major Assumptions” in the Appendix III to the Circular.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion on the arithmetic calculations of the Forecast based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Hong Kong Standard on Investment Circular Reporting Engagements 500, Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetic calculations are concerned, the JPLs have properly compiled the Forecast in accordance with the Assumptions adopted by the JPLs and as to whether the Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work consisted primarily of examined the arithmetical accuracy of the Valuation and compared the compilation of the Forecast with the underlying Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

The Forecast do not involve the adoption of accounting policies. We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Subject Assets. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 10 of The Codes on Takeovers and Mergers issued by the Securities and Futures Commission and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

Based on the foregoing, in our opinion, so far as the arithmetic calculations are concerned, the Forecast has been properly compiled in accordance with the underlying Assumptions made by the JPLs, except for the other matters described below.

**Other matters**

We draw attention to Section 17 of Appendix III headed "Major Assumptions" on pages III-22 to III-24 of the Circular which sets out the assumptions adopted by the JPLs.

The forecast calculation prepared by the Valuer is prepared using an income-based approach and based on the estimated reserves of the extractive sites from a Competent Person's Report prepared by John T. Boyd Company in October 2010 and Competent Person's Report of the Xiaohuangshan Mine prepared by Access Partner in December 2018 and made under a key assumption that the Subject Assets will be able to continue to explore and extract for coal resources.

The exploration permits for coal exploration of the Subject Assets in an area of 2.178 square kilometer in Xiaohuangshan, 7.1572 square kilometer in Shizhuanggou and 6.6052 square kilometer in Quanshuigou, Fukang City, Xinjiang Uygur Autonomous Region, People Republic of China (the "PRC") were expired before the Date of Valuation. The JPLs assume that the Group will be able to successfully renew all the mining licenses and the Subject Assets can generate revenue as stipulated in the Forecast to the Group.

In addition, the auditor has issued their report dated 28 October 2020 with disclaimer of opinion for the Group's financial statements for the year ended 31 March 2019 and reported scope limitation on the valuation of discounted cash flow forecasts prepared by the JPLs to determine the recoverable amounts of the Group's property, plant and equipment assets as at 31 March 2019, which the JPLs have assumed that the Group will be able to successfully renew all the mining licenses and the assets are recoverable through continuing use. Unfortunately, the auditor was unable to obtain the application documents and correspondence with the local authorities for the above assumptions and unable to complete satisfactorily their audit procedures to assess the valuation of the mining properties and related assets.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon.

Yours faithfully,

**Moore Stephens CPA Limited**

*Certified Public Accountants*

Hong Kong

NOTICE OF SGM

**UP ENERGY**  
**Up Energy Development Group Limited**  
**優派能源發展集團有限公司\***  
**(In Provisional Liquidation (For Restructuring Purposes))**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 307)**

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of Up Energy Development Group Limited (the “**Company**”) will be held at 4:00 p.m. on 25 January 2021 at HKFYG Auditorium, 9/F, The Hong Kong Federation of Youth Groups Building, 21 Pak Fuk Road, North Point, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

**ORDINARY RESOLUTIONS**

1. **“THAT:**
  - (a) the authorised share capital of the Company be reduced from HK\$4,040,000,000.00 divided into 22,000,000,000 shares (the “**Shares**”) of HK\$0.20 each to HK\$2,200,000,000.00 divided into 220,000,000,000 Shares of HK\$0.01 each by the creation of an additional 215,461,484,589 new Shares, which shall rank equally in all respects with the existing Shares (the “**Reduction in Authorised Share Capital**”); and
  - (b) any one or more of the directors of the Company (the “**Director(s)**”) be and is/are hereby authorised to do all such acts and things and execute all such documents including under the seal of the Company if and where applicable as he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Reduction in Authorised Share Capital.”
2. **“THAT** the proposed scheme of arrangement for the Company under Sections 670, 673 and 674 of the Companies Ordinance and Section 99 of the Bermuda Companies Act between the Company and its creditors (the “**Creditors**”), in its present form, or with or subject to any modification of it, any addition to it or any condition approved or imposed by the High Court of Hong Kong and/or the Supreme Court of Bermuda (the “**Creditors’ Scheme**”) becoming effective, the Company will implement the issuing and allotment of New Shares, under which it is estimated that the Company will issue and allot, in aggregate, up to approximately 46,600,371,845 New Shares at the Issue Price of HK\$0.129 per each New Share to the Creditors for settlement:
  - (a) all the transactions contemplated under the Creditors’ Scheme, including but not limited to the specific mandate to issue and allot the New Shares by the Company to the Creditors pursuant to the Creditors’ Scheme, be and are hereby

