



# 内蒙古伊泰煤炭股份有限公司

## INNER MONGOLIA YITAI COAL CO., LTD.\*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code:3948



## GLOBAL OFFERING

Joint Sponsors



Joint Bookrunners and Joint Lead Managers



\*For identification purposes only

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.



**内蒙古伊泰煤炭股份有限公司**  
INNER MONGOLIA YITAI COAL CO., LTD.\*

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**GLOBAL OFFERING**

|                                                  |                                                                                                                                                                                                                  |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Number of Offer Shares under the Global Offering | : 162,667,000 H Shares (subject to the Over-allotment Option)                                                                                                                                                    |
| Number of Hong Kong Offer Shares                 | : 16,267,000 H Shares (subject to adjustment)                                                                                                                                                                    |
| Number of International Offer Shares             | : 146,400,000 H Shares (subject to adjustment and the Over-allotment Option)                                                                                                                                     |
| Maximum Offer Price                              | : HK\$53.00 per Offer Share (payable in full on application in Hong Kong dollars and subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) |
| Nominal value                                    | : RMB 1.00 per H Share                                                                                                                                                                                           |
| Stock code                                       | : 3948                                                                                                                                                                                                           |

*Joint Sponsors*



*Joint Bookrunners and Joint Lead Managers*



Hong Kong Exchange and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix XI to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement among us and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about July 6, 2012 (Hong Kong time) and, in any event, not later than July 10, 2012 (Hong Kong time). The Offer Price will be not more than HK\$53.00 per Offer Share and is expected to be not less than HK\$43.00 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$53.00 for each Hong Kong Offer Share together with a brokerage of 1%, an SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$53.00. If, for any reason, the Offer Price is not agreed among us and the Joint Bookrunners (on behalf of the Underwriters) on or before July 10, 2012 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

We are incorporated, and our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Appendix VIII — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix IX — Summary of the Articles of Association of our Company" in this Prospectus.

Pursuant to the force majeure provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Bookrunners, on behalf of the Hong Kong Underwriters, have the right in certain circumstances to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (currently expected to be July 12, 2012). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting — Hong Kong Public Offering — Grounds for Termination" in this Prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may only be offered or sold, pledged or transferred (i) within the United States to QIBs in reliance on Rule 144A or in reliance on another exemption from registration requirements under the U.S. Securities Act of 1933, as amended, or (ii) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

\* for identification purpose only

June 29, 2012

## EXPECTED TIMETABLE

Our Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Date <sup>(1)</sup>                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Latest time to complete electronic applications under the <b>White Form eIPO</b> service through the designated website at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                | Thursday,<br>July 5, 2012<br>11:30 a.m. on |
| Application lists of the Hong Kong Public Offering open <sup>(3)</sup> . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Thursday,<br>July 5, 2012<br>11:45 a.m. on |
| Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Thursday,<br>July 5, 2012<br>12:00 noon on |
| Latest time for giving <b>electronic application instructions</b> to HKSCC <sup>(3 and 4)</sup> . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Thursday,<br>July 5, 2012<br>12:00 noon on |
| Latest time to complete payment of <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Thursday,<br>July 5, 2012<br>12:00 noon on |
| Application lists of the Hong Kong Public Offering close . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Thursday,<br>July 5, 2012<br>12:00 noon on |
| Expected Price Determination Date <sup>(5)</sup> . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Friday,<br>July 6, 2012                    |
| Announcement of <ul style="list-style-type: none"> <li>• the Offer Price,</li> <li>• the level of indication of interest in the International Offering</li> <li>• the level of applications in the Hong Kong Public Offering</li> <li>• the basis of allotment of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on our Company's website <a href="http://www.yitaicoal.com">www.yitaicoal.com</a> on and the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> on or before . . . . .</li> </ul> | Wednesday,<br>July 11, 2012                |
| Announcement of results of allotment in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see the section headed "How to apply for the Hong Kong Offer Shares — 10. Results of allocations" in this Prospectus) . . . . .                                                                                                                                                                                                                                                                                                   | Wednesday,<br>July 11, 2012                |
| A full announcement of the Hong Kong Public Offering containing the information above will be published on the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our Company's website at <a href="http://www.yitaicoal.com">www.yitaicoal.com</a> from . . . . .                                                                                                                                                                                                                                                                                                                     | Wednesday,<br>July 11, 2012                |
| Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.iporesults.com.hk">www.iporesults.com.hk</a> with a "search by ID" function from . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                             | Wednesday,<br>July 11, 2012                |
| Despatch of H Share certificates/White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before <sup>(6 and 7)</sup> . . . . .                                                                                                                                                                                                                                                                                                                                                                                              | Wednesday,<br>July 11, 2012                |
| Dealings in H Shares on the Hong Kong Stock Exchange to commence on . . . . .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Thursday,<br>July 12, 2012                 |

(1) All times and dates refer to Hong Kong local times and dates unless otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set out in the section headed "Structure of the Global Offering" in this Prospectus.

(2) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

## EXPECTED TIMETABLE

- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 5, 2012, the application lists will not open on that day. Further information is set out in the section headed “How to apply for the Hong Kong Offer Shares — 7. When May Applications be Made — (e) Effects of Bad Weather Conditions on the Opening of the Application Lists” in this Prospectus.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for the Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC” in this Prospectus.
- (5) The Price Determination Date is expected to be on or about Friday, July 6, 2012, and in any event no later than Tuesday, July 10, 2012. If, for any reason, the Offer Price is not agreed on or before Tuesday, July 10, 2012, the Global Offering will not proceed and will lapse.
- (6) Our Company will not issue any temporary documents of title in respect of the Offer Shares. H Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, July 12, 2012 (Hong Kong time), provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.
- (8) Applicants who apply on **WHITE** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques and (where applicable) share certificates in person from our Company’s H Share Registrar, Computershare Hong Kong Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Wednesday, July 11, 2012. Identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for H Shares is the same as that for **WHITE** Application Form applicants.

Applicants being individuals who opt for personal collection may not authorize any person to make collection on their behalf.

Applicants being corporations which opt for personal collection must attend by their authorized representatives with letters of authorization of their corporations stamped with the corporation’s chops (being the name of the corporations). Both individuals and authorized representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to our Company’s H Share Registrar.

Uncollected H share certificates and refund cheques will be despatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed “How to apply for the Hong Kong Offer Shares — 11. Dispatch/Collection of H Share Certificates and Refunds of Application Monies” in this Prospectus.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed “Structure of the Global Offering” in this Prospectus.



IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by Inner Mongolia Yitai Coal Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Offer Shares. This Prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this Prospectus, in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering. Information contained in our website, located at [www.yitaicoal.com](http://www.yitaicoal.com), does not form part of this Prospectus.

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## SUMMARY

This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks associated with investing in the Offer Shares are set out in the section headed “Risk Factors” in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

## OVERVIEW

We are the largest Local Coal Enterprise in Inner Mongolia, China, and one of the largest coal enterprises in China, in terms of revenue in 2010, according to the CNCA. Inner Mongolia has the largest total proved coal reserves according to the MLR, and the highest coal production volume in 2009, 2010 and 2011 according to the NBSC, among all provinces in China. We have grown rapidly in recent years, primarily from the successive completion of internal consolidations and technology upgrades in our coal mines, which has led to increased production capacity, production equipment mechanization and recovery rate. From 2006 to 2011, our coal output increased from 9.7 million tonnes to 35.1 million tonnes, and our primary mining method changed from room-and-pillar mining to fully mechanized longwall mining, which enabled us to extract substantially all coal of mining faces without having to leave a significant portion of coal as pillars, as would be the case in room-and-pillar mining. Accordingly, the mechanization ratios\* of our mines increased from under 50% to above 95%; and the overall mining-zone recovery rates\*\* increased from under 50% to around 80% from 2006 to 2011. In 2009, 2010 and 2011, we sold 27.7 million tonnes, 35.7 million tonnes and 38.3 million tonnes of coal, respectively, representing a CAGR of 17.6% from 2009 to 2011. Our total revenue for 2009, 2010 and 2011 was RMB10,252.2 million, RMB13,853.8 million and RMB16,515.8 million, respectively, representing a CAGR of 26.9% from 2009 to 2011. Our profit for 2009, 2010 and 2011 was RMB3,148.4 million, RMB5,316.0 million and RMB5,749.3 million, respectively, representing a CAGR of 35.1% from 2009 to 2011.

We are a listed company on the SHSE. In 1997, we were established in the PRC as a joint stock limited company by our sole promoter, Yimei Group, by way of offering B Shares to public shareholders.

Our principal operations include:

- Coal operations, which are our core business and mainly include the production, transportation and sale of coal;
- Transportation operations, through which our Company and our subsidiaries provide coal transportation service to third parties, other than coal transportation service for the sale of our own coal;
- Coal-related chemical operations, which mainly include the production and sale of coal-based synthetic fuels and other coal-related chemical businesses; and
- Other operations, which mainly include the development, production and sale of traditional Chinese medicine.

The following table sets forth the contributions by each of our operating segments in terms of revenue and as a percentage of our total revenue for the periods indicated:

| Segments                         | Year ended December 31, |              |                 |              |                 |              |
|----------------------------------|-------------------------|--------------|-----------------|--------------|-----------------|--------------|
|                                  | 2009                    |              | 2010            |              | 2011            |              |
|                                  | RMB million             | %            | RMB million     | %            | RMB million     | %            |
| Coal operations                  | 9,676.0                 | 94.4         | 13,360.1        | 96.4         | 15,197.3        | 92.0         |
| Transportation operations        | 534.5                   | 5.2          | 435.3           | 3.2          | 604.4           | 3.7          |
| Coal-related chemical operations | —                       | —            | —               | —            | 677.8           | 4.1          |
| Other operations                 | 41.7                    | 0.4          | 58.4            | 0.4          | 36.3            | 0.2          |
| <b>Total</b>                     | <b>10,252.2</b>         | <b>100.0</b> | <b>13,853.8</b> | <b>100.0</b> | <b>16,515.8</b> | <b>100.0</b> |

\* Mechanization ratio means the degree of mechanization in mining and tunneling of coal mines, specifically referring to the proportion of mechanized mining faces in all mining faces.

\*\* Overall mining-zone recovery rate means the recovery rate of the overall mining zone, specifically referring to the ratio of the amount of extracted coal against the coal reserve of the overall mining zone.

## SUMMARY

The following table sets forth the contributions by each of our operating segments in terms of net profit for the periods indicated:

| Segments                            | Year ended December 31, |                |                |
|-------------------------------------|-------------------------|----------------|----------------|
|                                     | 2009                    | 2010           | 2011           |
|                                     | RMB million             |                |                |
| Coal operations                     | 3,050.7                 | 5,203.7        | 5,425.0        |
| Transportation operations           | 147.1                   | 186.0          | 342.0          |
| Coal-related chemical operations    | (0.7)                   | 2.0            | 27.5           |
| Other operations                    | (21.0)                  | (16.9)         | (31.6)         |
| Elimination of intersegment results | (27.7)                  | (58.8)         | (13.6)         |
| <b>Total</b>                        | <b>3,148.4</b>          | <b>5,316.0</b> | <b>5,749.3</b> |

### Our Coal Operations

We have seven operating mines and two mines under development. All of our coal mines are located in the Ordos region, Inner Mongolia. We have a large and high-quality coal reserves base, with geological and depositary conditions favorable to low-cost mining. The majority of our coal reserves are deposited in the Dongsheng Coalfield, which is known for high-quality coal deposits and, combined with the adjacent Shenfu Coalfield, is listed by the State Council as one of the 14 large-scale coal production bases in China. The total proved and probable recoverable coal reserves of our operating mines and mines under development amounted to 1,432.9 million tonnes as of December 31, 2011, which we expect to be sufficient for more than 40 years of production, based on our 2011 annual production of 35.1 million tonnes of coal. The estimated remaining life of our Suancigou Mine, in which we hold a 52% interest, is 41 years, while the estimated remaining lives of our other operating mines range from two years to nine years, according to the Competent Person's Report. Talahao Mine, Bulamao West Mine and Bulamao East Mine, which are under development, have estimated mine lives of 103, 18 and nine years, respectively, according to the Competent Person's Report.

The following table sets forth certain data for each of our nine mines:

|                                                                                      | In operation                                                             |                     |                     |                     |                     |                     |                     | Under development   |                     |
|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                      | Suancigou                                                                | Nalinmiao No.2      | Hongjing-ta No.1    | Nalinmiao No.1      | Yangwan-gou         | Fuhua               | Kaida               | Talahao             | Bulamao             |
| Background data                                                                      |                                                                          |                     |                     |                     |                     |                     |                     |                     |                     |
| Location                                                                             | Zhunge'er Coalfield                                                      | Dongsheng Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Zhunge'er Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Dongsheng Coalfield |
| Date of initial operation                                                            | Aug 8, 2008                                                              | Oct 1, 2006         | Aug 12, 2007        | Jan 1, 2008         | Sep 24, 2009        | Jul 1, 2008         | Mar 17, 2008        | —                   | —                   |
| Mining area (square kilometers)                                                      | 49.8                                                                     | 21.0                | 28.4                | 9.4                 | 1.0                 | 8.6                 | 5.5                 | 42.6                | 40.2                |
| In-place resource data (as of December 31, 2011) <sup>(1) (2)</sup> (million tonnes) |                                                                          |                     |                     |                     |                     |                     |                     |                     |                     |
| Measured coal resources                                                              | 389.9                                                                    | 25.2                | 43.0                | 14.5                | 8.7                 | 2.9                 | 6.0                 | 498.0               | 23.1                |
| Indicated coal resources                                                             | 805.6                                                                    | 73.6                | 17.2                | —                   | —                   | 1.7                 | 0.6                 | 249.4               | 9.7                 |
| Inferred coal resources                                                              | —                                                                        | 2.3                 | —                   | —                   | —                   | —                   | —                   | 9.6                 | 1.5                 |
| Reserve data (as of December 31, 2011) <sup>(1) (2)</sup>                            |                                                                          |                     |                     |                     |                     |                     |                     |                     |                     |
| Total proved and probable recoverable reserves (million tonnes)                      | 659.9                                                                    | 71.9                | 40.4                | 10.1                | 6.2                 | 2.8                 | 5.2                 | 616.0               | 20.5                |
| Total proved and probable marketable reserves <sup>(3)</sup> (million tonnes)        | 458.8                                                                    | 63.9                | 35.9                | 9.3                 | 5.8                 | 2.5                 | 4.2                 | 550.2               | 16.8                |
| Number of mineable seams                                                             | 4                                                                        | 3                   | 2                   | 3                   | 2                   | 1                   | 2                   | 6                   | 4                   |
| Average seam thickness (meters)                                                      | 6.6                                                                      | 4.5                 | 4.1                 | 3.7                 | 6.9                 | 2.0                 | 2.0                 | 3.3                 | 1.8                 |
| Mine life <sup>(4)</sup>                                                             | 41                                                                       | 9                   | 6                   | 3                   | 4                   | 2                   | 3                   | 103                 | West: 18<br>East: 9 |
| Coal production (million tonnes)                                                     |                                                                          |                     |                     |                     |                     |                     |                     |                     |                     |
| 2009                                                                                 | 6.4                                                                      | 6.9                 | 7.5                 | 2.4                 | 0.3                 | 1.2                 | 1.4                 | —                   | —                   |
| 2010                                                                                 | 8.2                                                                      | 8.1                 | 8.2                 | 5.8                 | 1.4                 | 1.3                 | 3.1                 | —                   | —                   |
| 2011                                                                                 | 8.4                                                                      | 8.1                 | 7.3                 | 6.6                 | 1.0                 | 1.4                 | 2.4                 | —                   | —                   |
| Average mine operating costs <sup>(5)</sup> (RMB per tonne)                          |                                                                          |                     |                     |                     |                     |                     |                     |                     |                     |
| 2009                                                                                 | 64                                                                       | 57                  | 53                  | 102                 | 201                 | 90                  | 95                  | —                   | —                   |
| 2010                                                                                 | 90                                                                       | 78                  | 77                  | 60                  | 108                 | 91                  | 104                 | —                   | —                   |
| 2011                                                                                 | 104                                                                      | 91                  | 65                  | 54                  | 137                 | 85                  | 127                 | —                   | —                   |
| Expiry date of the mining right                                                      |                                                                          |                     |                     |                     |                     |                     |                     |                     |                     |
|                                                                                      | First: December 2033 <sup>(6)</sup><br>Second: April 2038 <sup>(6)</sup> | July 2015           | September 2036      | November 2019       | June 2015           | November 2013       | June 2013           | —                   | —                   |



- (1) Reserves and resources data include reserves and resources of our operating mines and mines under development.
- (2) Resources and reserves are reported on a 100% ownership basis for our wholly and majority owned mines. We own 100% interest in all of our mines except for Suancigou Mine. We own a 52% interest in Yitai Suancigou, which in turn owns 100% interest in Suancigou Mine. Jingneng Power and Shanxi Yudean each holds a 24% interest in Yitai Suancigou.
- (3) Proved and probable marketable reserves equal proved and probable recoverable reserves after accounting for losses during coal preparation and processing at the coal preparation plants.
- (4) Mine lives are estimated from recoverable reserves, according to the Competent Person's Report.
- (5) Average composite costs include a weighted average of drill and blast, and fully mechanized output achieved with fully mechanized longwall face methods. The average mine operating costs of most of our operating mines increased from 2009 to 2010, primarily because the Inner Mongolia government required coal enterprises in Inner Mongolia to contribute to a coal price-regulation fund that it has managed since the second half of 2009. The average mine operating costs for Nalinmiao No.1 Mine and Yangwangou Mine decreased substantially from 2009 to 2010, primarily due to the decrease of the fees for moving from one working face to another. The average mine operating costs of most of our operating mines increased from 2010 to 2011, primarily due to the increases in relocation compensation and depreciation.
- (6) The first refers to the mining right permit with permit number of C1000002009121120050702, and the second refers to the mining right permit with permit number C1000002009121110050703.

