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E-COMMODITIES HOLDINGS LIMITED

易大宗控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1733)

MAJOR TRANSACTION

FORMATION OF JV COMPANIES

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

30 August 2019

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DEFINITION

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

“Announcement”	the announcement of the Company dated 25 July 2019 in relation to, among other things, the Formation of JV Companies
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	E-Commodities Holdings Limited, a limited liability company incorporated in the British Virgin Islands, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Cooperation Agreement”	the cooperation agreement entered into between the Company and Xiamen Xiangyu dated 25 July 2019 in relation to, among others, the Formation of JV Companies
“Director(s)”	the director of the Company
“Famous Speech”	Famous Speech Limited, a company incorporated under laws of the British Virgin Islands with limited liability, the controlling shareholder of the Company which is owned as to 73.3% by Ms. Wang
“Formation of JV Companies”	the formation of Xiamen JV and Singapore JV in accordance with the terms and conditions of the Cooperation Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Integration of Logistics Assets”	the proposal under the Cooperation Agreement, for the Company will proceed to set up a logistics segment into which the Company will integrate its Mongolian coal business-related assets, and in which Xiamen Xiangyu proposes to acquire an equity interest of not more than 20% by way of equity investment
“JV Companies”	Xiamen JV and Singapore JV

DEFINITION

“Latest Practicable Date”	29 August 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contain therein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Major Shareholders”	Famous Speech and Winsway Resources, which at the Latest Practicable Date, held an aggregate of 1,556,493,113 Shares representing approximately 51.09% of the total number of Shares in issue
“Mr. Wang”	Mr. Wang Xingchun
“Ms. Wang”	Ms. Wang Yihan, the controlling shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“S\$”	Singapore dollars, the lawful currency of Singapore
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Shanghai Stock Exchange”	The Shanghai Stock Exchange
“Share(s)”	ordinary share(s) of the Company with no par value
“Shareholder(s)”	holder(s) of the Shares
“Singapore JV”	the joint venture to be set up in Singapore pursuant to the terms and conditions of the Cooperation Agreement, the equity interests in which will be held by the Company and Xiamen Xiangyu as to 49% and 51%, respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITION

“Supplemental Agreement”	the supplemental agreement entered into on 30 August 2019 between the Company and Xiamen Xiangyu in accordance with the Cooperation Agreement in relation to the performance of the JV Companies and a profit commitment
“Winsway Resources”	Winsway Resources Holdings Limited, a company incorporated under the laws of the British Virgin Islands and is indirectly wholly-owned by Mr. Wang
“Xiamen JV”	the joint venture to be set up in Xiamen, the PRC pursuant to the terms and conditions of the Cooperation Agreement, the equity interests in which will be held by the Company and Xiamen Xiangyu as to 49% and 51%, respectively
“Xiamen SASAC”	the State-owned Assets Supervision and Administration Commission of Xiamen Government
“Xiamen Xiangyu”	Xiamen Xiangyu Joint Stock Company Limited, a state-owned enterprise incorporated under the laws of PRC, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600057.SH)
“%”	per cent.

LETTER FROM THE BOARD



E-COMMODITIES HOLDINGS LIMITED **易大宗控股有限公司**

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1733)

Executive Directors:

Cao Xinyi (Chairman)

Wang Yaxu

Li Jianlou

Di Jingmin

Registered Office:

Nerine Chambers

PO Box 905

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Non-executive Director:

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Independent non-executive Directors:

Ng Yuk Keung

Wang Wenfu

Gao Zhikai

30 August 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

FORMATION OF JV COMPANIES

INTRODUCTION

Reference is made to the announcement of the Company dated 25 July 2019 in relation to, among others, the Formation of JV Companies with Xiamen Xiangyu.

The purpose of this circular is to provide the Shareholders with further information on the entering into of the Cooperation Agreement and the Formation of JV Companies.

LETTER FROM THE BOARD

BACKGROUND

The Board announces that, on 25 July 2019, the Company and Xiamen Xiangyu entered into the Cooperation Agreement in relation to, among others, the formation of Xiamen JV and Singapore JV. Under the Cooperation Agreement, (1) the registered capital of Xiamen JV will be RMB2 billion, of which RMB980 million is to be contributed by the Company through its designated subsidiary, representing 49% of the total registered capital of the Xiamen JV; and (2) the Company, through its designated subsidiary, will contribute S\$490,000 to subscribe for shares in the Singapore JV, representing 49% of the total share capital of the Singapore JV. Upon the formation of the JV Companies, each of the Xiamen JV and the Singapore JV will become an associate of the Company from an accounting perspective.