## NOTICE OF SGM

approved and the Directors and/or other authorised persons be and are hereby authorised to issue and allot the New Shares to the Creditors pursuant to the Creditors' Scheme; and

- (b) any one or more of the Directors and/or other authorised persons be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to the transactions contemplated under the Creditors' Scheme.”
3. **“THAT** the placing agreement dated 18 May 2018 (the **“Placing Agreement”**) and entered into between the Company as issuer, and SBI China Capital Financial Services as placing agent in respect of the placing of up to 2,000,000,000 new ordinary shares (the **“Placing Shares”**) of HK\$0.129 each in the share capital of the Company:
- (a) the transactions contemplated under the Placing Agreement be and are hereby approved, confirmed and ratified;
  - (b) subject to fulfilment of the conditions precedent set out in the Placing Agreement, the allotment and issue of the Placing Shares in accordance with the terms and conditions of the Placing Agreement be and are hereby approved;
  - (c) the Directors be and are hereby granted a specific mandate to exercise the powers of the Company to allot and issue the Placing Shares pursuant to the terms and conditions of the Placing Agreement, where such Placing Shares shall rank equally in all respects among themselves and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue. The aforementioned specific mandate is in addition to, and shall not prejudice nor revoke any general or special mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution;
  - (d) any one or more of the Directors and/or other authorised persons be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to any of the matters relating to, or incidental to, the Placing Agreement.”
4. **“THAT:**
- (a) subject to the consent of the executive director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the executive director (the **“Executive”**) pursuant to Rule 25 of the Takeovers Code and the satisfaction of any condition(s) attached thereon imposed by the Executive, all transactions contemplated under the Creditors' Scheme which constitute a special deal under Rule 25 of the Takeovers Code (the **“Special Deal”**) be and are hereby approved, confirmed and ratified; and

**NOTICE OF SGM**

- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts; and things and execute all such document as he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Special Deal.”

**SPECIAL RESOLUTION**

5. **“THAT:**

- (a) subject to the granting of the Whitewash Waiver (as defined below) by the Executive and any conditions that may be imposed thereon, the waiver of obligation on the part of Up Energy Group and any parties acting in concert with it to make a mandatory general offer to shareholders of the Company for all the issued shares of the Company not already owned or agreed to be acquired by Up Energy Group and any parties acting in concert with it which might otherwise arise as a result of Up Energy Group subscribing for the new Shares under the Creditors’ Scheme pursuant to Rule 26 of the Hong Kong Code on Takeovers and Mergers (the **“Whitewash Waiver”**), be and is hereby approved; and
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts; and things and execute all such document as he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

For and on behalf of  
**Up Energy Development Group Limited**  
**(In Provisional Liquidation**  
**(For Restructuring Purposes))**

**Osman Mohammed Arab**  
**Roy Bailey**  
**Lai Wing Lun**  
*Provisional Liquidators*  
*who act without personal liability*

Hong Kong, 31 December 2020

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business in Hong Kong:*  
29/F, Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong



## NOTICE OF SGM

*Notes:*

- (1) In order to determine the entitlement of members of the Company to attend and vote at the SGM, all transfers of Shares accompanied by the relevant Share certificates must be lodged at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 19 January 2021.
- (2) A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (3) A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he/she/it so wish.
- (4) In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
- (5) In the case of joint holders of Shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such Share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.