The output of certain mines in certain years has exceeded the Assessed Capacities as recorded on its coal production permit, for details of which see "Business — Coal Operations — Over-production." In addition, the mining right permits for Fuhua Mine and Kaida Mine will expire in November 2013 and June 2013, respectively. According to applicable PRC laws and regulations, a mining right permit can be renewed by filing an extension application at least 30 days prior to the expiry date. We plan to renew the mining right permits for Fuhua Mine and Kaida Mine in line with the applicable laws and regulations.

We have obtained mining rights for all of our operating mines. In respect of our two mines under development, namely Talahao Mine and Bulamao Mine, we have obtained approvals from the MLR regarding the demarcation of their respective mining areas. Based on such approvals, we will formulate our production plans for these two mines, and will apply for mining right permits from the MLR in due course. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that there is no material legal impediment to obtaining the relevant mining rights, provided that we submit application documents in compliance with applicable laws and regulations to the MLR to apply for the grant of the relevant mining rights and the issuance of the relevant mining right permits, and that we will not need to pay mining right prices, as we have already paid exploration right prices in full and there has been no subsequent investment by the government on these two mines. We cannot legally produce coal from Talahao Mine and Bulamao Mine before obtaining these mining right permits and other relevant permits and licenses.

Our coal products primarily comprise high-quality thermal coal produced from raw coal excavated at our own mines with commercially attractive characteristics, including medium-to-high calorific value, high volatile matter content, low sulphur content, medium-to-low ash content and low phosphorous content. The major criteria to classify thermal coals are ash content, sulphur content and calorific value. According to the PRC national standard for the classification of the quality of coal for power generation, low ash content refers to ash content between 10.01% and 20.00%, ultra-low sulphur content refers to sulphur content below 0.50%, and medium-to-high calorific value refers to calorific value between 24.31mj/kg and 27.20mj/kg. According to the Competent Person's Report, the average ash content of our seven operating mines is approximately 12.49%, the average sulphur content is approximately 0.34%, and the average gross calorific value\* is approximately 6,100kcal/kg (equivalent to approximately 25.50mj/kg). In addition, according to the evaluation report issued by the Beijing Research Institute of Coal Chemistry of China Coal Research Institute, our coal products are high-quality thermal coal with low ash content, low sulphur content and low phosphorous content. In addition to the sales of self-produced coal, we also purchase a small percentage of coal from third-party coal companies for resale.

We sell all of our coal products in China by means of both long-term sales contracts and spot market sales, and procure customers through our own sales force. Our high-quality thermal coal products are mainly sold to large-scale industrial customers, particularly power producers. As of the Latest Practicable Date, Yitai Group had entered into 22 long-term agreements with customers, most of which are large-scale power producers. These agreements are legally binding and constitute sale and purchase commitments of the parties. All rights and obligations of Yitai Group under these long-term agreements will be transferred to us on the Listing Date. Each of these agreements has a duration of five years, with fixed purchase and sales volume for each year, and provides that selling prices should either be set by reference to market prices or negotiated annually. The expiry dates of these agreements are December 31, 2014, which may be extended upon mutual agreement between

\* Excludes Suancigou Mine and Yangwangou Mine as relevant information is not available.

## SUMMARY

the parties. Yitai Group's sales commitments under long-term agreements were 42.1 million tonnes and 48.0 million tonnes for 2010 and 2011, respectively, and will be 56.4 million tonnes, 67.4 million tonnes and 77.4 million tonnes for 2012, 2013 and 2014, respectively. Pursuant to these agreements, the parties should enter into annual coal sales and purchase contracts, in which the parties will set forth the selling prices and adjust the sales volume, as necessary. Certain of our sales are made by signing annual coal sales and purchase contracts under the long-term agreements. The actual sales volume of Yitai Group generated from these agreements was 23.9 million tonnes, 27.0 million tonnes and 25.9 million tonnes for 2009, 2010 and 2011, respectively.

The following table sets forth selected price information (exclusive of VAT), for the periods indicated, for our sales from long-term contract sales and spot market sales:

|                           | Year ended December 31,  |                                        |                                         |                          |                                        |                                         |                          |                                        |                                         |
|---------------------------|--------------------------|----------------------------------------|-----------------------------------------|--------------------------|----------------------------------------|-----------------------------------------|--------------------------|----------------------------------------|-----------------------------------------|
|                           | 2009                     |                                        |                                         | 2010                     |                                        |                                         | 2011                     |                                        |                                         |
|                           | Price<br>(RMB/<br>tonne) | Sales<br>volume<br>(million<br>tonnes) | Percentage<br>of sales<br>volume<br>(%) | Price<br>(RMB/<br>tonne) | Sales<br>volume<br>(million<br>tonnes) | Percentage<br>of sales<br>volume<br>(%) | Price<br>(RMB/<br>tonne) | Sales<br>volume<br>(million<br>tonnes) | Percentage<br>of sales<br>volume<br>(%) |
| Long-term contract sales* | 328.9                    | 17.6                                   | 63.5                                    | 404.7                    | 21.7                                   | 60.8                                    | 428.3                    | 19.0                                   | 49.6                                    |
| Spot market sales         | 384.8                    | 10.1                                   | 36.5                                    | 325.8                    | 14.0                                   | 39.2                                    | 365.1                    | 19.3                                   | 50.4                                    |
| <b>Total</b>              |                          | <b>27.7</b>                            | <b>100.0</b>                            |                          | <b>35.7</b>                            | <b>100.0</b>                            |                          | <b>38.3</b>                            | <b>100.0</b>                            |

\* Long-term contracts include annual coal sales and purchase contracts under the long-term agreements and other sales contracts longer than one year.

The following table sets forth the key operating data of our coal operations during the Track Record Period.

|                                                                  | Year ended December 31, |       |       |
|------------------------------------------------------------------|-------------------------|-------|-------|
|                                                                  | 2009                    | 2010  | 2011  |
| Coal sales volume (million tonnes)                               | 27.7                    | 35.7  | 38.3  |
| Average selling price (RMB/tonne)                                | 349.3                   | 374.2 | 396.8 |
| Average operating cost (RMB/tonne)                               | 67                      | 81    | 85    |
| Transportation cost per tonne of coal products sold (RMB/tonne)* | 94.1                    | 71.4  | 63.0  |

\* The transportation cost per tonne of coal products sold decreased from 2009 to 2011, primarily because the proportion of coals sold at mine gates, which bear few transportation costs, increased during the same period. For the years ended December 31, 2009, 2010 and 2011, the sales volume of coal sold at mine gates was 3.0 million tonnes, 11.9 million tonnes and 14.9 million tonnes, representing 10.8%, 33.3% and 38.9% of the total sales volume for 2009, 2010 and 2011, respectively.

Over the years, we have made continuous investments in the railway and highway transportation system, and integrated our production, transportation and sales of coal. Through our integrated transportation network, we transport our coal products from our mines to the national ground transportation network for delivery. We obtain railway capacity on the national railway system primarily through allocations of annual planned railway capacity made by the MOR and the NDRC to Yitai Group. Yitai Group also grants us additional transportation capacity that it obtains from the MOR from time to time in addition to the annual quotas originally allocated to it, subject to the national railway system's ability to meet the additional demand. Please refer to "Business — Coal Operations — Coal Transportation" for details.

The following table sets forth our coal sales in China by geographic region for the periods indicated:

|                                   | Year ended December 31,          |              |                                  |              |                                  |              |
|-----------------------------------|----------------------------------|--------------|----------------------------------|--------------|----------------------------------|--------------|
|                                   | 2009                             |              | 2010                             |              | 2011                             |              |
|                                   | Sales volume<br>(million tonnes) | %            | Sales volume<br>(million tonnes) | %            | Sales volume<br>(million tonnes) | %            |
| Eastern China <sup>(1)</sup>      | 8.0                              | 28.9         | 6.7                              | 18.8         | 6.6                              | 17.2         |
| Southern China <sup>(2)</sup>     | 3.2                              | 11.6         | 3.5                              | 9.8          | 3.2                              | 8.4          |
| Northern China <sup>(3)</sup>     | 16.3                             | 58.8         | 24.7                             | 69.2         | 27.4                             | 71.5         |
| Northeastern China <sup>(4)</sup> | 0.2                              | 0.7          | 0.8                              | 2.2          | 1.1                              | 2.9          |
| <b>Total</b>                      | <b>27.7</b>                      | <b>100.0</b> | <b>35.7</b>                      | <b>100.0</b> | <b>38.3</b>                      | <b>100.0</b> |

- (1) Eastern China includes primarily Shanghai, Zhejiang, Jiangsu and Anhui.
- (2) Southern China includes primarily Guangdong, Guangxi, Fujian and Jiangxi.
- (3) Northern China includes primarily Hebei, Shandong, Tianjin and Inner Mongolia.
- (4) Northeastern China includes primarily Liaoning.

We have high production efficiency and maintain an excellent safety record. With reference to the data in the 2011 Analytical Report on the Top 100 Chinese Coal Enterprises published by the CNCA, we ranked No. 1 in average raw coal output per worker, No. 1 in average revenue per worker, No. 1 in average profit per worker, No. 1 in return on equity and No. 1 in net profit margin among the top 20 coal enterprises in China in terms of revenue in 2010. We maintain strict cost control. The estimated average operating costs for our coal operations increased from RMB67 per tonne for 2009 to RMB81 per tonne for 2010 and RMB85 per tonne for 2011, primarily because the Inner Mongolia government required coal enterprises in Inner Mongolia to contribute to a coal price-regulation fund that it managed, and accordingly we are required to contribute RMB15 for each tonne of coal we produce starting from 2009. We maintained a safety record of zero fatalities per million tonnes of coal production during the Track Record Period. By comparison, the average fatalities per million tonnes of coal production for coal mines in China were 0.89, 0.75 and 0.56 for 2009, 2010 and 2011, respectively, according to the NBSC.

The main supplies we purchase for our coal operations include coal, mining equipment, replacement parts, steel, cement, explosives, fuel and lubricants. We also use third-party railway companies to transport our coal. The main supplies we purchase for our coal transportation operations are locomotives and other rolling stock, spare parts, fuel and power.

### Our Transportation Operations

We own and operate two local railway lines, namely Yitai Zhundong and Huzhun Railway Lines, and a local railway branch line, namely Suancigou Railway Line, with a total main line length, constructed and under construction, of approximately 398.3 kilometers. We also own a 122.0-kilometer Caoyang Tollway. The following table sets forth information on our railway lines:

| Railway/Branch Line | Main Line Length (km) | Origin     | Terminus      | Our Ownership (%) |
|---------------------|-----------------------|------------|---------------|-------------------|
| Zhundong . . . . .  | 191.8                 | Zhoujiawan | Zhunge'erzhao | 100.00            |
| Huzhun . . . . .    | 179.7                 | Zhoujiawan | Huhhot        | 76.46             |
| Suancigou . . . . . | 26.8                  | Suancigou  | Zhoujiawan    | 52.00             |

These transportation lines form an integrated transportation network connecting our mines to the national ground transportation system, which we believe would provide us with competitive advantages in securing allocation of coal transportation capacity in the national railway system and facilitate our coal sales to both local customers and customers in the more developed coastal regions of China. We also provide coal transportation services to third parties through our two local railway lines and trucking subsidiaries. The freight charge rates for both Yitai Zhundong Railway Line and Huzhun Railway Line were RMB0.15 per tonne per kilometer during the Track Record Period and as of the Latest Practicable Date. In addition, we collect tolls from third-party vehicles utilizing our tollway.

### Our Coal-related Chemical Operations

We are the first enterprise to successfully use indirect coal-to-oil technologies on an industrial scale in China. Yitai Group obtained an approval from the IMDRC in 2005 to develop a coal-to-oil project. We carry out this project through our subsidiary, Yitai Coal-to-oil, and have completed the construction of the demonstration phase of the project with a designed annual output of 160,000 tonnes of synthetic fuels. The project commenced its operations in July 2011, and it is in full-load operation at its designed annual capacity. For 2011, revenue derived from our coal-related chemical operations was approximately RMB677.8 million.

By leveraging our successful launch of the coal-to-oil project, we plan to expand into the second phase of our coal-related chemical operations in the next five years, which includes (i) Yitai Yili's 1.0 Mtpa coal-to-oil

## SUMMARY

project; (ii) Yitai Xinjiang's 1.8 Mtpa coal-related chemical project; and (iii) Yitai Chemical's 1.2 Mtpa coal-related chemical project. Although all of the three projects are at preliminary stages and have not obtained the approvals from the NDRC, we have obtained confirmation from the local arms of the NDRC approving us to begin preliminary works. For details, please see "Business — Coal Related Chemical Operations — Future Plans."

We believe that we enjoy the first-mover advantage in the coal-related chemical industry in China. Our coal-related chemical operations enable us to improve our vertically integrated operations by providing high-value added downstream coal products to the market. Furthermore, by leveraging the favorable governmental policies of Inner Mongolia and Xinjiang towards the resource allocation for the coal-related chemical industry, the advantage of the development of western China and the policy support under the *Twelfth Five-year Plan on the Development of Coal Industry* in respect of orderly development of advanced and demonstrative projects of modern coal-related chemical operations, we expect to obtain new coal resources, achieve economies of scale by expanding our coal-related chemical business, and further reduce our operating costs.

### Our Other Operations

Our other operations mainly include the development, production and sale of traditional Chinese medicine through our wholly-owned subsidiary, Yitai Pharmaceutical. We incorporated Yitai Pharmaceutical in 1998 to engage in Chinese medicine operations. Yitai Pharmaceutical has obtained the medicine production license and the medicine Good Manufacture Practice certificate in the PRC. Our Directors expect that, in the foreseeable future, revenue generated from our other operations will continue to be insignificant as compared to our total revenue.

### Our Future Plans

Going forward, we intend to consolidate internal and external resources, increase our production scale and construct ancillary systems, expand and upgrade our integrated transportation network and the related infrastructure, and enhance research on, and implementation of, coal conversion projects. Our projected capital expenditures for 2012 for certain initiatives above have been included in our estimated capital expenditure for 2012, which amounted to approximately RMB3,244.9 million as of December 31, 2011 without taking into account the Proposed Acquisition. The following table sets forth the estimated capital expenditures for our business segments for 2012:

|            | <u>Coal<br/>operations</u> | <u>Transportation<br/>operations</u> | <u>Coal-related<br/>chemical operations</u> | <u>Total</u> |
|------------|----------------------------|--------------------------------------|---------------------------------------------|--------------|
|            | (RMB million)              |                                      |                                             |              |
| 2012 ..... | 1,067.8                    | 1,636.5                              | 540.6                                       | 3,244.9      |

The remaining initiatives are still in the preliminary planning stage with no capital committed or capital expenditure projections available as of the Latest Practicable Date. We plan to fund the above initiatives with our own capital and bank loans. As of December 31, 2011, we had capital commitments of RMB1,665.6 million.

### The Proposed Acquisition and the Target Business Group

To expand the scale of our coal business in terms of reserves and output and reduce potential competition between Yitai Group and us, we entered into an Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we will acquire from Yitai Group the Target Business Group after the completion of the Global Offering at a consideration of RMB8,446.5 million, which is arrived at after arm's length negotiation and which is equal to the aggregate fair value of the Target Business Group as of December 31, 2009 as stated in a valuation report prepared by CEA. The total payment made by our Company in connection with the Proposed Acquisition may be subject to adjustment. For more details, see "Relationship with Controlling Shareholders — Proposed Acquisitions." We expect to use the net proceeds from the Global Offering to fund the amount of consideration payable to Yitai Group for the Proposed Acquisition.

The Target Business Group includes substantially all of the assets and businesses of Yitai Group that are related to coal production, sales and transportation. As of the Latest Practicable Date, the only condition precedent to the effectiveness of the Assets Transfer Agreement that had not been satisfied was the listing of

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our H Shares on the Hong Kong Stock Exchange. In addition, the completion of the Proposed Acquisition requires the approval by the IDLR of the transfer of relevant mining rights. Our legal advisors, Jingtian & Gongcheng Attorneys at Law, advised that there is no material legal impediment to our obtaining such approval from the IDLR, provided that we submit application documents that are deemed necessary by the IDLR. Under the Assets Transfer Agreement, the Closing Date will be the last day of the calendar month immediately following the date when the necessary approval, i.e. the approval of the IDLR, is obtained. Within five months after the Closing Date or other time frame required by the applicable laws, Yitai Group shall assist us in completing the registration or recording procedures for the transfer of legal ownership of the assets and equity interests in the Target Business Group in accordance with the PRC laws and regulations (e.g. transfer of mining rights, land use right and ownership of buildings) before the Proposed Acquisition can be completed and our Company can obtain the legal ownership of the Target Business Group. Therefore, assuming that the approval from the IDLR will be received within two months from the Listing Date, our Directors believe that the Proposed Acquisition could be completed within eight months from the Listing Date. However, there is no assurance that the approval by the IDLR will be obtained in a timely manner, and the IDLR has discretion on whether or not to grant such an approval. See “Risk Factors — Risks Relating to Our Business — There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be completed at all.”