The principal terms of the Cooperation Agreement are set out below.

The Cooperation Agreement

Date

25 July 2019

Parties

- (1). the Company; and
- (2). Xiamen Xiangyu.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, Xiamen Xiangyu, its ultimate beneficial owners and their respective associates are third parties independent of the Company and the connected persons of the Company.

The JV Companies

Under the Cooperation Agreement, the Company and Xiamen Xiangyu propose to set up Xiamen JV and Singapore JV, the equity interests in each will be held by the Company and Xiamen Xiangyu as to 49% and 51%, respectively.

Capital contribution to the JV Companies

Under the Cooperation Agreement, (i) the Company has committed, and shall procure its designated subsidiary, to contribute RMB980 million to Xiamen JV, representing 49% of the total registered capital of Xiamen JV and contribute S\$490,000 to Singapore JV, representing 49% of the total share capital of Singapore JV; and (ii) Xiamen Xiangyu has committed to contribute RMB1,020 million to Xiamen JV representing 51% of the total registered capital of Xiamen JV and contribute S\$510,000 to Singapore JV, representing 51% of the total share capital of Singapore JV. The amount of capital contribution was determined after arm's-length negotiation between the parties to the Cooperation Agreement with reference to, among other things, the funding needs of the JV Companies. The business model for Mongolian coal trading business requires a considerable amount of working capital to be deployed. The funding needs of the

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JV Companies were comprehensively determined based on the current Mongolian coal and domestic coal market capacity, and the estimated short-term business development plan of the JV Companies, taking into account factors that determine working capital requirement including prepayments, inventories and trade receivables in the process of related coal trading, as well as current and anticipated future coal market prices. The capital contribution payable by the Company and/or the designated subsidiary of the Company will be funded from the Group's internal resources, which are expected mainly to comprise the Company's existing cash available and additional funds expected to be received through the recovery of prepayments, sale of inventory and collection of receivables, all of which are expected to be realised after the JV Companies becomes the contracting parties for the trading, procurement and supply of Mongolian coal.

Conditions for payment of the capital contribution to the JV Companies

The payment of the respective capital contributions to each of the JV Companies by the Company and Xiamen Xiangyu is conditional upon satisfaction of, among other things, the following conditions:

- (1) the JV Companies shall be the contracting party for the trading, procurement and supply of Mongolian coal in the future in substitution for the Company and/or its relevant subsidiaries, and the transitional plan for such arrangement having been confirmed by Xiamen Xiangyu;
- (2) a list of assets under the Integration of Logistics Assets provided by the Company having been confirmed by Xiamen Xiangyu, and the parties having agreed in writing on the cooperation regarding the logistics business;
- (3) a plan for the operation and settlement between the JV Companies and the subsidiaries of the Company carrying out logistics business prepared by the Company having been confirmed by Xiamen Xiangyu; and
- (4) the applicable approvals of the relevant competent authorities for the Formation of JV Companies having been obtained by the parties, respectively.

Effectiveness

The Cooperation Agreement shall become effective upon signing and/or affixing with common seals by the parties.

Other major terms of the Cooperation Agreement

Integration of Logistics Assets

Xiamen Xiangyu recognises the non-replicability and broad market growth potential of the strategic logistics assets of the Company in relation to Mongolian coal business. Engagement in commodities logistics business is also one of Xiamen Xiangyu's business strategies. The Company has always been committed to expanding the operations of the logistics sector, and in targeting to increase its national distribution capacity and to broaden its customer reach in the future. Xiamen Xiangyu has abundant experience and resources in

LETTER FROM THE BOARD

the operation of commodities logistics assets, which are expected to facilitate the expansion and development of the Group's Mongolian coal-related logistics business in terms of the provision of warehousing, transportation and processing services for commodities in China.

Therefore, under the Cooperation Agreement, the Company has agreed to proceed to set up a logistics business segment within 12 months from the effective date of the Cooperation Agreement and integrate with relevant assets controlled by it in relation to its current Mongolian coal business. Upon the completion of integration, Xiamen Xiangyu will acquire not more than a 20% equity interest in such business segment by way of equity investment. The Company and Xiamen Xiangyu agreed to decide additional matters in relation to the Integration of Logistics Assets through further negotiation. The Company will comply with all applicable Listing Rules requirements in relation to the Integration of Logistics Assets.

Undertaking

Under the Cooperation Agreement, the Company undertakes that during the term of the JV Companies, it will not, directly or indirectly, cooperate by way of capital investment with any third parties (other than related companies approved by both parties) in respect of Mongolian coal and related domestic coal trading businesses (including but not limited to trading businesses of the Group and any substantially controlled by related parties thereto), in order to avoid, directly or indirectly, competing with the business of the JV Companies.

The Directors and management of the Company considered the following factors in deciding to agree to give the undertaking under the Cooperation Agreement:

- (1). the Company has been experiencing difficulties in accessing additional commercial funding, which have placed considerable limitations on its ability to expand the volume of procurement of Mongolian coal and its ability to expand its corresponding market share;
- (2). the Company has accordingly been looking for strong partners to jointly develop its Mongolian coal and related domestic coal trading business as the existing environment requires robust capital resources and access to finance to gain or even maintain market share. As a state-owned enterprise with a proven track record in commodities trading in the PRC, the Directors believe that Xiamen Xiangyu will be a suitable partner that satisfies such criteria and allow the trading business through the JV Companies to expand in comparison to the Company's current business notwithstanding that the Company will only hold a 49% interest in the JV Companies;
- (3). the Company expects to reap increased profits from the Mongolian coal supply chain trading business to be conducted through the JV Companies, even by holding a 49% interest, by leveraging off Xiamen Xiangyu's enhanced ability to fund an expanded level of business compared to the Company's current wholly owned business;
- (4). the revenue generated from the Mongolian coal supply chain business represented approximately 14.13% of the total revenue of the Company in 2018, although the actual percentage of revenue that would have flowed to the JV Companies in relation to the trading part of the Mongolian coal business if the Cooperation Agreement had been in effect through 2018 would have been significantly lower given the fact that a considerable part thereof was

LETTER FROM THE BOARD

contributed by the Company's existing commodities logistics services (including, among other things, port warehousing, washing and processing, road and rail transportation), as the Mongolian coal supply chain trading business mainly comprises upstream supplier procurement, commodities logistics services and downstream end-customer sales;

- (5). the business of the JV Companies will be limited to the procurement and sales of Mongolian coal and related domestic coal products under the supply chain trading business, and will not include the commodities logistics services business, and the business transferred to the JV Companies only represents a small percentage of the total trading volume of the Company;
- (6). prior to the entering into the Cooperation Agreement, the Company had explored and negotiated possible cooperation with a number of potential partners along similar lines to the terms of the Cooperation Agreement. However, certain potential partners were not interested in the cooperation, and the Company eventually decided to cooperate with Xiamen Xiangyu given the proposed terms offered by other potential partners were less favourable than the Cooperation Agreement including terms of the scope of non-compete undertaking, percentage profit commitment and demands for a specified interest in the logistics business of the Company;
- (7). the undertaking given by the Company as to the restriction on the capital investment cooperation with other third parties in relation to the Mongolian coal trading business does not restrict the Company from cooperating with other parties in other respects, developing its own trading business or its ability to expand its supply chain trading business and the Mongolian coal-related business;
- (8). through the establishment of the JV Companies, the Company can separate the commodities logistics services business from the original Mongolian coal trading business, which is expected to indirectly facilitate accessing to additional working capital and resources from the cooperation with Xiamen Xiangyu to accelerate the development of the logistics sector, thereby providing quality logistics and processing services to commodities traders, producers and users including the JV Companies.

Based on the above factors, the Directors and the management of the Company consider that the benefits that the Company is expected to derive from partnering with Xiamen Xiangyu through the JV Companies will outweigh the restrictions to its business through the non-compete undertaking and that, accordingly, the provision of the undertaking in the Cooperation Agreement is fair and reasonable and in the interests of the Company and the Shareholders as whole.