The Target Business Group includes the assets of, or equity interests in, the Target Mines, as well as certain other assets and businesses that are related to coal trading, storage and transportation. It is primarily engaged in the production and sale of coal and coal trading, which are substantially similar to our coal operations. The Target Business Group generates revenue primarily from sales of coal produced at the Target Mines and resale of coal purchased from third-party coal companies. Its customers are mainly large-scale industrial customers, particularly power producers. The Target Business Group does not have, and is not planning to build, its own highway, railway or automobile transportation capacity, except for local roads connecting the Target Mines to the nearby highways and loading stations.

The following table sets forth certain detailed information for each of the Target Mines:

|                                                                                     | <u>Dadijing</u> | <u>Baoshan</u>      | <u>Dingjiaqu</u> | <u>Chengyi</u>               | <u>Baijialiang</u>          |
|-------------------------------------------------------------------------------------|-----------------|---------------------|------------------|------------------------------|-----------------------------|
| <b>Background data</b>                                                              |                 |                     |                  |                              |                             |
| Location .....                                                                      |                 | Dongsheng Coalfield |                  |                              |                             |
| Date of initial operation .....                                                     | Apr 1, 2008     | Jun 1, 2007         | Dec 1, 2008      | Feb 1, 2009                  | Jan 1, 2008                 |
| Mining area (square kilometers) .....                                               | 11.6            | 25.0                | 17.4             | 5.1                          | 6.5                         |
| <b>In-place resource data</b> (as of December 31, 2011) <sup>(1) (2)</sup>          |                 |                     |                  |                              |                             |
| Measured coal resources (million tonnes) .....                                      | 7.5             | 7.4                 | 11.1             | 5.7                          | 0.1                         |
| Indicated coal resources (million tonnes) .....                                     | 63.0            | 17.9                | 13.0             | 2.4                          | 0.6                         |
| Inferred coal resources (million tonnes) .....                                      | —               | —                   | 0.3              | 0.4                          | —                           |
| <b>Reserve data</b> (as of December 31, 2011) <sup>(1) (2)</sup>                    |                 |                     |                  |                              |                             |
| Total proved and probable recoverable reserves (million tonnes) .....               | 54.2            | 16.0                | 17.6             | 5.1                          | 0.5                         |
| Total proved and probable marketable reserves <sup>(3)</sup> (million tonnes) ..... | 51.8            | 14.6                | 16.3             | 4.8                          | 0.5                         |
| Number of mineable seams .....                                                      | 4               | 1                   | 2                | 2                            | 1                           |
| Average seam thickness (meters) .....                                               | 2.5             | 3.0                 | 1.9              | 1.5                          | 3.2                         |
| Mine life <sup>(4)</sup> .....                                                      | 21              | 7                   | 7                | 4                            | —                           |
| <b>Coal production</b> (million tonnes)                                             |                 |                     |                  |                              |                             |
| 2009 .....                                                                          | 3.3             | 1.5                 | 2.2              | 0.9                          | 1.8                         |
| 2010 .....                                                                          | 3.8             | 1.8                 | 2.8              | 1.1                          | 2.0                         |
| 2011 .....                                                                          | 4.5             | 2.2                 | 3.1              | 0.9                          | 2.1                         |
| <b>Average mine operating costs</b> (RMB per tonne) <sup>(5)</sup>                  |                 |                     |                  |                              |                             |
| 2009 .....                                                                          | 103             | 69                  | 67               | 94                           | 67                          |
| 2010 .....                                                                          | 102             | 82                  | 66               | 100                          | 72                          |
| 2011 .....                                                                          | 107             | 83                  | 67               | 121                          | 73                          |
| <b>Expiry date of the mining right</b> .....                                        | December 2018   | December 2018       | December 2018    | December 2013 <sup>(6)</sup> | October 2013 <sup>(6)</sup> |

(1) All Target Mines have obtained mining rights.

(2) Resources and reserves are reported on a 100% ownership basis for the Target Mines. Yitai Group currently owns, and we will own upon completion of the Proposed Acquisition, 73% of Yitai Baoshan (Beijing Jielongda Investment Company Limited, an Independent Third Party, owns the remaining 27%), which operates Baoshan Mine, and 73% of Yitai Tongda (Ordos Huijiabao Investment Company Limited, an Independent Third Party, owns the remaining 27%), which operates Dingjiaqu Mine.



## SUMMARY

- (3) Proved and probable marketable reserves equal proved and probable recoverable reserves after accounting for losses during coal preparation and processing at the coal preparation plants.
- (4) Mine lives of the Target Mines are estimated from life-of-mine plans, according to the Competent Person's Report.
- (5) Composite costs include a weighted average of drill and blast, and fully mechanized output, in cases where both methods were applied.
- (6) According to applicable PRC laws and regulations, a mining right permit can be renewed by filing an extension application at least 30 days prior to the expiry date. We confirm that we will renew the mining right permits for Chengyi Mine and Baijialiang Mine in line with the applicable laws and regulations.

Assuming that the Proposed Acquisition had been completed on January 1, 2011:

- our total marketable reserves as of December 31, 2011 would have increased from 1,147.1 million tonnes to 1,235.0 million tonnes, and our combined 2011 annual production volume would have increased from 35.1 million tonnes to 47.8 million tonnes;
- our total revenue for 2011 would have increased from RMB16,515.8 million to RMB27,002.9 million on a pro forma basis, representing an increase of 63.5%, and 38.8% of such total revenue would have been attributable to the Target Business Group;
- our profit for 2011 would have increased from RMB5,749.3 million to RMB8,229.1 million on a pro forma basis, representing an increase of 43.1%, and 30.1% of such total profit would have been attributable to the Target Business Group. Our profit margin, however, would have decreased from 34.8% to 30.5% for 2011 due to the Target Business Group's lower profit margin during the period. The Target Business Group's profit margin was lower than our profit margin in 2011 primarily because, as the Target Business Group engages in coal trading to maximize its profit, a large portion of the coal sold by the Target Business Group was originally purchased from external suppliers, which has a significantly higher unit cost than that of coal produced at our mines and the Target Mines; and
- Our net assets as of December 31, 2011 would have increased from RMB18,783.4 million to RMB19,035.7 million as a result of the inclusion of (a) the net assets of the Target Business Group after eliminating balances between our Company and the Target Business Group, and (b) the estimated net proceeds from the Global Offering of approximately HK\$7,307.4 million (equivalent to approximately RMB5,933.6 million) after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming (i) that the Over-allotment Option is not exercised, and (ii) an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. The estimated net proceeds from the Global Offering are translated from HK dollars into Renminbi at the PBOC Rate prevailing on the Latest Practicable Date of RMB0.8120 to HK\$1.00. However, without considering the net proceeds from the Global Offering and the other pro forma adjustments, our pro forma net assets as of December 31, 2011 would have decreased by RMB5,865.4 million, which is the difference between the consideration of RMB8,446.5 million and the net assets of RMB2,581.1 million of the Target Business Group as of December 31, 2011.

## RISK FACTORS

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterised as: (i) risks relating to China's coal industry; (ii) risks relating to our businesses; (iii) risks relating to the People's Republic of China; and (iv) risks relating to the Global Offering.

We believe that the following are some of the major risks that may have a material adverse effect on us: (i) our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in coal prices; (ii) we may experience shortage of transportation capacity for our coal products or a significant increase in transportation costs; (iii) failure to comply with the relevant laws and regulations governing our mining operations, such as production volume and coal pricing requirements, may result in the suspension of our operations or the imposition of fines, either of which could have a material adverse effect on our business, results of operations and financial condition. The risks mentioned above are not the only significant risks that may affect our operations. As different investors may have different interpretations and standards for determining materiality of a risk, you are cautioned that you should carefully read "Risk Factors" starting on page 31 of this Prospectus.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Yitai Group and Yitai Investment are our Controlling Shareholders. As of the Latest Practicable Date, Yitai Group owned, directly and indirectly, approximately 54.64% and 6.69% of our total issued share capital, respectively, or beneficially owned an aggregate of approximately 61.33% of our total issued share capital. Immediately after the Global Offering, Yitai Group will own directly and indirectly, approximately 49.18% and 6.02% of the total issued share capital, respectively, or will beneficially own approximately 55.20% of our total issued share capital (or approximately 54.38% if the Over-allotment Option is exercised in full) and will continue to be one of our Controlling Shareholders.

Yitai Investment is an investment holding company and its core business is the holding of equity interests in Yitai Group. Apart from the equity interests in Yitai Group, Yitai Investment does not hold, engage or conduct activities in any other business which is, or is likely to, compete, directly or indirectly with our core businesses. Yitai Group's core businesses include coal production and sales, technology development in relation to coal-based chemical products, and real estate development. Please refer to "Relationship with Controlling Shareholders — Background of Yitai Group and Yitai Investment" for background of our Controlling Shareholders.

To expand the scale of our coal business in terms of reserves and output and reduce the potential competition between Yitai Group and us, we entered into the Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we agreed to acquire, and Yitai Group agreed to transfer the Target Business Group, which includes substantially all of Yitai Group's coal production, sales and transportation businesses. Please refer to "Relationship with Controlling Shareholders — Competition — Proposed Acquisition" for details.

Yitai Group will, after the Global Offering and the Proposed Acquisition, continue to own and have the right to operate the Retained Mines. Our Directors believe that, although the Retained Businesses include coal production business, the Retained Mines as of the Latest Practicable Date either are under preliminary preparation work before construction, or currently have ceased their operations due to resource exhaustion, or have legal compliance defects. Therefore, it may not be in our best interest and those of our Shareholders as a whole to include the Retained Mines in our Group. In addition, we have entered into the Non-competition Agreement with the Controlling Shareholders to minimize competition between the Controlling Shareholders and us. Please refer to "Relationship with Controlling Shareholders — Competition — Non-competition Agreement" for details.

Following the completion of the Global Offering, we will continue to have certain transactions with the Controlling Shareholders and their associates that constitute connected transactions within the meaning of the Listing Rules. Please refer to "Connected Transactions" for details.

From June 11, 2012 to the Latest Practicable Date, Yitai Group, through Yitai HK, further purchased 18,113,064 B Shares on the SHSE, representing approximately 1.24% of our total issued share capital. Therefore, as of the Latest Practicable Date, Yitai Group owned, directly and indirectly, approximately 61.33% of our total issued share capital. The purchase of B Shares was announced by the Company on the SHSE on June 12, 2012 and June 20, 2012.

In connection with the above purchases, Yitai Group is entitled to continue to purchase through Yitai HK, in the six months commencing from June 11, 2012, no more than 5% of our total issued share capital (prior to the purchases made on June 11, 2012) on the SHSE at a price of no more than US\$7.00 per B Share, representing an aggregate value of no more than approximately US\$512.4 million.

It is expected that Yitai Group may continue to purchase our B Shares, which are listed and traded on the SHSE, from the Latest Practicable Date to the Listing Date. However, to the best knowledge of our Directors, the expected purchases by Yitai Group during such period will not exceed 3% of our total issued share capital as of the date of this Prospectus.

## FINANCIAL INFORMATION

Our total revenue for 2009, 2010 and 2011 was RMB10,252.2 million, RMB13,853.8 million and RMB16,515.8 million, respectively, representing a CAGR of 26.9% from 2009 to 2011, primarily due to increases in both the sales volume and the average selling price per tonne of our coal products during the same periods. In 2009, 2010 and 2011, we sold 27.7 million tonnes, 35.7 million tonnes and 38.3 million tonnes of coal, respectively, and the average selling price per tonne of our coal products was RMB349.3, RMB374.2 and

## SUMMARY

RMB396.8, respectively. The increase in average selling price of our coal products during the Track Record Period was due to increasing market demand supported by improving general economic conditions. In addition, our profit for 2009, 2010 and 2011 was RMB3,148.4 million, RMB5,316.0 million and RMB5,749.3 million, respectively, representing a CAGR of 35.1% from 2009 to 2011. Moreover, our gross profit margin increased from 48.9% in 2009 to 56.7% in 2010. However, due to an increase in the proportion of sales of coal purchased from third parties to total sales of coal, which had a lower gross profit margin compared with our self-produced coal, our gross profit margin slightly decreased to 51.0% in 2011. For the same reason, our gross profit margin decreased from 58.2% for the three months ended March 31, 2011 to 43.5% for the three months ended March 31, 2012.

In addition, our total revenue for the first three months was RMB5,371.7 million, among which RMB4,786.3 million was generated from coal operations. We sold 11.7 million tonnes of coal for the same period. And the average selling price of our coal products for the first three months ended March 31, 2012 was RMB409.1. Since March 31, 2012, we have not experienced any significant fluctuation in the selling prices or sales volume of our coal products when compared with the monthly average selling prices and the monthly average sales volume of the first three months of 2012. Our Directors have confirmed that there has been no material adverse change in our financial or trading position since December 31, 2011 (being the date to which our Company's latest consolidated financial results were prepared, as set forth in the Accountants' Report included as Appendix IA to this Prospectus) up to the date of this Prospectus.

The following tables present the selected historical consolidated financial information of our Group and the selected historical combined financial information of the Target Business Group for the periods indicated. The selected summary consolidated and combined statements of comprehensive income information, operating segment information and cash flows information for 2009, 2010 and 2011, and the selected summary consolidated and combined statements of financial position information as of December 31, 2009, 2010 and 2011 are derived from, and should be read in conjunction with, the consolidated and combined financial information set forth in the Accountants' Reports included as Appendix IA and Appendix IB to this Prospectus, respectively. The selected summary consolidated statements of comprehensive income information and cash flow information for the three months ended March 31, 2011 and 2012, and the selected summary consolidated statement of financial position information as of March 31, 2012 of our Group are derived from, and should be read in conjunction with the Unaudited Interim Financial Information included in Appendix III to this Prospectus. The selected historical consolidated financial information has been prepared in accordance with IFRS.

### Our Group

#### *Extracts of consolidated statements of comprehensive income*

|                                                                                             | Year ended December 31, |           |           | Three months ended March 31, |           |
|---------------------------------------------------------------------------------------------|-------------------------|-----------|-----------|------------------------------|-----------|
|                                                                                             | 2009                    | 2010      | 2011      | 2011                         | 2012      |
|                                                                                             |                         |           |           | (unaudited)                  |           |
|                                                                                             | RMB million             |           |           |                              |           |
| REVENUE .....                                                                               | 10,252.2                | 13,853.8  | 16,515.8  | 3,210.2                      | 5,371.7   |
| Cost of sales .....                                                                         | (5,235.0)               | (5,998.7) | (8,100.9) | (1,342.2)                    | (3,034.7) |
| Gross profit .....                                                                          | 5,017.2                 | 7,855.1   | 8,414.9   | 1,868.0                      | 2,337.0   |
| PROFIT BEFORE TAX .....                                                                     | 3,713.7                 | 6,275.1   | 6,760.0   | 1,594.2                      | 1,975.5   |
| Income tax expense .....                                                                    | (565.3)                 | (959.1)   | (1,010.7) | (236.0)                      | (303.0)   |
| PROFIT FOR THE YEAR/PERIOD .....                                                            | 3,148.4                 | 5,316.0   | 5,749.3   | 1,358.2                      | 1,672.5   |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR/<br>PERIOD .....                                    | 3,148.4                 | 5,316.0   | 5,749.3   | 1,358.2                      | 1,672.5   |
| PROFIT AND TOTAL COMPREHENSIVE INCOME<br>ATTRIBUTABLE TO:                                   |                         |           |           |                              |           |
| Owners of our Company .....                                                                 | 3,042.9                 | 5,014.6   | 5,464.0   | 1,311.0                      | 1,525.6   |
| Non-controlling interests .....                                                             | 105.5                   | 301.4     | 285.3     | 47.2                         | 146.9     |
|                                                                                             | 3,148.4                 | 5,316.0   | 5,749.3   | 1,358.2                      | 1,672.5   |
| BASIC EARNINGS PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF OUR<br>COMPANY (RMB) |                         |           |           |                              |           |
| — For profit for the year/period .....                                                      | 2.08                    | 3.43      | 3.73      | 0.90                         | 1.04      |