Supplemental Agreement

As disclosed in the Announcement, under the Cooperation Agreement, the Company and Xiamen Xiangyu agreed to further negotiate matters in relation to the performance of the JV Companies and a profit commitment. The Company and Xiamen Xiangyu have entered into the Supplemental Agreement in relation to, among others, that the Company undertakes that the audited net profit attributable to equity holders of the JV Companies in each financial year during the period of their duration (including the year of their respective establishment) shall be positive, and the Company shall make up the shortfall to Xiamen Xiangyu

LETTER FROM THE BOARD

if the amount equal to the net profit attributable to equity holders of the JV Companies in aggregate in any given financial year multiplied the 51% shareholding percentage of Xiamen Xiangyu is less than 12% of the actual amount of Xiamen Xiangyu's capital contribution utilised by the JV Companies in relation to their Mongolian coal trading business in accordance with the relevant business development plan of the JV Companies to be further agreed between the shareholders of the JV Companies. The Company shall pay any such shortfall to Xiamen Xiangyu of the shortfall within 3 months following the issue of the audited report for the given financial year of the respective JV Companies.

The Directors and management of the Company considered the following factors in deciding to provide the profit commitment under the Supplemental Agreement:

- (1). as previously stated above, the Company has been looking for strong partners to jointly develop Mongolian coal and related domestic coal trading business as the existing environment requires strong capital resources to gain market share given the anticipated increasing market size, and strong capital resources as well as the market position and comprehensive strength of the joint venture partner are required in order to secure the procurement rights and the procurement volume to expand the Mongolian coal trading business and the market share;
- (2). as also stated above, the Company has been experiencing difficulties in accessing additional commercial financing which has placed considerable limitations on the Company's ability to expand the volume of procurement of Mongolian coal and its ability to expand its corresponding market share (at the end of 2018, interest rates for certain bank loans of the Group were up to 10.45% and the interest rate of the convertible bonds issued by the Company in 2017 was 19.64%);
- (3). the Company had previously negotiated with various lenders for debt financing in relation to its Mongolian coal trading business, the terms offered by such lenders were not satisfactory in terms of principal amount, financing cost, conditions, security and term;
- (4). the figure of 12% for the guaranteed return on the capital contribution of Xiamen Xiangyu actually utilised by the JV Companies in relation to its Mongolian coal trading business was determined through commercial arm's-length negotiations and the Company believes this represents the lowest minimum level of return that Xiamen Xiangyu was prepared to accept. Correspondingly, Xiamen Xiangyu agreed to the cooperation with the Company by way of equity joint venture without taking security over assets of the Company. As subsidiaries of Xiamen Xiangyu, the JV Companies will be able to further leverage off Xiamen Xiangyu's enhanced ability to fund the financing needs of the JV Companies;
- (5). the JV Companies will be the contracting parties for trading, procurement and supply of Mongolian coal, the related business of which were originally carried on by the subsidiaries of the Company, their procurement and sales teams will be responsible for the operation of the JV Companies and therefore exercise a high degree of actual influence over their activities; and
- (6). the expected increase in the trading volume and market share based on the cooperation with Xiamen Xiangyu is expected to facilitate the Company's plan to expand and develop its logistics sector, which is the core competitive capability in relation to the Mongolian coal

LETTER FROM THE BOARD

trading business as such business should be equipped with commodities logistics services mainly comprising port warehousing, washing and processing services and transportation services.

Taking into account the foregoing factors, the Directors and the management of the Company consider that the benefits expected to be gained through the Formation of JV Companies will outweigh the potential costs of the profit guarantee.

Board Composition

Subject to the completion of the Formation of JV Companies, the board of directors of each of the JV Companies shall consist of 5 directors, of which 3 candidates shall be nominated and recommended by Xiamen Xiangyu and 2 candidates shall be nominated and recommended by the Company. The chairman of the board shall be elected from the candidates nominated and recommended by Xiamen Xiangyu.

REASONS FOR AND BENEFITS OF THE FORMATION OF JV COMPANIES

The Company is one of the largest buyers in the Mongolian coal market, with significant market competitiveness in integrated supply chain services in relation to, among other things, Mongolian coal procurement, port logistics, washing and processing, and end customer sales. Mongolia has abundant natural resources, rich coal reserves and the quality and specification of its coking coal has been in high demand in the PRC. Therefore, the Company and management are optimistic about the future market potential for Mongolian coal procurement and related logistics services.

In order to further accelerate the expansion of the Company's procurement volume and trade market share in the Mongolian coal market, and to further develop Mongolian thermal coal and domestic trade coal business, the Company negotiated and concluded the Cooperation Agreement with Xiamen Xiangyu to set up the JV Companies with a view to faster and better developing Mongolian coal and domestic coal trading business.