## SUMMARY

### *Extracts of consolidated statements of financial position*

|                                              | As of December 31, |                 |                 | As of<br>March 31, |
|----------------------------------------------|--------------------|-----------------|-----------------|--------------------|
|                                              | 2009               | 2010            | 2011            | 2012               |
|                                              | RMB million        |                 |                 | (unaudited)        |
| Total non-current assets                     | 17,686.5           | 20,644.3        | 24,248.7        | 24,473.7           |
| Total current assets                         | 4,935.3            | 5,229.7         | 5,819.9         | 7,006.7            |
| Total current liabilities                    | 4,406.3            | 3,465.1         | 4,797.4         | 5,099.7            |
| Total non-current liabilities                | 7,463.9            | 7,112.4         | 6,487.8         | 5,887.3            |
| <b>NET ASSETS</b>                            | <b>10,751.6</b>    | <b>15,296.5</b> | <b>18,783.4</b> | <b>20,493.4</b>    |
| Equity attributable to owners of our Company | 9,506.6            | 13,745.5        | 17,015.6        | 18,541.2           |
| Non-controlling interests                    | 1,245.0            | 1,551.0         | 1,767.8         | 1,952.2            |
| <b>TOTAL EQUITY</b>                          | <b>10,751.6</b>    | <b>15,296.5</b> | <b>18,783.4</b> | <b>20,493.4</b>    |

### *Selected consolidated cash flows information*

|                                                    | Year ended December 31, |           |           | Three months ended<br>March 31, |           |
|----------------------------------------------------|-------------------------|-----------|-----------|---------------------------------|-----------|
|                                                    | 2009                    | 2010      | 2011      | 2011                            | 2012      |
|                                                    | RMB million             |           |           | (unaudited)                     |           |
| Net cash flows from operating activities           | 3,724.6                 | 6,361.3   | 6,712.1   | 853.2                           | 2,055.0   |
| Net cash flows used in investing activities        | (3,741.1)               | (3,800.1) | (4,752.9) | (592.4)                         | (1,039.5) |
| Net cash flows from/(used in) financing activities | (618.7)                 | (2,124.9) | (2,152.5) | 276.5                           | (736.3)   |

### **The Target Business Group**

### *Extracts of combined statements of comprehensive income*

|                                                       | Year ended December 31, |                |                |
|-------------------------------------------------------|-------------------------|----------------|----------------|
|                                                       | 2009                    | 2010           | 2011           |
|                                                       | RMB million             |                |                |
| <b>REVENUE</b>                                        | 5,274.6                 | 9,268.3        | 10,848.9       |
| Cost of goods sold                                    | (3,614.7)               | (6,358.9)      | (7,515.2)      |
| <b>Gross profit</b>                                   | 1,659.9                 | 2,909.4        | 3,333.7        |
| <b>PROFIT BEFORE TAX</b>                              | 1,314.0                 | 2,524.9        | 2,913.2        |
| Income tax expense                                    | (293.5)                 | (559.5)        | (617.6)        |
| <b>PROFIT FOR THE YEAR</b>                            | <b>1,020.5</b>          | <b>1,965.4</b> | <b>2,295.6</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD</b> | <b>1,020.5</b>          | <b>1,965.4</b> | <b>2,295.6</b> |
| <b>ATTRIBUTABLE TO:</b>                               |                         |                |                |
| Owner of the Target Business Group                    | 928.3                   | 1,792.8        | 2,035.0        |
| Non-controlling interests                             | 92.2                    | 172.6          | 260.6          |
|                                                       | <b>1,020.5</b>          | <b>1,965.4</b> | <b>2,295.6</b> |

## SUMMARY

### *Extracts of combined statements of financial position*

|                                                           | As of December 31, |                |                |
|-----------------------------------------------------------|--------------------|----------------|----------------|
|                                                           | 2009               | 2010           | 2011           |
|                                                           | RMB million        |                |                |
| Total non-current assets                                  | 1,496.2            | 1,391.4        | 1,360.7        |
| Total current assets                                      | 1,238.0            | 1,996.0        | 2,049.0        |
| Total current liabilities                                 | 941.5              | 1,117.8        | 822.2          |
| Total non-current liabilities                             | 5.7                | 6.0            | 6.4            |
| <b>NET ASSETS</b>                                         | <b>1,787.0</b>     | <b>2,263.6</b> | <b>2,581.1</b> |
| Equity attributable to owner of the Target Business Group | 1,638.5            | 1,942.3        | 2,377.2        |
| Non-controlling interests                                 | 148.5              | 321.3          | 203.9          |
| <b>TOTAL EQUITY</b>                                       | <b>1,787.0</b>     | <b>2,263.6</b> | <b>2,581.1</b> |

### *Selected combined cash flows information*

|                                                    | Year ended December 31, |           |           |
|----------------------------------------------------|-------------------------|-----------|-----------|
|                                                    | 2009                    | 2010      | 2011      |
|                                                    | RMB million             |           |           |
| Net cash flows from operating activities           | 1,980.3                 | 1,852.4   | 1,932.4   |
| Net cash flows used in investing activities        | (413.8)                 | (1.5)     | (159.6)   |
| Net cash flows from/(used in) financing activities | (1,280.0)               | (1,489.0) | (1,978.1) |

### **Pro Forma Financial Information**

The unaudited pro forma financial information of the enlarged group resulting from the Proposed Acquisition for the year ended December 31, 2011 set out below had been prepared to illustrate the effect of the issue of the Company's 162,667,000 H Shares on the Main Board of the Hong Kong Stock Exchange, and the completion of the Proposed Acquisition on the combined financial information of the Group. The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the results of the enlarged group.

*Unaudited pro forma combined income statements for 2011 as if completion of the Proposed Acquisition had taken place on January 1, 2011*

|                            | Year ended December 31, 2011 |                                          |                        |                         |
|----------------------------|------------------------------|------------------------------------------|------------------------|-------------------------|
|                            | Group <sup>(1)</sup>         | The Target Business Group <sup>(2)</sup> | Pro forma adjustment   | Pro forma enlarged      |
|                            | RMB million (A)              | RMB million (B)                          | RMB million (C)        | RMB million (A)+(B)+(C) |
| Revenue                    | 16,515.8                     | 10,848.9                                 | (361.8) <sup>(3)</sup> | 27,002.9                |
| Gross profit               | 8,414.9                      | 3,333.7                                  | 519.3                  | 12,267.9                |
| Profit before tax          | 6,760.0                      | 2,913.2                                  | 184.2                  | 9,857.4                 |
| Income tax expense         | (1,010.7)                    | (617.6)                                  | —                      | (1,628.3)               |
| <b>Profit for the year</b> | <b>5,749.3</b>               | <b>2,295.6</b>                           | <b>184.2</b>           | <b>8,229.1</b>          |

(1) The balances are extracted from the audited consolidated financial information of our Group for the period presented as set out in Appendix IA to this Prospectus.

(2) The balances are extracted from the audited financial information of the Target Business Group for the period presented as set out in Appendix IB to this Prospectus.

(3) The adjustment represents the elimination of transactions or balances between our Group and the Target Business Group.



## SUMMARY

*Unaudited pro forma combined statement of financial position as of December 31, 2011 as if completion of the Proposed Acquisition had taken place on January 1, 2011*

|                         | As of December 31, 2011 |                                          |                                |                         |
|-------------------------|-------------------------|------------------------------------------|--------------------------------|-------------------------|
|                         | Group <sup>(1)</sup>    | The Target Business Group <sup>(2)</sup> | Pro forma adjustment           | Pro forma enlarged      |
|                         | RMB million (A)         | RMB million (B)                          | RMB million (C)                | RMB million (A)+(B)+(C) |
| Non-current assets      | 24,248.7                | 1,360.7                                  | 184.2                          | 25,793.6                |
| Current assets          | 5,819.9                 | 2,049.0                                  | (2,544.7) <sup>(3)(4)(5)</sup> | 5,324.2                 |
| Current liabilities     | 4,797.4                 | 822.2                                    | (31.7) <sup>(3)</sup>          | 5,587.9                 |
| Non-current liabilities | 6,487.8                 | 6.4                                      | —                              | 6,494.2                 |
| <b>Net assets</b>       | <b>18,783.4</b>         | <b>2,581.1</b>                           | <b>(2,328.8)</b>               | <b>19,035.7</b>         |

- (1) The balances are extracted from the audited consolidated financial information of our Group as of the date presented as set out in Appendix IA to this Prospectus.
- (2) The balances are extracted from the audited financial information of the Target Business Group as of the date presented as set out in Appendix IB to this Prospectus.
- (3) The adjustment represents the elimination of transactions or balances between our Group and the Target Business Group.
- (4) The adjustment reflects the effect of the issue and listing of our H Shares on the Hong Kong Stock Exchange, which is one of the conditions precedent to the completion of the Proposed Acquisition, and our receipt of the estimated net proceeds from the Global Offering of approximately HK\$7,307.4 million (equivalent to approximately RMB5,933.6 million), after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. The estimated net proceeds from the Global Offering are translated from HK dollars into Renminbi at the PBOC Rate prevailing on the Latest Practicable Date of RMB0.8120 to HK\$1.00. This adjustment is based on the assumption of the Directors, and because of its hypothetical nature, it does not provide any assurance that the issue and listing of our H Shares will take place or that the amount of net proceeds from the Global Offering will be equal to approximately HK\$7,307.4 million.
- (5) The acquisition of the Target Business Group is considered as a business combination involving entities under common control because our Company and the Target Business Group are ultimately controlled by Yitai Group both before and after the acquisition, and that control is not transitory. As a result, the acquisition is to be accounted for using merger accounting. The adjustment represents the recognition of the acquisition consideration of RMB8,446.5 million in cash and such consideration reduces the owner's equity in the enlarged group.

### Profit Forecast for the Six Months Ending June 30, 2012

The following sets forth certain preliminary unaudited profit forecast data for the six months ending June 30, 2012. See "Appendix IV — Profit Forecast."

Forecast consolidated profit attributable to the owners of our

Company for the six months ending June 30, 2012<sup>(1)</sup> . . . . . not less than RMB3,095.0 million

Unaudited pro forma forecast earnings per share<sup>(2)</sup> . . . . . not less than RMB1.90 (HK\$2.34)

- (1) The basis and assumptions on which the forecast consolidated profit attributable to shareholders for the six months ending June 30, 2012 are presented in Appendix IV to this Prospectus.
- (2) The calculation of the pro forma fully diluted forecast earnings per share is based on the forecast consolidated profit attributable to owners of our Company for the period ending June 30, 2012, assuming that the Global Offering had been completed on December 31, 2011 and a total of 1,626,667,000 shares were in issue during the period ending June 30, 2012. The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8120 to HK\$1.00, the PBOC Rate prevailing on the Latest Practicable Date.

### Interim Report

As the profit forecast appearing in this Prospectus covers a period which ends at a half year-end of our Company on June 30, 2012, our Company's interim report for the six months ending June 30, 2012 will be audited pursuant to Rule 11.18 of the Hong Kong Listing Rules if the H Shares are listed on the main board of the Hong Kong Stock Exchange.

## SUMMARY

### OFFERING STATISTICS

|                                                                                             | Based on an Offer Price of<br>HK\$43.00 per H Share | Based on an Offer Price of<br>HK\$53.00 per H Share |
|---------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Market capitalization of our Shares <sup>(1)</sup> . . . . .                                | HK\$69,946.7 million                                | HK\$86,213.4 million                                |
| Unaudited pro forma adjusted net tangible asset value<br>per Share <sup>(2)</sup> . . . . . | HK\$16.86<br>(RMB13.69)                             | HK\$17.86<br>(RMB14.50)                             |

(1) The calculation of the market capitalization is based on the respective Offer Prices of HK\$43.00 and HK\$53.00 per Share and 1,626,667,000 Shares expected to be in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised.

(2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed "Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets" and on the basis of 1,626,667,000 Shares expected to be issued and outstanding immediately after the Global Offering.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$7,307.4 million assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus.

We intend to apply the net proceeds from the Global Offering to the consideration of RMB8,446.5 million (approximately HK\$10,402.1 million) to be paid to Yitai Group for the Proposed Acquisition. The total payment made by our Company in connection with the Proposed Acquisition may be subject to adjustment. For more details, see "Relationship with Controlling Shareholders — Competition — Proposed Acquisition." As the net proceeds from the Global Offering are less than the consideration of RMB8,446.5 million as set out in the Assets Transfer Agreement, we intend to pay the shortfall with our internal funds and/or seek other appropriate forms of financing which may include additional bank borrowings.

To the extent that the net proceeds are not immediately applied for the above purposes and to the extent permitted by PRC laws and regulations, we intend to deposit the net proceeds into short-term deposits with licensed banks or financial institutions in Hong Kong and/or the PRC.

In the highly unlikely event that the Proposed Acquisition will not be completed, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 27.3% of the net proceeds, or approximately HK\$1,994.9 million, will be used for expanding our railway transportation capacity;
- approximately 8.4% of the net proceeds, or approximately HK\$613.8 million, will be used for carrying out further technology upgrades at our mines;
- approximately 23.8% of the net proceeds, or approximately HK\$1,739.2 million, will be used for funding the construction of Talahao Mine and Bulamao Mine;
- approximately 10.5% of the net proceeds, or approximately HK\$767.3 million, will be used for expanding our coal production. Since we are still in the process of screening potential target mines besides the Target Business Group for expanding our coal production, we do not have any committed plan or expenditure as of the Latest Practicable Date;
- approximately 20.0% of the net proceeds, or approximately HK\$1,461.5 million, will be used for repaying our bank loans, the summary of such loans is set out below:

| Outstanding amount as of March 31, 2012 (RMB million) | Interest rate<br>(%) | Maturity date |
|-------------------------------------------------------|----------------------|---------------|
| 860 . . . . .                                         | 7.05                 | July 2021     |
| 610 . . . . .                                         | 7.05                 | July 2018     |
| 200 . . . . .                                         | 6.21                 | November 2020 |

- approximately 10.0% of the net proceeds, or approximately HK\$730.7 million, will be used for working capital and general corporate purposes.

## SUMMARY

### DIVIDENDS

We distributed dividends in the aggregate amounts of RMB732.0 million and RMB2,196.0 million and declared dividends in the aggregate amount of RMB2,196.0 million for 2009, 2010 and 2011, respectively, representing RMB1.00, RMB1.50 and RMB1.50 per Share, respectively. The accumulated retained profits after the implementation of the 2011 profit distribution plan will be shared by the new and existing shareholders of our Company. In addition to cash dividends, we distributed bonus shares as dividends to our Shareholders for 2009, which consisted of 10 Shares for every 10 Shares of our Company held by such Shareholder. Payment of such dividends was funded entirely out of cash generated from our operations.

The following table sets out the dividend payout ratio (calculated based on dividend per share divided by earnings per share) for 2009, 2010 and 2011:

|                                 | Year ended<br>December 31, |      |      |
|---------------------------------|----------------------------|------|------|
|                                 | 2009                       | 2010 | 2011 |
|                                 |                            | (%)  |      |
| Dividend payout ratio . . . . . | 24.1*                      | 43.8 | 40.2 |

\* The earnings per share for the Track Record Period are calculated based on the number of shares after the bonus shares were distributed in 2009.

We cannot guarantee dividends will be paid in the future. After the completion of the Global Offering, we will declare dividends, if any, dominated in RMB with respect to H Shares on a per Share basis and will pay such dividends in HK Dollars. Any final dividends for a financial year will be subject to the discretion of our Directors and our Shareholders' approval, as well as the applicable PRC laws and regulations. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of H Shares will share proportionately on a per Share basis in all dividends and other distributions we declare. We currently expect to distribute no less than 30% of our net distributable profit for the following two financial years ending December 31, 2012 and 2013.

## DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this Prospectus.

|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Application Form(s)”                   | <b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>Green</b> Application Form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering                                                                                                                                                                                                                                 |
| “Articles of Association” or “Articles” | the articles of association of our Company adopted on May 29, 2012, which shall become effective on the Listing Date, and as amended from time to time, a summary of which is contained in Appendix IX to this Prospectus                                                                                                                                                                                                          |
| “Assets Transfer Agreement”             | an assets transfer agreement between our Company and Yitai Group dated May 29, 2012 for the acquisition of the Target Business Group by our Company, details of which are set out in “Relationship with Controlling Shareholders — Competition — Proposed Acquisition”                                                                                                                                                             |
| “associate(s)”                          | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                           |
| “B Shares”                              | B shares of our Company, with a nominal value of RMB1.00 each, which are listed on the SHSE in the PRC and traded in U.S. dollars                                                                                                                                                                                                                                                                                                  |
| “BNP Paribas”                           | BNP Paribas Capital (Asia Pacific) Limited                                                                                                                                                                                                                                                                                                                                                                                         |
| “Board” or “Board of Directors”         | our board of Directors                                                                                                                                                                                                                                                                                                                                                                                                             |
| “BOCI”                                  | BOCI Asia Limited                                                                                                                                                                                                                                                                                                                                                                                                                  |
| “BOYD”                                  | John T. Boyd Company, independent mining and geological consultants, which qualifies as a competent person and a competent evaluator as defined under Rule 18.01 of the Listing Rules                                                                                                                                                                                                                                              |
| “BP Statistical Review 2012”            | BP Statistical Review of World Energy, June 2012. BP Statistical Review of World Energy is a publication issued by BP annually which summarizes global data on world energy markets, covering oil, natural gas, coal, nuclear energy, hydroelectricity and renewable energy. BP is one of the world’s largest oil and gas companies. It has a history of over 100 years and serves in more than 90 countries across six continents |
| “Business Day” or “business day”        | any day (other than a Saturday or a Sunday or a public holiday) on which banks in Hong Kong are generally open for normal banking business to the public                                                                                                                                                                                                                                                                           |
| “CAGR”                                  | compound annual growth rate                                                                                                                                                                                                                                                                                                                                                                                                        |
| “CBRE HK”                               | CBRE HK Limited, an independent professional valuation institution                                                                                                                                                                                                                                                                                                                                                                 |
| “CCASS”                                 | the Central Clearing and Settlement System established and operated by HKSCC                                                                                                                                                                                                                                                                                                                                                       |
| “CCASS Clearing Participant”            | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant                                                                                                                                                                                                                                                                                                                       |

## DEFINITIONS

|                                        |                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>"CCASS Custodian Participant"</b>   | a person admitted to participate in CCASS as a custodian participant                                                                                                                                                                                                                                                                                                                                                          |
| <b>"CCASS Investor Participant"</b>    | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation                                                                                                                                                                                                                                                                                           |
| <b>"CCASS Participant"</b>             | a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant                                                                                                                                                                                                                                                                                                                                     |
| <b>"CEA"</b>                           | 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.)                                                                                                                                                                                                                                                                                                                                                               |
| <b>"CEIC"</b>                          | CEIC Data Company Ltd., an organization that was founded in 1992 and specializes in economic databases of emerging and developed markets by economists around the world                                                                                                                                                                                                                                                       |
| <b>"China Coal Research Institute"</b> | the largest comprehensive research and development institution in the PRC coal industry, which was established in 1957 by the former Ministry of Coal Industry of the PRC                                                                                                                                                                                                                                                     |
| <b>"China Coal Resources website"</b>  | a website established in 1998 by a group of experts from sectors such as coal, coke, coal-chemical, coal transportation and sales and strategic investments. It provides extensive services covering macro news, real-time price, statistics, market analysis and database system                                                                                                                                             |
| <b>"CICC"</b>                          | China International Capital Corporation Hong Kong Securities Limited                                                                                                                                                                                                                                                                                                                                                          |
| <b>"Closing Date"</b>                  | the last day of the calendar month immediately following the date when the Assets Transfer Agreement comes into effect and the transfer of intangible assets of the Target Mines is approved by relevant authorities                                                                                                                                                                                                          |
| <b>"CMS HK"</b>                        | China Merchants Securities (HK) Co., Limited                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>"CNCA"</b>                          | China National Coal Association, an integrated association of the China coal industry commissioned by State-owned Assets Supervision and Administration Commission of the State Council and the largest coal industry association in China in terms of organization and coverage, which has been publishing information annually on the top 100 China coal enterprises since 2002                                             |
| <b>"Company," "we," "us" or "our"</b>  | 內蒙古伊泰煤炭股份有限公司 (Inner Mongolia Yitai Coal Co., Ltd.), a joint stock limited company incorporated in the PRC on September 23, 1997, and except where the context indicates otherwise, (i) all of its Subsidiaries and (ii) with respect to the period before our Company became the holding company of its present subsidiaries, the businesses operated by its present subsidiaries or (as the case may be) their predecessors |
| <b>"Competent Person's Report"</b>     | a competent person's report published by BOYD dated March 7, 2012, details of which are set out in "Appendix V — Competent Person's Report"                                                                                                                                                                                                                                                                                   |
| <b>"connected person"</b>              | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                      |
| <b>"Controlling Shareholders"</b>      | Yitai Investment and Yitai Group                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>"CS"</b>                            | Credit Suisse (Hong Kong) Limited                                                                                                                                                                                                                                                                                                                                                                                             |

## DEFINITIONS

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| “CSRC”                                                   | 中國證券監督管理委員會 (China Securities Regulatory Commission)                                                                                                                                                                                                                                                                                   |
| “Director(s)”                                            | director(s) of our Company                                                                                                                                                                                                                                                                                                             |
| “Domestic Shares”                                        | ordinary shares (other than B shares) in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities                                                                                                                                         |
| “GDP”                                                    | gross domestic product                                                                                                                                                                                                                                                                                                                 |
| “Global Offering”                                        | the Hong Kong Public Offering and the International Offering                                                                                                                                                                                                                                                                           |
| “globalCOAL”                                             | a provider of comprehensive online trading platforms for physical and financial coal                                                                                                                                                                                                                                                   |
| “Green Application Form(s)”                              | the application form(s) to be completed by <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited                                                                                                                                                                                                  |
| “Group”                                                  | our Company and its subsidiaries                                                                                                                                                                                                                                                                                                       |
| “H Shares”                                               | overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange                                                                                                                                     |
| “H Share Registrar”                                      | Computershare Hong Kong Investor Services Limited                                                                                                                                                                                                                                                                                      |
| “HK\$” or “Hong Kong dollars” or “HK dollars” or “cents” | Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong                                                                                                                                                                                                                                          |
| “HKSCC”                                                  | Hong Kong Securities Clearing Company Limited                                                                                                                                                                                                                                                                                          |
| “HKSCC Nominees”                                         | HKSCC Nominees Limited                                                                                                                                                                                                                                                                                                                 |
| “Hong Kong” or “HK”                                      | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                                                                 |
| “Hong Kong Companies Ordinance”                          | the Companies Ordinance (Chapter 32 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                         |
| “Hong Kong Offer Shares”                                 | the H Shares offered for subscription pursuant to the Hong Kong Public Offering                                                                                                                                                                                                                                                        |
| “Hong Kong Public Offering”                              | the offering by our Company of initially 16,267,000 H Shares for subscription by the public in Hong Kong subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus for cash at the Offer Price on the terms and conditions described in this Prospectus and the Application Forms |
| “Hong Kong Stock Exchange”                               | The Stock Exchange of Hong Kong Limited                                                                                                                                                                                                                                                                                                |
| “Hong Kong Underwriters”                                 | the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this Prospectus                                                                                                                                                                                              |
| “Hong Kong Underwriting Agreement”                       | the underwriting agreement dated June 28, 2012 relating to the Hong Kong Public Offering and entered into by, among others, the Hong Kong Underwriters and us as further described in the section headed “Underwriting — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this Prospectus                              |



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| <b>"Huhhot Yitai Coal Sales"</b>              | 呼和浩特市伊泰煤炭銷售有限公司 (Huhhot Yitai Coal Sales Co., Ltd.), a limited liability company established in the PRC on September 3, 2009, which is a wholly-owned subsidiary of our Company                                                                                                                             |
| <b>"ICBCI Capital"</b>                        | ICBC International Capital Limited                                                                                                                                                                                                                                                                          |
| <b>"ICBCI Securities"</b>                     | ICBC International Securities Limited                                                                                                                                                                                                                                                                       |
| <b>"IDLR"</b>                                 | 內蒙古自治區國土資源廳 (Inner Mongolia Department of Land and Resources)                                                                                                                                                                                                                                               |
| <b>"IFRS"</b>                                 | the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)         |
| <b>"IMDRC"</b>                                | 內蒙古自治區發展和改革委員會 (Inner Mongolia Development and Reform Commission)                                                                                                                                                                                                                                           |
| <b>"Independent Third Party(ies)"</b>         | person(s) or company(ies) and their respective ultimate beneficial owner(s), which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, are independent of our Company and its connected persons                                                         |
| <b>"Inner Mongolia"</b>                       | the Inner Mongolia Autonomous Region in the PRC                                                                                                                                                                                                                                                             |
| <b>"Inner Mongolia Coal Industry Bureau"</b>  | the coal industry bureau of the Inner Mongolia Autonomous Region                                                                                                                                                                                                                                            |
| <b>"International Offering"</b>               | the conditional placing of the International Offer Shares by the International Underwriters, as further described in the section headed "Structure of the Global Offering" in this Prospectus                                                                                                               |
| <b>"International Offer Shares"</b>           | the 146,400,000 H Shares initially offered for subscription pursuant to the International Offering, subject to the Over-allotment Option and adjustment as described in the section headed "Structure of the Global Offering" in this Prospectus                                                            |
| <b>"International Underwriters"</b>           | the underwriters led by the Joint Bookrunners of the International Offering, who are expected to enter into the International Underwriting Agreement                                                                                                                                                        |
| <b>"International Underwriting Agreement"</b> | the underwriting agreement expected to be entered into on or around July 6, 2012 by, among others, Joint Bookrunners, International Underwriters and us in respect of the International Offering, as further described in the section headed "Underwriting — The International Offering" in this Prospectus |
| <b>"Jingneng Power"</b>                       | 北京京能熱電股份有限公司 (Beijing Jingneng Thermal Power Co., Ltd.), a joint stock limited company established in the PRC, which owns 24% of the equity interest of Yitai Suancigou                                                                                                                                     |
| <b>"Jingtai Power"</b>                        | 內蒙古京泰發電有限責任公司 (Inner Mongolia Jingtai Electric Power Generation Co., Ltd.), a limited liability company established in the PRC, which is 29% owned by our Company                                                                                                                                           |

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| <b>"Joint Bookrunners"</b>       | CICC, BOCI, ICBCI Capital, Merrill Lynch International, CS, UBS, BNP Paribas, CMS HK and Macquarie                                                                                                                                                                                                                                                                                                                                                    |
| <b>"Joint Lead Managers"</b>     | CICC, BOCI, ICBCI Securities, Merrill Lynch Far East (for the Hong Kong Public Offering) and Merrill Lynch International (for the International Offering), CS, UBS, BNP Paribas, CMS HK and Macquarie                                                                                                                                                                                                                                                 |
| <b>"Joint Sponsors"</b>          | CICC and BOCI                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>"Latest Practicable Date"</b> | June 20, 2012, being the latest practicable date for the inclusion of certain information in this Prospectus prior to its publication                                                                                                                                                                                                                                                                                                                 |
| <b>"Listing"</b>                 | listing of our H Shares on the Hong Kong Stock Exchange                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>"Listing Committee"</b>       | the Listing Committee of the Hong Kong Stock Exchange                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>"Listing Date"</b>            | the date, expected to be on or about July 12, 2012, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange                                                                                                                                                                                                                                                                      |
| <b>"Listing Rules"</b>           | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                                                                                                                       |
| <b>"Local Coal Enterprise"</b>   | enterprise that was incorporated locally and is not a subsidiary of a central state-owned enterprise in China                                                                                                                                                                                                                                                                                                                                         |
| <b>"Macau"</b>                   | the Macau Special Administrative Region of the PRC                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>"Macquarie"</b>               | Macquarie Capital Securities Limited                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>"Main Board"</b>              | the Main Board of the Hong Kong Stock Exchange                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>"Mandatory Provisions"</b>    | 到境外上市公司章程必備條款 (the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and the former State Commission for Restructuring the Economic Systems of the PRC on August 27, 1994, as amended, supplemented or otherwise modified from time to time |
| <b>"MEP"</b>                     | 中華人民共和國環境保護部 (Ministry of Environmental Protection of the PRC, formerly known as State Environmental Protection Administration)                                                                                                                                                                                                                                                                                                                       |
| <b>"Merrill Lynch Far East"</b>  | Merrill Lynch Far East Limited                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>"MLR"</b>                     | 中華人民共和國國土資源部 (Ministry of Land and Resources of the PRC)                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>"MOF"</b>                     | 中華人民共和國財政部 (Ministry of Finance of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>"MOFCOM"</b>                  | 中華人民共和國商務部 (Ministry of Commerce of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>"MOR"</b>                     | 中華人民共和國鐵道部 (Ministry of Railways of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                          |

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| <b>"NBSC"</b>                                           | 中華人民共和國國家統計局 (National Bureau of Statistics of China), a government agency under the State Council which is responsible for collection and publication of statistics related to areas such as economy, population and society at national and local levels in the PRC                                                                                                                                                                                                                                                                                                                                           |
| <b>"NDRC"</b>                                           | 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>"Non-competition Agreement"</b>                      | the non-competition agreement between our Company and the Controlling Shareholders dated May 29, 2012, details of which are set out in the section headed "Relationship with Controlling Shareholders — Competition — Non-competition Agreement" in this prospectus                                                                                                                                                                                                                                                                                                                                             |
| <b>"Offer Price"</b>                                    | the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in the section headed "Structure of the Global Offering — Pricing and Allocation" in this prospectus                                                                                                                                                                                                                             |
| <b>"Offer Share(s)"</b>                                 | the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional H shares to be issued pursuant to the exercise of the Over-allotment Option                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>"Ordos Equipment"</b>                                | 鄂爾多斯市天地華潤煤礦裝備有限責任公司 (Ordos Tiandi Huarun Mine Equipment Co., Ltd.), a limited liability company established in the PRC, which is 31.5% owned by our Company                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>"Ordos Yitai Transport"</b>                          | 鄂爾多斯市伊泰汽車運輸有限公司 (Ordos Yitai Motor Transport Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>"Over-allotment Option"</b>                          | the option granted by us to the International Underwriters, exercisable by the Joint Bookrunners on behalf of the International Underwriters pursuant to which our Company may be required to allot and issue up to additional 24,400,000 new H Shares at the Offer Price (in aggregate representing approximately 15% of the H Shares initially being offered under the Global Offering ) to cover over-allocation in the International Offering, the details of which are described in the section headed "Structure of the Global Offering — The Global Offering — Over-allotment Option" in this Prospectus |
| <b>"PBOC"</b>                                           | 中國人民銀行 (People's Bank of China)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>"PBOC Rate"</b>                                      | the exchange rate for foreign exchange transactions set daily by PBOC                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>"People's Congress"</b>                              | the legislative apparatus of the PRC, including the National People's Congress and all the local people's congresses (including provincial, municipal and other regional or local people's congresses) as the context may require, or any of them                                                                                                                                                                                                                                                                                                                                                               |
| <b>"PRC" or "China" or "People's Republic of China"</b> | The People's Republic of China. Except where the context otherwise requires, references in this Prospectus to the PRC or China do not apply to Hong Kong, Macau or Taiwan                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>"PRC Company Law"</b>                                | 中華人民共和國公司法, the Company Law of the PRC, as enacted by the Standing Committee of the National People's Congress on December 29,                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

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|                                 | 1993, which became effective on July 1, 1994, and as amended by the Standing Committee of the National People's Congress on October 27, 2005, which amendment became effective on January 1, 2006                                                                                                                                                                                                                   |
| "PRC GAAP"                      | generally accepted accounting principles in the PRC                                                                                                                                                                                                                                                                                                                                                                 |
| "PRC government" or "State"     | the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)                                                                                                                                                                                                                                                                |
| "PRC Securities Law"            | 中華人民共和國證券法 (the Securities Law of the PRC) enacted by the Standing Committee of the National People's Congress on December 29, 1998, which became effective on July 1, 1999, as amended by the Standing Committee of the National People's Congress on October 27, 2005, which became effective on January 1, 2006                                                                                                  |
| "Price Determination Agreement" | the agreement to be entered into by the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date to record and fix the Offer Price                                                                                                                                                                                                                                                  |
| "Price Determination Date"      | the date, expected to be on or about July 6, 2012 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Bookrunners (on behalf of the Underwriters) and us may agree, but in any event no later than July 10, 2012                                                                                                                                                               |
| "Proposed Acquisition"          | the proposed acquisition of the Target Business Group as contemplated under the Assets Transfer Agreement, details of which are set out in the section headed "Relationship with Controlling Shareholders — Competition — Proposed Acquisition" in this Prospectus                                                                                                                                                  |
| "Prospectus"                    | this prospectus being issued in connection with the Hong Kong Public Offering                                                                                                                                                                                                                                                                                                                                       |
| "QIBs"                          | qualified institutional buyers within the meaning of Rule 144A                                                                                                                                                                                                                                                                                                                                                      |
| "Regulation S"                  | Regulation S under the Securities Act                                                                                                                                                                                                                                                                                                                                                                               |
| "Retained Businesses"           | the following assets and interests are currently, and will continue to be, owned by Yitai Group after the completion of the Proposed Acquisition: Sujiahao Mine; Taifeng Mine; the equity interests in Yitai West Coal; and the equity interests in Yitai Guanglian, the details of which are disclosed in "Relationship with Controlling Shareholders — Competition — the Retained Businesses" in this Prospectus. |
| "Retained Mines"                | the Sujiahao Mine, the Taifeng Mine, the Anjiapo Mine and the Hongqinghe Mine                                                                                                                                                                                                                                                                                                                                       |
| "RMB" or "Renminbi"             | the lawful currency of the PRC                                                                                                                                                                                                                                                                                                                                                                                      |
| "Rule 144A"                     | Rule 144A under the Securities Act                                                                                                                                                                                                                                                                                                                                                                                  |
| "SACMS"                         | 中華人民共和國國家煤礦安全監察局 (State Administration of Coal Mine Safety of the PRC)                                                                                                                                                                                                                                                                                                                                              |
| "SAFE"                          | 中華人民共和國國家外匯管理局 (State Administration of Foreign Exchange of the PRC)                                                                                                                                                                                                                                                                                                                                                |
| "SAIC"                          | 中華人民共和國國家工商行政管理總局 (State Administration of Industry and Commerce of the PRC)                                                                                                                                                                                                                                                                                                                                        |