Xiamen Xiangyu is a state-owned enterprise owned by Xiamen Xiangyu Group Co., Ltd. (ranking 338 of the World Top 500 in 2019) and its shares are listed on the main board of the Shanghai Stock Exchange. Xiamen Xiangyu is principally engaged in commodities trading (including metal mineral resources, energy chemical industry and agriculture products) and related logistics services. Xiamen Xiangyu is a large-scale commodities supply chain service provider.

The Formation of JV Companies is expected to bring the following benefits to the Company:

- (1). Facilitating the accelerated expansion of the Company's procurement volume of Mongolian coal and increase of market share through the JV Companies by leveraging Xiamen Xiangyu's greater capital resources and access to capital which are expected to provide greater benefits to the Company and its Shareholders notwithstanding that the Company would hold only a 49% interest and not control the JV Companies;

LETTER FROM THE BOARD

- (2). Providing a platform for cooperation with Xiamen Xiangyu that would bring synergies between the business of Xiamen Xiangyu particularly with respect to Xiamen Xiangyu's existing commodities customer network and the business of the Company;
- (3). The Integration of Logistics Assets will help the Company to develop its supply chain services business as well as further enhancing the Company's logistics and washing and processing capabilities.

The terms of the Cooperation Agreement and the Supplemental Agreement, including the undertaking restricting capital investment cooperation by the Company with third parties and the profit guarantee, were concluded through arm's-length negotiation with Xiamen Xiangyu, an independent third party. As mentioned above, in the current economic circumstances, as a non-State-owned entity in the PRC the Company has experienced difficulties in accessing commercial debt and has thereby faced considerable limitations on its ability to expand the volume of procurement of Mongolian coal and its ability to expand its corresponding market share putting it at a potential disadvantage to those competitors with greater working capital resources. Taking into consideration the various benefits expected to be obtained by the Company through the Formation of JV Companies, including expected access to working capital resources for the JV Companies which would allow the Company to address the funding constraints it has faced operating on its own, the Board and management consider the terms of the Cooperation Agreement and the Supplemental Agreement, including the non-compete undertaking and profit guarantee, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE FORMATION OF JV COMPANIES

Upon completion of the Formation of JV Companies, the JV Companies will be associates of the Group from an accounting perspective, and their financial results will be accounted for using the equity method. As a result, the financial results, assets and liabilities of the JV Companies shall not be consolidated into the financial statements of the Group.

The JV Companies will principally engage in the business of trading of Mongolian coking coal, Mongolian thermal coal, domestic coking coal, domestic thermal coal and other coal related products. The working capital of the JV Companies will be funded from the capital contribution made by the parties pursuant to the Cooperation Agreement. In addition, the Company will provide necessary logistics and coal processing services to the JV Companies subject to compliance with all applicable Listing Rules by the Company.

The Formation of JV Companies will cause a reduction of RMB980 million in the Group on cash and cash equivalents and other current assets through the Company's the capital contribution to the JV Companies, and there will be no significant effect to the Company's liabilities. There will be a corresponding interest in associates of the Group recognized at the same time.

Saved above disclosed, the Board does not see any material change to the Group's current seaborne coal, iron ore, oils and petrochemicals and non-ferrous metals trading business.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the aggregate capital contribution of the Company in the JV Companies exceeds 25% but is less than 100%, the Formation of JV Companies constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the Formation of JV Companies is subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, no Shareholder is materially interested in the Formation of JV Companies and transactions contemplated under the Cooperation Agreement. Therefore, no Shareholder is required to abstain from voting at a general meeting of the Company approving the Formation of JV Companies and the transactions contemplated under the Cooperation Agreement. Since no Shareholder would be required to abstain from voting if the Company were to convene a general meeting to approve the Formation of JV Companies and the transactions contemplated under the Cooperation Agreement, the Company has, pursuant to Rule 14.44 of the Listing Rules, obtained a written approval of the Formation of JV Companies and transactions contemplated under the Cooperation Agreement from the Major Shareholders. As at the Latest Practicable Date, the Major Shareholders beneficially own the following Shares:

Name of the Major Shareholders	Number of Shares directly held	Percentage of shareholding
Famous Speech	1,500,080,608	49.24%
Winsway Resources	56,412,505	1.85%
Total	<u>1,556,493,113</u>	<u>51.09%</u>

Famous Speech is owned as to 73.3% by Ms. Wang, the controlling shareholder of the Company and daughter of Mr. Wang, and Winsway Resources is indirectly wholly owned by Mr. Wang. Under Rule 14.44 of the Listing Rules, such written approval is in lieu of seeking the approval of Shareholders in general meeting of the Company to approve the Formation of JV Companies and transactions contemplated under the Cooperation Agreement and accordingly, the Company is not required to convene a general meeting to obtain such approval.