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| <b>"SAT"</b>                                       | 中華人民共和國國家稅務總局 (State Administration of Taxation of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>"SAWS"</b>                                      | 中華人民共和國國家安全生產監督管理總局 (State Administration of Work Safety of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>"Securities Act"</b>                            | the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated under it                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>"Securities and Futures Ordinance" or "SFO"</b> | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>"SFC"</b>                                       | the Securities and Futures Commission of Hong Kong                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>"Shanxi Yudean"</b>                             | 山西粵電能源有限公司 (Shanxi Yudean Energy Co., Ltd.), a limited liability company incorporated in the PRC, which owns 24% of the equity interests of Yitai Suancigou                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>"Shareholder(s)"</b>                            | holder(s) of our Shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>"Share(s)"</b>                                  | share(s) in the share capital of our Company, with a nominal value of RMB 1.00 each, comprising our Domestic Shares, our B Shares and our H Shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>"SHSE"</b>                                      | 上海證券交易所 (the Shanghai Stock Exchange)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>"SHSE Listing Rules"</b>                        | the Rules Governing Listing of Stocks on the SHSE as amended from time to time                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>"Special Regulations"</b>                       | 國務院關於股份有限公司境外募集股份及上市的特別規定 (Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies), promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                                                                                                                                                           |
| <b>"State Council"</b>                             | 中華人民共和國國務院 (State Council of the PRC)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>"subsidiaries"</b>                              | has the meaning ascribed thereto in section 2 of the Hong Kong Companies Ordinance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>"Substantial Shareholders"</b>                  | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>"Supervisor(s)"</b>                             | one (or all) of our supervisors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>"Synfuels China"</b>                            | 中科合成油技術有限公司 (Synfuels China Inc.), a limited liability company incorporated in the PRC, in which Yitai Group holds a 40.4% equity interest and is the largest shareholder                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>"Target Business Group"</b>                     | the rights and interests to be acquired by us from Yitai Group under the Proposed Acquisition, which are the 73% equity interest in Yitai Baoshan; the 73% equity interest in Yitai Tongda; all of the assets owned by Yitai Group in relation to Chengyi Mine, Dadijing Mine and Baijialiang Mine; as well as certain other coal-related assets and businesses of the Yitai Group, details of which are set out in the sections headed "Business — The Proposed Acquisition and the Target Business Group" and "Relationship with Controlling Shareholders — Competition — Proposed Acquisition" in this Prospectus |

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| <b>"Target Mines"</b>                                               | Dingjiaqu Mine, Baoshan Mine, Chengyi Mine, Dadijing Mine and Baijialiang Mine                                                                                                                                                         |
| <b>"Track Record Period"</b>                                        | the period comprising the three years ended December 31, 2011                                                                                                                                                                          |
| <b>"Twelfth Five-year Plan on the Development of Coal Industry"</b> | the "Twelfth Five-year Plan on the Development of Coal Industry" published by the NDRC on March 18, 2012                                                                                                                               |
| <b>"Twelve Mines"</b>                                               | Suancigou Mine, Nalinmiao No. 2 Mine, Hongjingta No. 1 Mine, Nalinmiao No. 1 Mine, Yangwangou Mine, Fuhua Mine, Kaida Mine and the Target Mines                                                                                        |
| <b>"UBS"</b>                                                        | UBS AG, Hong Kong Branch                                                                                                                                                                                                               |
| <b>"Underwriters"</b>                                               | the International Underwriters and the Hong Kong Underwriters                                                                                                                                                                          |
| <b>"Underwriting Agreements"</b>                                    | the International Underwriting Agreement and the Hong Kong Underwriting Agreement                                                                                                                                                      |
| <b>"U.S." or "United States"</b>                                    | the United States of America                                                                                                                                                                                                           |
| <b>"US\$" or "U.S. dollar(s)"</b>                                   | United States dollar(s), the lawful currency of the United States                                                                                                                                                                      |
| <b>"Valuation Report"</b>                                           | a valuation report prepared by BOYD dated March 7, 2012, which is set out in "Appendix VI — Valuation Report" in this Prospectus                                                                                                       |
| <b>"VAT"</b>                                                        | value-added tax                                                                                                                                                                                                                        |
| <b>"White Form eIPO"</b>                                            | the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of <b>White Form eIPO</b> at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> |
| <b>"White Form eIPO Service Provider"</b>                           | Computershare Hong Kong Investor Services Limited                                                                                                                                                                                      |
| <b>"Xinjiang Zhundong"</b>                                          | 伊泰新疆准東能源有限公司 (Yitai Xinjiang Zhundong Energy Co., Ltd.), a limited liability established in the PRC, which is a wholly-owned subsidiary of our Company                                                                                 |
| <b>"XJDRC"</b>                                                      | 新疆維吾爾自治區發展和改革委員會 (Xinjiang Uygur Autonomous Region Development and Reform Commission)                                                                                                                                                  |
| <b>"Yimei Group"</b>                                                | 伊克昭盟煤炭集團公司 (Ikochao League Coal Group Company), our sole promoter                                                                                                                                                                      |
| <b>"Yitai Baoshan"</b>                                              | 內蒙古伊泰寶山煤炭有限責任公司 (Inner Mongolia Yitai Baoshan Coal Co., Ltd.), a limited liability company established in the PRC, which is 73% owned by Yitai Group                                                                                   |
| <b>"Yitai Chemical"</b>                                             | 內蒙古伊泰化工有限責任公司 (Inner Mongolia Yitai Chemical Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company                                                                         |
| <b>"Yitai Coal-to-oil"</b>                                          | 內蒙古伊泰煤製油有限責任公司 (Inner Mongolia Yitai Coal-to-oil Co., Ltd.), a limited liability company established in the PRC, which is 80% owned by us and 20% owned by Yitai Group                                                                 |



## DEFINITIONS

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| <b>“Yitai Group”</b>          | 內蒙古伊泰集團有限公司 (Inner Mongolia Yitai Group Co., Ltd.), a limited liability company established in the PRC and one of our Controlling Shareholders, and except where the context otherwise requires, all of its subsidiaries excluding our Company, our subsidiaries and our interests in long-term investments |
| <b>“Yitai Guanglian”</b>      | 內蒙古伊泰廣聯煤化有限責任公司 (Inner Mongolia Yitai Guanglian Coal Chemical Co., Ltd.), a limited liability company established in the PRC, which is 90% owned by Yitai Group                                                                                                                                             |
| <b>“Yitai Hami”</b>           | 伊泰哈密能源有限公司 (Yitai Hami Energy Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company                                                                                                                                                             |
| <b>“Yitai HK”</b>             | Yitai (Group) HK Co., Ltd. a wholly-owned subsidiary of Yitai Group established in Hong Kong                                                                                                                                                                                                                |
| <b>“Yitai Huzhun”</b>         | 內蒙古伊泰呼准鐵路有限公司 (Inner Mongolia Yitai Huzhun Railway Co., Ltd.), a limited liability company established in the PRC, which is a 76.46% owned subsidiary of our Company                                                                                                                                        |
| <b>“Yitai Investment”</b>     | 內蒙古伊泰投資有限責任公司 (Inner Mongolia Yitai Investment Co., Ltd.), a limited liability company established in the PRC, which holds 99.54% equity interest in Yitai Group                                                                                                                                            |
| <b>“Yitai Pharmaceutical”</b> | 內蒙古伊泰藥業有限責任公司 (Inner Mongolia Yitai Pharmaceutical Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company                                                                                                                                        |
| <b>“Yitai Share (HK)”</b>     | Yitai Share (Hong Kong) Co., Limited (伊泰(股份)香港有限公司), a wholly-owned subsidiary of our Company established in HK                                                                                                                                                                                             |
| <b>“Yitai Suancigou”</b>      | 內蒙古伊泰京粵酸刺溝礦業有限責任公司 (Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd.), a limited liability company established in the PRC, which is a 52% owned subsidiary of our Company                                                                                                                            |
| <b>“Yitai Tiedong”</b>        | 內蒙古伊泰鐵東儲運有限責任公司 (Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd.), a limited liability company established in the PRC, which is a 51% owned subsidiary of our Company                                                                                                                     |
| <b>“Yitai Tongda”</b>         | 內蒙古伊泰同達煤炭有限責任公司 (Inner Mongolia Yitai Tongda Coal Co., Ltd.), a limited liability company established in the PRC, which is 73% owned by Yitai Group                                                                                                                                                         |
| <b>“Yitai Transport”</b>      | 內蒙古伊泰汽車運輸有限責任公司 (Inner Mongolia Yitai Motor Transport Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company                                                                                                                                     |
| <b>“Yitai West Coal”</b>      | 內蒙古伊泰西部煤業有限責任公司 (Inner Mongolia West Coal Co., Ltd.), a limited liability company established in the PRC, which is 51% owned by Yitai Group                                                                                                                                                                 |
| <b>“Yitai Xinjiang”</b>       | 伊泰新疆能源有限公司 (Yitai Xinjiang Energy Co., Ltd.), a limited liability company established in the PRC, which is a 90% owned subsidiary of our Company                                                                                                                                                            |

## DEFINITIONS

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| <b>“Yitai Yili”</b>         | 伊泰伊犁能源有限公司 (Yitai Yili Energy Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company                          |
| <b>“Yitai Yili Mining”</b>  | 伊泰伊犁礦業有限公司 (Yitai Yili Mining Co., Ltd.), a limited liability company established in the PRC, which is a 90% owned subsidiary of our Company                             |
| <b>“Yitai Zhundong”</b>     | 內蒙古伊泰准東鐵路有限責任公司 (Inner Mongolia Yitai Zhundong Railway Co., Ltd.), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company |
| <b>“Yizheng Fire-proof”</b> | 鄂爾多斯市伊政煤田滅火工程有限責任公司 (Ordos Yizheng Coal Mine Fire-proof Project Co., Ltd.), a limited liability company established in the PRC, which is 30% owned by our Company.       |

## GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this Prospectus. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

|                                         |                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>"ash content"</b>                    | incombustible impurities contained in coal which affect the burning characteristics of coal                                                                                                                                                                                                                                    |
| <b>"beneficiation"</b>                  | treatment of raw materials by drying, flotation, gravity or magnetic separation                                                                                                                                                                                                                                                |
| <b>"calorific value"</b>                | the heat of combustion of a unit quantity of coal. It is expressed in British Thermal Units per pound (BTU/lb), kilocalories per kilogramme (kcal/kg) or mega joules per kilogramme (mj/kg). The gross calorific value includes all heat of vaporisation of water. Net calorific value assumes all water is in the vapor phase |
| <b>"CFR"</b>                            | cost and freight. A CFR contract price includes freight from the point of shipping but not insurance                                                                                                                                                                                                                           |
| <b>"coal"</b>                           | a solid, brittle, more or less distinctly stratified combustible carbonaceous rock, formed by partial to complete decomposition of vegetation                                                                                                                                                                                  |
| <b>"coal blending"</b>                  | mixing coal in predetermined and controlled quantities to adjust the chemical or burn characteristics of the resulting coal or to produce a more uniform product                                                                                                                                                               |
| <b>"coal loading stations"</b>          | a collective term for the various facilities where coal is stored and loaded onto trains                                                                                                                                                                                                                                       |
| <b>"coal preparation plant"</b>         | facility used to selectively remove undesirable waste from the ROM/raw coal using chemical and mechanical methods. Also known as a CPP                                                                                                                                                                                         |
| <b>"coal processing"</b>                | the process of selectively removing gangue material from raw coal through beneficiation at a coal processing plant                                                                                                                                                                                                             |
| <b>"coal seam"</b>                      | a geological structure containing a series of layers of coal, shale and other mineral materials of various thickness within a defined zone                                                                                                                                                                                     |
| <b>"coal-to-oil"</b>                    | the process of producing synthetic liquid fuels from coal                                                                                                                                                                                                                                                                      |
| <b>"DCF method"</b>                     | discounted cash flow method, a method of valuing a project, company, or asset by estimating and discounting all future cash flows at market derived rates of return to their present values                                                                                                                                    |
| <b>"dense-media cyclone processing"</b> | a coal processing method that processes raw coal by using heavy dense media with a density between coal and waste minerals                                                                                                                                                                                                     |
| <b>"FOB"</b>                            | free on board. A FOB contract price does not include insurance and freight from the starting point of shipping                                                                                                                                                                                                                 |
| <b>"FOR"</b>                            | free on rail. A FOR contract price does not include insurance and freight from the starting point of rail transportation                                                                                                                                                                                                       |
| <b>"fusion point"</b>                   | the temperature at which a solid substance turns to a liquid state                                                                                                                                                                                                                                                             |
| <b>"indicated coal resource"</b>        | that part of a coal resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a                                                                                                                                                                               |

## GLOSSARY OF TECHNICAL TERMS

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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|                                     | reasonable level of confidence. It is based on exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed                                                                                         |
| "jig processing"                    | a coal selection method which processes coal in terms of grain density by vibration of a screen                                                                                                                                                                                                                                                                                                                                                                             |
| "JORC Code"                         | Australian Code of Reporting of Mineral Resources and Ore Reserves, effective from December 2004                                                                                                                                                                                                                                                                                                                                                                            |
| "Kcal/kg"                           | kilocalorie per kilogram                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| "longwall mining"                   | a fully mechanized underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area. The key characteristics of longwall mining include high productivity, comparatively high reserve recovery rates, safety and reliability                        |
| "marketable reserves"               | saleable coal product from recoverable reserves after accounting for mining and processing losses, where applicable                                                                                                                                                                                                                                                                                                                                                         |
| "measured coal resource"            | that part of a coal resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced sufficiently close to confirm geological and quality continuity |
| "mechanization ratios"              | the degree of mechanization in mining and tunneling of coal mines, specifically referring to the proportion of mechanized mining faces in all mining faces                                                                                                                                                                                                                                                                                                                  |
| "mining face"                       | the working area where the extraction of overburden or coal takes place in an underground or open-cut mine                                                                                                                                                                                                                                                                                                                                                                  |
| "mj/kg"                             | megajoules per kilogram                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| "moisture content"                  | the amount of moisture in coal, expressed as a percentage of the weight of the coal. Two types of moisture can be found in coal, including: (i) free or surface moisture, which can be removed by exposure to air, and (ii) inherent moisture, which is trapped in the coal and can be removed by heating the coal                                                                                                                                                          |
| "Mtpa"                              | million tonnes per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| "OSD"                               | out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal mining process                                                                                                                                                                                                                                                                                                                                                               |
| "overall mining zone recovery rate" | the recovery rate of the overall mining zone, specifically referring to the ratio of the amount of extracted coal against the coal reserve of the overall mining zone                                                                                                                                                                                                                                                                                                       |
| "overburden"                        | waste rock material overlying a coal seam                                                                                                                                                                                                                                                                                                                                                                                                                                   |

## GLOSSARY OF TECHNICAL TERMS

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| <b>"pillar"</b>                 | an area of coal which is not mined in order to support the overlying strata in a mine; sometimes left permanently to protect surface structures. See definition of "room-and-pillar mining"                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>"probable reserves"</b>      | probable reserves under the JORC Code, which are the economically mineable part of an indicated coal resource, and in some circumstances, measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted, and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified |
| <b>"proved reserves"</b>        | proved reserves under the JORC Code, which are the economically mineable part of a measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted, and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified                                                        |
| <b>"raw coal"</b>               | coal in its raw, untreated state subsequent to extraction and prior to sizing and other beneficiation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>"reclamation"</b>            | in the context of mining, refers to the process of restoring land and the environment to their original state following mining activities. The process commonly includes "recontouring" or reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground cover. Reclamation operations generally are initiated before the mining of a site is completed                                                                                                                                                                                                  |
| <b>"recoverable reserves"</b>   | proved and probable reserves prior to adjustment for preparation plant yield. Refers to that portion of the in-place coal seam tonnage that can be recovered with the mining techniques specified in the feasibility or design study before OSD and coal processing considerations                                                                                                                                                                                                                                                                                                                           |
| <b>"recovery rate"</b>          | the percentage of coal that can be recovered from the coal deposits at existing mines                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>"room-and-pillar mining"</b> | a traditional method of underground mining in which the mine roof of an area being mined, the "room," is supported by coal pillars left at regular intervals. Coal pillars are of two types, permanent and recoverable, and also include pillars left in mine tunnels                                                                                                                                                                                                                                                                                                                                        |
| <b>"sulphur content"</b>        | sulphur contained in coal. Sulphur content can vary from coal seam to coal seam and sometimes within seam. "Low sulphur" coal has a variety of definitions but typically is used to describe coal consisting of 1.0% or less sulphur. When coal is burned, it produces sulphur dioxide, the amount of which varies depending on the chemical composition and the concentration of sulphur in the coal                                                                                                                                                                                                        |
| <b>"thermal coal"</b>           | thermal coal, also normally referred to as "steam" or "steaming coal," is used in combustion processes by power producers and industrial users to produce steam for power and heat. It is generally lower in heat and higher in volatile matter than metallurgical coal                                                                                                                                                                                                                                                                                                                                      |

## GLOSSARY OF TECHNICAL TERMS

|                                  |                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>"tonne"</b>                   | metric tonne equal to 1,000 kilograms                                                                                                                                                                                                                                                                                                                                       |
| <b>"underground mine"</b>        | a mine where the coal is extracted from below the surface without removing the overburden                                                                                                                                                                                                                                                                                   |
| <b>"volatile matter content"</b> | the amount of volatile matter in coal, expressed as a percentage of the weight of the coal. Volatile matter refers to substances, other than water, that are driven off as gas or vapor when coal is heated under certain prescribed conditions. The lower the volatile fraction, the higher the coke yield. Volatile matter is measured on a dry mineral matter-free basis |



## RISK FACTORS

You should carefully consider all of the information in this Prospectus including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we are a PRC company and are governed by laws and regulations that may differ, in some respects, from those in other countries. Any of these risks and uncertainties may have a material adverse effect on our business, results of operations and financial condition. The trading price of our H Shares could decline due to any of these risks, and you may lose part or all of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to “Regulations,” Appendix VIII “Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and Appendix IX “Summary of the Articles of Association of our Company.” You should also refer to other information contained in this Prospectus, including the financial statements and the related notes.

This Prospectus also contains forward-looking statements that identify certain risks and uncertainties. See “Forward-looking Statements.”

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterised as: (i) risks relating to China’s coal industry; (ii) risks relating to our businesses; (iii) risks relating to the People’s Republic of China; and (iv) risks relating to the Global Offering.

### RISKS RELATING TO CHINA’S COAL INDUSTRY

**Our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in coal prices.**

As the vast majority of our revenue is derived from domestic sales of coal, our business and results of operations are substantially dependent on the prices we charge for our coal as well as the domestic supply of and demand for coal. We price our coal by reference mainly to prices in the domestic coal market, which are influenced by the change in supply and demand. Historically, the domestic coal market has experienced alternating periods of increased demand and excess supply caused by the combination of numerous factors beyond our control. Such factors include, but are not limited to:

- global and domestic economic and political conditions and competition from other energy sources;
- the rate of growth and expansion in industries with high coal demand, such as the power and manufacturing industries;
- the indirect influence on domestic coal prices of the PRC government through its regulation of on-grid tariffs and the allocation of transportation capacity of the national railway system;
- the development and increasing use of alternative sources to generate power such as natural gas, oil, hydropower and nuclear power; and
- environmental laws and regulations such as those relating to caps on carbon emissions.

For example, the global economic downturn that started in the second half of 2008 significantly affected the demand for coal in China and caused the market prices of coal to decline substantially. Due to increased demand primarily driven by the recovery of the PRC economy in 2009, the market prices of coal have increased steadily since then. According to the China Coal Resources website, the average price of Shanxi Quality Coal (山西優混), which has a calorific value of 5,500kcal/kg, at Qinhuangdao Port was RMB599.6 per tonne, RMB744.9 per tonne and RMB818.6 per tonne in 2009, 2010 and 2011, respectively. For additional information regarding market prices of coal in China, see “Industry Overview — Overview of PRC Coal Industry — A Market-driven Pricing Mechanism and Competition.”

## RISK FACTORS

The average selling price of our coal products was RMB349.3 per tonne, RMB374.2 per tonne and RMB396.8 per tonne for 2009, 2010 and 2011, respectively. The following table illustrates the changes in our net profit assuming there had been changes in the average selling price per tonne of our coal products for 2011.

|                                                                              |          |          |        |       |         |
|------------------------------------------------------------------------------|----------|----------|--------|-------|---------|
| % change in the average selling price of our Group's coal products . . . . . | -15%     | -10%     | -5%    | +5%   | 10%     |
| Impact on the profit for the year 2011(RMB Million) . . . .                  | -1,931.0 | -1,287.3 | -643.7 | 643.7 | 1,287.3 |

- If the targeted average selling price of our Group's coal products rose by 10%, our Group's profit for 2011 would be RMB7,036.6 million, representing an increase of 22.4%.
- If the targeted average selling price of our Group's coal products rose by 5%, our Group's profit for 2011 would be RMB6,393.0 million, representing an increase of 11.2%.
- If the targeted average selling price of our Group's coal products declined by 5%, our Group's profit for 2011 would be RMB5,105.6 million, representing a decrease of 11.2%.
- If the targeted average selling price of our Group's coal products declined by 10%, our Group's profit for 2011 would be RMB4,462.0 million, representing a decrease of 22.4%.
- If the targeted average selling price of our Group's coal products declined by 15%, our Group's profit for 2011 would be RMB3,818.3 million, representing a decrease of 33.6%.

There can be no assurance that the domestic demand for coal will continue to grow, that the domestic coal market will not experience excess supply, or that there will not be significant drops in coal prices in China. An overcapacity in the PRC coal industry, whether caused by a significant decrease in demand or a significant increase in supply, or a significant decrease in domestic coal prices in the future, would most likely affect the average selling price of our products and consequently have a material adverse effect on our business, results of operations and financial condition.

### **Our operations are extensively regulated by the PRC government.**

We, like other coal producers in China, are subject to extensive national, provincial and local governmental regulations, policies and controls that cover, among other things, the following:

- the granting and renewal of coal exploration rights and mining rights;
- the granting of coal production licenses and safe production licenses;
- production volume requirements;
- resource recovery rate requirements;
- environmental, safety and health standards;
- the allocation of coal transportation capacity on the national railway system;
- the pricing of coal transportation services;
- coal export quotas, permits and VAT rebates;
- the adoption of temporary measures to limit increases in coal prices; and
- the collection of taxes, duties and fees including, among others, resources tax, mining right usage fees, mineral resources compensatory fees and the coal price adjustment levy.

The liabilities, costs, obligations and requirements associated with these laws and regulations may be significant and may have a material adverse effect on our operations.

Failure to comply with the relevant laws and regulations governing our mining operations may result in the suspension of our operations or the imposition of fines, either of which could have a material adverse effect on our business, results of operations and financial condition. Any coal company is required by PRC laws and regulations not to carry out coal production in excess of the assessed annual production capacity recorded on the safety production permits and coal production permits of the relevant coal mines. Breach of such laws and

regulations may result in penalties being imposed by the relevant government authorities, which may include the suspension of production of the relevant mine for rectification and/or monetary or other administrative penalties. During the Track Record Period, the annual production volume of certain of our coal mines exceeded the relevant assessed annual production capacities. See the section headed “Business — Coal Operations” for additional information.

Additionally, we cannot assure you that the relevant government agencies will not change existing laws or regulations or enact additional or more stringent laws or regulations. Compliance with such laws or regulations may require us to incur significant capital expenditures or other obligations or liabilities. More stringent laws or regulations may also restrict our business operations and adversely affect our business prospects. For more information on PRC regulations, see “Regulations.”

**Competition in the PRC coal industry may increase and we may not be able to compete effectively.**

We operate in a competitive market. Competition in the PRC coal industry is based on factors such as price, production capacity, type and quality of coal, transportation capability and costs, blending capability and brand name recognition. The ongoing consolidation in the PRC coal industry has increased the level of competition.

We face competition from other domestic coal mining companies and coal traders. Such competitors may have greater access to financial resources, higher levels of integration, better operating efficiency, more advanced technologies, or longer operating histories. Some of the domestic coal mining companies compete for the rights to obtain and exploit coal reserves. These companies may have greater coal production capacities, lower transportation costs, and greater financial, marketing, distribution and other resources than we do. See “Industry Overview — Overview of PRC Coal Industry.” If we are unable to improve our product quality and price competitiveness, maintain our operating efficiency and control our costs in connection with our expansion, raw materials and energy usage, our growth opportunities may be limited and our revenue and profitability may be adversely affected. We cannot guarantee that future increases in competition will not have a material adverse effect on our business, results of operations and financial condition.

**Our business operations may be materially and adversely affected by present and future environmental regulations and initiatives to combat climate change.**

We are subject to extensive and increasingly stringent environmental protection laws and regulations in China. See “Regulations — Environmental Protection.” These laws and regulations:

- impose fees for the discharge of pollutants and waste substances;
- require the establishment of reserves for land reclamation and rehabilitation;
- impose fines for environmental violations; and
- allow the PRC government, at its discretion, to close any facility that fails to comply with administrative orders requiring operators of the facility to correct or stop operations causing environmental damage.

Our operations produce gaseous emissions, waste water and solid waste materials. Currently, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines and/or take corrective actions, any of which may have a material adverse effect on our business, results of operations and financial condition.

In addition, China is a signatory to the 1992 United Nations Framework Convention on Climate Change (the “Convention”) and the 1997 Kyoto Protocol to the Convention, which are intended to limit greenhouse gas emissions. In December 2009, China agreed during the United Nations Climate Change Conference 2009 to reduce carbon dioxide emissions per unit of GDP by 40% to 45% by 2020, compared with 2005 levels. Any initiative to reduce energy consumption and control greenhouse gas emission could reduce coal consumption,

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| <b>RISK FACTORS</b> |
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which would cause our revenue to decrease and have a material adverse effect on our business, results of operations and financial condition.

**Our business may be adversely affected by shortages in electricity and water supply or increases in electricity and water prices.**

We consume a substantial amount of electricity and water in connection with our coal mining, coal processing and coal-related chemical operations. We expect our demand for electricity and water to increase as our production capabilities increase and our business grows. Although we have not experienced significant interruptions in either power or water supply in recent years, any shortages or disruption in electricity or water supply could lead to lengthy production shutdowns and increased costs related to recommencement of operations. Insufficient electricity or water supply may force us to limit or delay our production, which could have a material adverse effect on our business, results of operations and financial condition. Any significant increase in electricity and water prices will increase our operating costs and may adversely affect our results of operations if we are not able to pass the increased costs on to our customers.

**RISKS RELATING TO OUR BUSINESSES**

**There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be completed at all.**

To expand our coal reserves and output, while minimizing potential competition between Yitai Group and us in relation to our core business, we and Yitai Group entered into an Assets Transfer Agreement on May 29, 2012, pursuant to which we agreed to acquire, and Yitai Group agreed to transfer, the Target Business Group, at a consideration of RMB8,446.5 million. The Target Business Group includes substantially all assets and businesses of Yitai Group that are related to coal production, sales and transportation. The Proposed Acquisition constitutes a major acquisition under the Listing Rules, and the Valuation Report has been included as Appendix VI to this Prospectus.

The completion of the Proposed Acquisition is subject to the fulfilment by Yitai Group and us of its and our respective obligations under the Assets Transfer Agreement. The Assets Transfer Agreement will become effective on the date (the "Effective Date") when all the conditions precedent to its effectiveness are fulfilled. As of the Latest Practicable Date, the only condition precedent to the effectiveness of the Assets Transfer Agreement that had not been satisfied was the listing of our H Shares on the Hong Kong Stock Exchange. However, the completion of the Proposed Acquisition also requires the approval of the transfer of the mining rights by the IDLR. Based on the best estimation of our Directors, our Company expects to obtain the aforementioned approval within two months from the Listing Date. Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, advised that there is no material legal impediment to obtain the approval from the IDLR provided that we submit application documents that are deemed necessary by the IDLR. Assuming that the approval from the IDLR will to be received within two months from the Listing Date, our Directors believe that the Proposed Acquisition could be completed within eight months from the Listing Date. See "Relationship with Controlling Shareholders — Competition — Proposed Acquisition." There is no assurance that the approval by the IDLR in relation to the Proposed Acquisition will be obtained in a timely manner, and the IDLR has discretion on whether or not to grant such an approval. In addition, there is no assurance that there will not be any regulatory changes or other unforeseen circumstances that could otherwise prevent such transfers from taking place in a timely manner, or at all. In the event that the Proposed Acquisition is not completed within the timeframe as currently expected or at all, our plans to increase our reserves and output and expand and upgrade our integrated transportation network and the related infrastructure may need to be changed or otherwise be affected, which may have a material adverse impact on our future business development plan.

**The Target Business Group and we may not be as profitable in the future as expected.**

We have prepared audited financial statements for the Target Business Group for 2009, 2010 and 2011 which are attached to this Prospectus as Appendix IB. According to such audited financial statements, the Target Business Group generated total revenue of RMB5,274.6 million, RMB9,268.3 million and RMB10,848.9

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million, and profit of RMB1,020.5 million, RMB1,965.4 million and RMB2,295.6 million, for 2009, 2010 and 2011, respectively. However, the audited financial statements of the Target Business Group may not be indicative of the future performance of the Target Business Group. There is no assurance that the Target Business Group will continue to generate revenues and profits after the completion of the Proposed Acquisition that are comparable to those recorded in the audited financial statements. Further, as the Target Business Group comprises mainly businesses and assets relating to coal mining operations, the risks described in this “Risk Factors” section that are associated with our own coal mining operations and China’s coal industry are also applicable to such businesses and assets of the Target Business Group. If the future performance of the Target Business Group falls substantially below our expectations, our business, results of operations and financial condition may be materially and adversely affected.

In addition, our gross profit margin may be affected by any change in the mix of our coal products sold. For example, our gross profit margin decreased from 56.7% for 2010 to 51.0% for 2011, primarily due to an increase in the proportion of the sales of coal purchased from third parties, which had a lower gross profit margin than the sales of self-produced coal products. The percentage of sales of coal purchased from third parties to total sales of coal was 4.9%, 0.8% and 15.5% for 2009, 2010 and 2011, respectively. If the proportion of the sales of coal purchased from third parties continues to increase in the future, our gross profit margin may further decrease.

### **Our net assets may be diluted upon the completion of the Proposed Acquisition.**

We expect to pay Yitai Group a total of RMB8,446.5 million for the transfer of the Target Business Group, which is equal to the aggregate fair value of the Target Business Group as of December 31, 2009 as stated in a valuation report prepared by CEA. We intend to apply the net proceeds from the Global Offering towards the Proposed Acquisition. For more details, please see “Future Plans and Use of Proceeds” in the Prospectus. Without considering the net proceeds from the Global Offering and the other pro forma adjustments, and assuming that the Proposed Acquisition had taken place on January 1, 2011, our pro forma net assets would have decreased by RMB5,865.4 million, which is the difference between the consideration of RMB8,446.5 million and the net assets of RMB2,581.1 million of the Target Business Group as of December 31, 2011. In the event that the net proceeds from the Global Offering are less than the consideration we will pay for the Proposed Acquisition, our net assets will be diluted upon the completion of the Proposed Acquisition. See “Financial Information — Pro Forma Financial Information” and “Appendix IIA — Unaudited Pro Forma Combined Financial Information of the Enlarged Group” for more information.

### **The Proposed Acquisition may adversely affect our results of operations.**

The Proposed Acquisition may have a negative impact on our results of operations. For example, assuming the Proposed Acquisition had occurred on January 1, 2011, although the pro forma revenue of our Group would have increased by 63.5% to RMB27,002.9 million for 2011, the pro forma gross profit margin of our Group would have decreased from 51.0% to 45.4% for 2011. Similarly, although the pro forma profit of our Group would have increased by 43.1% to RMB8,229.1 million for 2011, the pro forma profit margin, however, would have decreased from 34.8% to 30.5% for 2011. In addition, the pro forma effective tax rate would have increased from 15.0% to 16.5% for 2011. We cannot guarantee that after completion of the Proposed Acquisition, our financial performance will improve or remain stable.

### **We may not be able to obtain new mining right permits, or other permits required under the PRC law, or renew our existing mining right permits in time, or at all.**

Under the Mineral Resources Law of the PRC 《中華人民共和國礦產資源法》 (the “Mineral Resources Law”), all mineral resources in China are owned by the State. Coal mining enterprises in China need to obtain for each coal mine, among others, a mining right permit, a safe production permit, a coal production permit and a business license with “coal production” in the stated business scope in order to conduct coal mining activities. Such safe production permit, coal production permit and business license can only be obtained after the mining right permit is obtained in accordance with PRC laws.

We currently hold the above-mentioned permits and licenses for all of our operating coal mines. As of the Latest Practicable Date, mining rights for Yangwangou, Fuhua and Kaida Mine will expire within the next three

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years and coal production permits for Nalinmiao No. 2 Mine, Fuhua and Kaida Mine will also expire within the next three years. There can be no assurance that we will be able to renew these permits on time, or at all, when they expire. For more information about the validity periods of such permits for each of our operating coal mines, please see “Business — Relevant Rights and Permits.” Talahao Mine and Bulamao Mine are still under development and have not obtained the above-mentioned permits and licenses. Under applicable PRC laws, we will only be able to apply for the above-mentioned permits and licenses, as applicable, for each of these two mines after they have completed construction and trial production, and passed appropriate inspection by the government. See “Business — Relevant Rights and Permits” and “Regulations” for further details.

We cannot assure you when we will obtain the above-mentioned permits and licenses for Talahao Mine and Bulamao Mine, or at all. Any delay in obtaining, or failure to obtain, the requisite rights and permits for any of these mines will delay or prevent our commencement of commercial production in them, which in turn will have a material adverse impact on our operations and financial performance.

Typically, the duration for which mining right permits are granted cannot exceed the projected number of years of service of a mine and the consideration for such mining right permits is determined on the basis of such service period. Where residual reserves remain after the term of a mining right permit expires, the holder of such mining right permit has a legal right to apply for an additional term, according to the mineral resources regulations of the PRC. There is no minimum residual reserve requirement for the renewal of mining right permits, provided that any residual reserves remain. However, there can be no assurance that we will be able to renew our mining right permits on favorable terms, or at all, once such permits expire. Since our business is dependent on our mining operations, if we were unable to renew such permits, especially those that are due to expire within the next three years, our business, results of operations and financial condition may be materially and adversely affected.