INFORMATION ON THE PARTIES

The Company

The Company is a company incorporated in the British Virgin Islands and is principally engaged in the processing and trading of coal and other products and providing logistics services throughout the commodity supply chain.

LETTER FROM THE BOARD

Xiamen Xiangyu

Xiamen Xiangyu is a state-owned enterprise with its shares listed on the main board of the Shanghai Stock Exchange. Xiamen Xiangyu is principally engaged in commodities trading (including metals and mineral resources, energy chemical industry and agriculture products) and related logistics services. Xiamen Xiangyu is a large-scale commodities supply chain services provider, and its total revenue for the year 2018 was approximately RMB234 billion, in which, its business volume for metals and mineral products reached 57 million tonnes, business volume for agricultural products and energy & chemical products exceeded 7 million tonnes and 36 million tonnes, respectively.

As at the Latest Practicable Date, the largest shareholder of Xiamen Xiangyu is Xiamen Xiangyu Group Co., Ltd., which directly holds a 54.03% interest in Xiamen Xiangyu. Xiamen Xiangyu Group Co., Ltd., ranking 338 of the World Top 500 in 2018, is 100% owned by Xiangyu Bonded Zone Management Committee, the actual controller of which is Xiamen State-owned Assets Supervision and Administration Commission.

RECOMMENDATIONS

The Directors (including the independent non-executive Directors) are of the view that the Formation of JV Companies and the transactions contemplated under the Cooperation Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Therefore, the Board would recommend the Shareholders to vote in favour of the resolutions to approve the Formation of JV Companies and transactions contemplated under the Cooperation Agreement if voting action of the Shareholders would have been required.

FURTHER INFORMATION

Your attention is drawn to the general information set out in the appendix to this circular.

By Order of the Board
E-Commodities Holdings Limited
Cao Xinyi
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 are disclosed in the following annual reports of the Company for the years ended 31 December 2016, 2017 and 2018, respectively, together with the interim results of the Company for the first half of 2019, which have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.e-comm.com):

- the annual report of the Company for the year ended 31 December 2016 which is published on 28 April 2017 (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0428/ltn201704281470.pdf>), please refer to pages 47 to 161 in particular;
- the annual report of the Company for the year ended 31 December 2017 which is published on 30 April 2018 (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0430/ltn201804301006.pdf>), please refer to pages 53 to 169 in particular;
- the annual report of the Company for the year ended 31 December 2018 which is published on 24 April 2019 (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0424/ltn20190424318.pdf>), please refer to pages 53 to 173 in particular.
- the interim results announcement of the Company for the six months ended 30 June 2019 which is published on 22 August 2019 (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0822/ltn20190822697.pdf>).

The auditors of the Company for each of the three years ended 31 December 2016, 2017 and 2018, and the first half year of 2019 are KPMG.

2. INDEBTEDNESS STATEMENT-

At the close of business on 30 June 2019, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness:

- (1) Secured bank and other loans of approximately HK\$2,371,092,835, of which
 - a. HK\$829,643,197 were secured by bills receivable and bank deposits;
 - b. HK\$1,097,826,005 were secured by bills receivable;
 - c. HK\$278,516,000 were secured by trade and bills receivable, property, plant and equipment and land use rights;
 - d. HK\$102,312,000 were secured by credit guarantee provided by subsidiaries of the Group;
 - e. HK\$11,368,000 were secured by trade receivables;

- f. HK\$51,427,633 were secured by inventories;
- (2) Outstanding guaranteed convertible bonds payables of approximately HK\$335,375,074. The convertible bonds are guaranteed by some Group's subsidiaries; and
- (3) Lease liabilities of approximately HK\$81,526,840.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, none of the companies in the Group had outstanding at the close of business on 30 June 2019 any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any finance lease or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other contingent liabilities.

3. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful consideration, are of the opinion that, taking into consideration of the present internal financial resources available to the Group, the banking facilities presently available and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

According to figures published by sxcoal.com, the import volume of Australia coking coal in the first half of 2019 increased by 17.60% compared to that of 2018, and the import volume of Mongolia coking coal increased by 30.76% compared to that of 2018. The management of the Group believes that the market remains in a relatively stable position for the foreseeable future. Otherwise, compared to the past operations of the Group, the Group has not observed any material change in the market and operating environment.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF DIRECTORS

(1) Interests in the Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register of members of the Company; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares

Name of Director	Capacity	Nature of interest	Number of Shares/ underlying Shares held	Approximately percentage of shareholding in issued Shares ⁽¹⁾
Cao Xinyi	Beneficial owner	Personal	12,052,041	0.40%
Wang Yaxu	Beneficial owner	Personal	10,736,190	0.35%
Li Jianlou	Beneficial owner	Personal	5,110,030	0.17%
Di Jingmin	Beneficial owner	Personal	3,013,030	0.10%

Note (1): The percentage shareholding of the Company is calculated on the basis of 3,046,562,356 Shares in issue as at the Latest Practicable Date, as the denominator.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, none of the Directors and chief executives of the Company had any interest or short positions in any shares and 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 the SFO (including interests and short positions which the Directors and chief executives of the Company were

taken or deemed to have pursuant to Divisions 7 and 8 of the Part XV of the SFO), or which were entered in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(2) Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

(3) Interests in contracts

As at the Latest Practicable Date, there was no contract or arrangement entered into by any member of the Group subsisting, in which any of the Directors was materially interested and which was significant in relation to the business of the Group as a whole.

(4) Interests in competing business

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Group, or had or might have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

(5) Directors' service contracts

Each of the executive Directors has entered into a service contract/letter of appointment with the Company for a term set out as follows:

Director	Date of Service Contract/Letter of Appointment	Expiry Date
Cao Xinyi	1 July 2019 (Service Contract)	30 June 2022
Wang Yaxu	1 July 2019 (Service Contract)	30 June 2022
Li Jianlou	30 March 2018 (Service Contract)	29 March 2011
Di Jingmin	18 July 2019 (Letter of Appointment)	17 July 2022

The non-executive Director has entered into a letter of appointment with the Company for a term set out as follows:

Director	Date of Letter of Appointment	Expiry Date
Guo Lisheng	18 July 2019	17 July 2022

Each of the executive Directors has entered into a letter of appointment with the Company for a term set out as follows:

Director	Date of Letter of Appointment	Expiry Date
Ng Yuk Keung	1 June 2018	31 May 2021
Mr. Wang Wenfu	1 June 2018	31 May 2021
Mr. Gao Zhikai	18 July 2019	17 July 2022

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director of chief executive of the Company, the interests and short positions of the Shareholders (other than directors or chief executives of the Company) who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Capacity/nature of interest	Number of Shares/ underlying Shares held ⁽¹⁾	Approximately percentage of shareholding in issued Shares ⁽⁸⁾
Wang Yihan ⁽²⁾	Interest of corporation controlled by the substantial shareholder	1,500,080,608(L)	49.24%
Famous Speech	Beneficial owner	1,500,080,608(L)	49.24%
Wang Xingchun ⁽³⁾⁽⁴⁾	Interest of corporation controlled by the substantial shareholder	56,412,505(L)	
	Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under section 317 of the SFO	1,500,080,608(L)	
	Total	1,556,493,113(L)	51.09%

APPENDIX II

GENERAL INFORMATION

Name of Shareholder	Capacity/nature of interest	Number of Shares/ underlying Shares held ⁽¹⁾	Approximately percentage of shareholding in issued Shares ⁽⁸⁾
Winsway Group Holdings Limited ⁽³⁾⁽⁵⁾	Interest of corporation controlled by the substantial shareholder	56,412,505(L)	
	Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under section 317 of the SFO	1,500,080,608(L)	
	Total	1,556,493,113(L)	51.09%
China Minmetals Corporation ⁽⁶⁾	Interest of corporation controlled by the substantial shareholder	1,503,195,952(L)	49.34%
Magnificent Gardenia ⁽⁶⁾	Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under section 317 of the SFO	1,500,080,608(L)	49.24%
Lord Central Opportunity VII Limited ⁽⁷⁾	Beneficial owner	550,282,828(L/S)	18.06%
Pacific Alliance Asia Opportunity Fund L.P. ⁽⁷⁾	Interest of corporation controlled by the substantial shareholder	550,282,828(L/S)	18.06%
Pacific Alliance Group Asset Management Limited ⁽⁷⁾	Interest of corporation controlled by the substantial shareholder	550,282,828(L/S)	18.06%
Pacific Alliance Investment Management Limited ⁽⁷⁾	Interest of corporation controlled by the substantial shareholder	550,282,828(L/S)	18.06%
Pacific Alliance Group Limited ⁽⁷⁾	Interest of corporation controlled by the substantial shareholder	550,282,828(L/S)	18.06%
PAG Holdings Limited ⁽⁷⁾	Interest of corporation controlled by the substantial shareholder	550,282,828(L/S)	18.06%

Notes:

- (1) The letter “L” denotes the person’s long position in such securities and the letter “S” denotes the person’s short position in such securities.
- (2) Ms. Wang directly controls Famous Speech and is deemed to be interested in the 1,500,080,608 Shares held by Famous Speech.
- (3) Mr. Wang, Winsway Group Holdings Limited, Winsway Resources Holdings Limited, Great Start Development Ltd., Winsway International Petroleum & Chemicals Limited and Famous Speech have entered into an agreement which is covered by s.317 and s.318 of the SFO and each of Mr. Wang, Winsway Group Holdings Limited and Winsway Resources Holdings Limited is deemed to be interested in the 1,500,080,608 Shares held by Famous Speech by virtue of s.317 of the SFO.
- (4) Mr. Wang indirectly holds the entire issued share capital of Winsway Resources Holdings Limited and is deemed to be interested in the 56,412,505 Shares held by Winsway Resources Holdings Limited.
- (5) Winsway Group Holdings Limited directly holds the entire issued share capital of Winsway Resources Holdings Limited and is deemed to be interested in the 56,412,505 Shares held by Winsway Resources Holdings Limited. Mr. Wang Xingchun is the sole director of Winsway Group Holdings Limited.
- (6) China Minmetals Corporation (“**China Minmetals**”) is deemed to be interested in 1,503,195,952 Shares. 3,115,344 of such Shares are held by certain other companies that were controlled directly or indirectly by China Minmetals, and China Minmetals is deemed to be interested in another 1,500,080,608 Shares because Magnificent Gardenia Limited, a corporation controlled by it, entered into an agreement which is covered by s.317 and s.318 and is deemed to be interested in the 1,500,080,608 Shares held by Famous Speech by virtue of s.317 of the SFO.
- (7) Pursuant to a subscription agreement between, among others, the Company and Lord Central Opportunity VII Limited dated 1 June 2017, assuming the conversion rights attaching to the convertible bonds are exercised in full at the adjusted conversion price of HK\$0.72 per conversion share, and the rights attaching to the warrants are exercised in full at the adjusted subscription price of HK\$0.908 per warrant share, 550,282,828 Shares will fall to be issued to Lord Central Opportunity VII Limited. Lord Central Opportunity VII Limited is owned by Pacific Alliance Asia Opportunity Fund L.P. as to 90%. Pacific Alliance Group Asset Management Limited is the general partner of Pacific Asia Opportunity Fund L.P. The entire issued share capital of Pacific Alliance Group Asset Management Limited is owned by Pacific Alliance Investment Management Limited. Pacific Alliance Investment Management Limited is owned by Pacific Alliance Group Limited as to 90%, which in turn is owned by PAG Holdings Limited as to 99.17%.
- (8) The percentage shareholding of the Company is calculated on the basis of 3,046,562,356 Shares in issue, as at the Latest Practicable Date, as the denominator and the number of Shares that each substantial shareholder is interested in as the numerator.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who, had or was deemed to have, interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group or any options in respect of such share capital.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any material litigation or claims and no litigation or claims of material importance were pending or threatened by or against any member of the Group.

6. MATERIAL CONTRACTS

Save for the Cooperation Agreement and the Supplemental Agreement, no material contracts, not being contracts in the ordinary course of business of the Company or any of its subsidiaries, had been entered into by the members of the Group within the two (2) years immediately preceding the Latest Practicable Date.

7. GENERAL

- (a) The registered address of the Company is at Nerine Chambers, PO Box 905, Road Town, Tortola, British Virgin Islands.
- (b) The branch share registrar of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Cao Xinyi, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (d) In the event of inconsistency, the English language test of this circular shall prevail over the Chinese language test.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at our principal place of business in Hong Kong at Unit 1902, Floor 19, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong from the date of this circular up to and including a date which in any event not less than 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018, and interim results of the Company for the six months ended 30 June 2019;
- (c) the service contracts of certain Directors as disclosed in this circular;

- (d) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (e) this circular.