### **Our indebtedness may materially and adversely affect our financial performance and results of operations.**

We have relied upon both short-term and long-term borrowings to fund a substantial portion of our capital expenditures and operations and expect to continue to do so in the future. As of December 31, 2011, we had total loans of approximately RMB8,306.8 million, comprising total current loans of approximately RMB2,206.2 million and total non-current loans of approximately RMB6,100.6 million. Our borrowings generally contain terms and conditions and covenants that are customary for commercial bank loans in China. Debt covenants typically include requirements that we obtain the lenders’ prior written consent before we can engage in certain transactions, such as the disposition of material assets, the merger or consolidation of our Company with or into another entity and the liquidation or winding-down of our Company. As of the Latest Practicable Date, we have not been in default of these debt covenants that could cause any material adverse impact on our business operations. Our net debt ratio (defined as total loans less cash divided by total equity) as of December 31, 2011 was 25.4%. Our ability to repay the principal and service the interest payments on our debt depends substantially on our operating performance. We cannot assure you that our business will generate sufficient cash flow from our operations or that future borrowings under our revolving credit facilities will continue to be available to enable us to service our debt or to fund our other liquidity needs. Moreover, we may incur additional debt to fund our planned capital expenditures and future projects. The level of our indebtedness could have important consequences, including, but not limited to:

- limiting our ability to pay dividends and satisfy our debt obligations;
- limiting our ability to obtain additional financing and requiring us to set aside a substantial portion of cash flow from our operations for the repayment of the principal of, and the interest on, our indebtedness, thereby reducing the availability of cash flow to fund capital expenditures, working capital and other business development expansion projects;
- increasing our exposure to general adverse economic and industry conditions; and
- limiting our ability to plan for, or react to, changes in our business.

We may face substantial financial and operational risks if our cash flows and capital resources are insufficient to fund our debt service obligations. We may be required to sell assets, seek additional capital or restructure or refinance our debt as a result of changes in our operating conditions. If we are unable to service our debt, such inability could result in an event of default which, if not cured or waived, could have a material adverse effect on our business, results of operations and financial condition.



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**We may experience shortage of transportation capacity for our coal products or a significant increase in transportation costs.**

We depend upon a combination of railway, road and sea transportation to deliver coal to our customers. Railway transportation is the principal delivery method we utilize. We own and operate certain local railway lines that connect to the national railway system, and are in the process of expanding our railway transportation capacity. The transportation capacity of the national railway system is allocated by the MOR and there have been instances in the past in certain areas where such capacity was insufficient to meet demand. Leveraging on our transportation network, Yitai Group applied for and secured annual quotas of national railway system transportation capacity from the MOR for both itself and us during the Track Record Period, based on which Yitai Group and we used a total of 27.5 million tonnes, 29.6 million tonnes and 27.4 million tonnes for 2009, 2010 and 2011, respectively. The approved quota for transportation capacity from the MOR to Yitai Group for 2012 amounted to 33.0 million tonnes, while the actual transportation capacity of the national railway system to be used by us in 2012 is subject to further adjustments based on our transportation need and the consent of the MOR. We used such quotas to satisfy all our transportation needs. Such quotas were granted free of charge by the MOR to Yitai Group and by Yitai Group to us. The following table sets forth information on the national railway system transportation capacities used by Yitai Group and us, respectively, for the periods indicated:

| Transportation capacity of the national railway system | 2009             |              | 2010             |              | 2011             |              |
|--------------------------------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                                                        | (million tonnes) | %            | (million tonnes) | %            | (million tonnes) | %            |
| Used by Yitai Group . . . . .                          | 10.7             | 38.9         | 14.0             | 47.3         | 14.1             | 51.5         |
| Used by us . . . . .                                   | 16.8             | 61.1         | 15.6             | 52.7         | 13.3             | 48.5         |
| Total . . . . .                                        | <u>27.5</u>      | <u>100.0</u> | <u>29.6</u>      | <u>100.0</u> | <u>27.4</u>      | <u>100.0</u> |

In China, applicants for transportation quotas are generally required to open an account at the MOR. We understand from our past experience in this regard that the MOR generally grant such approval to enterprises with sizable railway transportation need at its discretion, taking into account the overall transportation capacity of the national railway transportation system and the contractual volumes as indicated by the applying enterprises in a particular year, and in practice usually grants such quotas to parent companies to allocate among its affiliates within the same corporate group. Upon the completion of the Proposed Acquisition, our need for railway transportation will increase significantly and Yitai Group will cease to use such quotas because it will transfer substantially all its coal-related businesses and assets to us. Therefore, we intend to apply to open an account at the MOR and to apply for quotas in our own name after the completion of the Proposed Acquisition. Yitai Group has undertaken in the Non-competition Agreement and the Transportation Quota License Agreement that, after the completion of the Proposed Acquisition, it will (i) license all the transportation quotas to us at nil consideration; (ii) not use the transportation quotas by itself or license any transportation quota to third parties before our request is satisfied first; and (iii) apply to the MOR to change the holder of its account to us. See “Relationship with Controlling Shareholders — Competition — Non-competition Agreement” and the “Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transaction — 3. Transportation Quota License Agreement.” However, we consider it to be not practical for us to give an estimate as to when we will be able to obtain such quotas in our own name. The PRC government is in the course of increasing railway transportation capacity to relieve the pressure caused by increasing demand. However, we cannot assure you that Yitai Group or we (after we are able to obtain the transportation quotas in our name) will continue to be allocated sufficient transportation capacity on the national railway system, or that future transportation capacity of our own local railway lines will continue to be sufficient for our operations, or that we will not experience any significant delay in transporting our products.

Further, transportation is affected by certain events that are beyond our control, such as bad weather, natural disasters, accidents, disruptions of other rail lines, temporary capacity constraints or other disruptions. If we cannot secure sufficient transportation capacity to transport our coal products in time, we may be held liable for contractual breach and/or suffer reputational damage, and our business and results of operations may be materially and adversely impacted.

In addition, transportation costs represent a significant portion of our total cost of sales. For 2009, 2010 and 2011, our transportation costs were RMB2,607.7 million, RMB2,548.0 million and RMB2,414.2 million, respectively, representing 49.8%, 42.5% and 29.8% of our total cost of sales, respectively. And our



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transportation cost per tonne of coal products sold was RMB94.1, RMB71.4 and RMB63.0 for 2009, 2010 and 2011, respectively. The NDRC sets railway freight charge rates of the national railway system for thermal coal transportation in China. The freight charge of the national railway system for coal transportation consists of two rates: one based on both tonnage and transportation distance plus one based on tonnage only regardless of transportation distance. Since 2007, the NDRC has increased the charge rates of the national railway system five times, from RMB0.0434 per tonne per kilometer plus RMB9.30 per tonne to RMB0.0454 per tonne per kilometer plus RMB9.30 per tonne effective on November 5, 2007, further to RMB0.0484 per tonne per kilometer plus RMB9.60 per tonne effective on July 1, 2008, further to RMB0.0537 per tonne per kilometer plus RMB10.50 per tonne effective on December 13, 2009, further to RMB0.0553 per tonne per kilometer plus RMB10.80 per tonne effective on April 1, 2011, and further to RMB0.0629 per tonne per kilometer plus RMB12.20 per tonne effective May 20, 2012. As we sell most of our coal to customers in China's coastal regions, transportation costs will continue to be an important factor affecting our profit margin. If railway freight charge rates increase significantly and we are unable to pass the increase on to our customers, the transportation costs will increase, consequently, our profits and our results of operations may be materially and adversely affected.

The following table illustrates the changes in our net profit, assuming there had been changes in the transportation cost per tonne of coal products sold for 2011.

|                                                                         |       |       |        |        |
|-------------------------------------------------------------------------|-------|-------|--------|--------|
| % change in the transportation cost per tonnes of coal products sold .. | -10%  | -5%   | +5%    | 10%    |
| Impact on the profit for the year 2011(RMB Million) .....               | 204.5 | 102.2 | -102.2 | -204.5 |

If the transportation cost per tonne of our Group's coal products sold rose by 10%, our Group's profit for 2011 would be RMB5,544.8 million, representing a decrease of 3.6%.

If the transportation cost per tonne of our Group's coal products sold rose by 5%, our Group's profit for 2011 would be RMB5,647.1 million, representing a decrease of 1.8%.

If the transportation cost per tonne of our Group's coal products sold declined by 5%, our Group's profit for 2011 would be RMB5,851.5 million, representing an increase of 1.8%.

If the transportation cost per tonne of our Group's coal products sold declined by 10%, our Group's profit for 2011 would be RMB5,953.8 million, representing an increase of 3.6%.

### **We rely on a small number of major customers.**

We sell coal produced by us and resell coal purchased from third parties. A significant portion of our coal sales is conducted through annual contracts. In 2009, 2010 and 2011, we generated 59.8%, 65.8% and 53.6% of our revenue from coal operations through annual contracts. If we are unable to renew these contracts or to enter into new contracts with alternative buyers at comparable prices and terms, or at all, our business, results of operations and financial condition may be materially and adversely affected.

We rely on a small number of major customers for a significant portion of our revenue. For 2009, 2010 and 2011, we had 269, 191 and 262 customers, respectively. We derived 29.6%, 30.1% and 26.1%, respectively, of our total revenue from sales to our five largest external customers over those periods, which are power producers and coal trading companies. We expect our sales to top five customers to represent between 30% and 40% of our total revenue in the near future, subject to any unforeseeable events that are beyond our control. If any one of our five largest customers significantly reduces its purchases of coal from us, or if we are unable to sell coal to any of them on similarly favorable terms or at all, our business, results of operations and financial condition may be materially and adversely affected.

### **We may not be able to acquire new resources and develop such new resources profitably.**

Recoverable reserves at our existing mines decline as we produce coal. As part of our business strategies, we intend to increase our reserve base primarily through acquisitions and applications to the PRC government for the grant of new coal exploration and mining rights. If we are unable to obtain such exploration and mining rights, or to identify suitable acquisition targets in the future and acquire these targets on competitive terms, or if we are not able to develop and operate new coal mines profitably, our business, results of operations and financial condition may be materially and adversely affected.

**The coal reserves and certain other data contained in the Prospectus are only estimates, which may be inaccurate and may change over time.**

The coal reserves and certain other data in this Prospectus are estimates that have been reviewed and substantiated by BOYD. There are inherent uncertainties in estimating reserves, which is based on assumptions and subject to many variable factors beyond our control. For example, variations in recovery rates due to factors such as geological conditions and available technology may ultimately result in revisions to our estimated reserves. In addition, our estimated proved and probable reserves refer to the economically mineable part of the relevant indicated or measured coal resource, which is by definition vulnerable to fluctuations in coal prices and production and transportation costs. Over time, our reserve estimates may change substantially as new information becomes available. We cannot assure you that our actual volume of reserves, rates of production and coal characteristics, among others, will not differ materially from our estimates in this Prospectus. If there is a substantial reduction in our proved or probable reserves, our business, results of operations, financial position and growth prospects may be materially and adversely affected.

**Safety accidents may occur at our mines or neighboring coal mines.**

As with all underground mining operations, our operations are affected by certain inherent risks, such as a deterioration in the quality or variations in the thickness of faults and/or coal seams, pressure in mine openings, mine water discharge, weather, flooding and other natural disasters. Additionally, we are exposed to operational risks associated with industrial or engineering activities, such as unexpected maintenance problems and equipment failures. There can be no assurance that the occurrence of any adverse mining conditions would not endanger our workforce, increase our operating costs, reduce our coal output or temporarily suspend our operations.

Moreover, if the mines have high concentrations of methane gas, such activities may result in explosions caused by sparks. All of the coal mines we currently operate are underground mines, with relatively low concentrations of methane gas. However, we cannot assure you that we will not carry out mining activities in coal mines with high concentrations of methane gas in the future. Further, although we maintained a zero-fatality safety record for coal production during the Track Record Period, we cannot assure you that the safety measures we currently implement in our mines and the ventilation and methane gas sensor systems we utilize are sufficient to prevent all possible accidents such as gas explosions. Although our mechanized operation method has a comparably higher factor of safety, accidents such as roof falls and bracket damage under pressure may occur due to geographic structure or operational management reasons. An accident at any of our underground mines may directly lead to a suspension of operations and rectification in our coal mines, which will have a material adverse effect on our business, results of operations, financial condition and corporate image.

In addition, mining accidents occurring at neighboring coal mines could have a severe impact on our coal mining operations and even create safety hazards at our coal mines. The government may order suspension of production at the coal mines with mining accidents, as well as at the neighboring coal mines, for the purpose of safety inspection, and may promulgate new safety regulations, which may lead to increases in our compliance costs.

**We purchase services from third-party service providers to carry out a significant proportion of our coal mining work and may experience disputes, as well as adjustment or termination of such cooperative relationships.**

We engage third-party service providers to provide certain services in our coal production process. The services we procure from these service providers differ depending on our needs at any given mine, but generally include secondment of workers to assist us in extracting coal at our mines, renting certain production equipment to us and advising us on mining technology and coal production. The aggregate fees we paid these service providers for 2009, 2010 and 2011 were RMB385.1 million, RMB572.8 million and RMB490.4 million, respectively. See “Business — Coal Operations — Third-party Service Arrangements.”

If a dispute arises between any such service provider and us in connection with the performance of either party’s obligations and the parties cannot resolve the differences in a timely manner, or if the cooperative relationships with the service providers are adjusted or terminated under government instruction or for any

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other reasons, the operation of the relevant coal mine may be materially and adversely effected. Further, we may not be able to always secure service providers to satisfy all our production needs at reasonable costs, which in turn may have a material adverse effect on our business, results of operations and financial condition.

**Our business requires significant and continuous capital investments. Our capital investments are subject to governmental approval, which may be delayed, and may not generate the expected benefits.**

Our current estimate of our capital expenditures for 2012 were approximately RMB3,244.9 million without taking into account the Proposed Acquisition as of December 31, 2011. In particular, RMB1,067.8 million will be used for coal operations, RMB1,636.5 million will be used for transportation operations and RMB540.6 million will be used for coal-related chemical operations. The Target Business Group's expected capital expenditures for 2012 were RMB135.8 million as of December 31, 2011. Assuming that the Proposed Acquisition is completed in 2012 and without considering the consideration of RMB8,446.5 million for the Proposed Acquisition, our expected aggregate capital expenditures for 2012 would be RMB3,380.7 million. See "Financial Information — Capital Expenditures." Such estimated capital expenditures are expected to support the continuation, as well as expansion, of our current operations. For example, spending projections for our operating mines are based on the need to ensure continuous safe and efficient production, and include without limitation the spending for extension of tunnels, inspection and upgrades of equipment, supplementation of ground infrastructure and environmental protection. For mines under construction, spending projections include without limitation the spending on construction and installation. Our planned projects could be delayed or adversely affected by a number of factors beyond our control, including, among others, regulatory approvals and permits, availability of sufficient funding, geological and weather conditions, as well as technical and human resources.

We must obtain PRC government approvals for all of our significant capital investments. We cannot assure you that our projects will be approved or there will not be a delay in securing such approvals. Because the commercial viability of our future development plans for our business depends largely on these projects, our future profitability and financial condition could be materially and adversely affected if any of these projects is not approved, or is not approved on a timely basis.

We have in the past funded our capital investments primarily with cash generated from our operations and through long-term bank loans. We cannot assure you that the cash generated from our operations will be sufficient to fund our development and expansion plans. We may also require further funding for debt servicing, working capital, investments, potential acquisitions, joint ventures and other corporate requirements. External funding is subject to various factors that are beyond our control, including market conditions, government approval, credit availability and interest rates. If we are unable to secure sufficient external funds to finance our capital investment projects, our business, financial condition and results of operations could be materially and adversely affected.

Moreover, actual costs for our capital investments may exceed our original budgets. As a result of project delays, cost overruns, market changes or other unexpected circumstances, we may not be able to achieve the intended economic benefits or maintain commercial viability of these projects, which in turn may materially and adversely affect our business, results of operations, financial condition and growth prospects.

**Our operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance.**

Our coal mining operations involve significant risks and occupational hazards that are inherent in such activities and may not be eliminated through the implementation of preventive measures. These risks and hazards could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, legal liability, damage to our business reputation and corporate image and, in severe cases, fatalities. We cannot guarantee that safety-related accidents will not occur in the future due to adverse operating conditions. Adverse operating conditions that we may experience include:

- unexpected safety-related mining accidents, including mine collapse, gas leaks or explosions, fire and flooding;

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- mining and processing equipment failures and unexpected maintenance problems;
- unfavorable weather conditions, including natural disasters; and
- unorganized mining activities by local small mining companies conducted in areas surrounding our operational mines or mines under development.

Any of the foregoing could have an adverse effect on our operations and revenue, or increase our operating costs, thereby reducing our profit derived from our operations.

The occurrence of any of these events, and the consequences resulting from them, may not be covered adequately, or at all, by our insurance policies. In accordance with what we believe is customary practice for other companies that conduct the same business that we do, none of our mining operating assets, including our long-wall and continuous miner units, coal processing plants and coal loading equipment, are covered by any property insurance. Moreover, consistent with what we believe is the industry standard, we do not carry any business interruption insurance or third-party liability insurance. See “Business — Insurance.” Losses incurred or payments we may be required to make may have a material adverse effect on our business, results of operations and financial condition to the extent such losses or payments are not insured or the insured amount is not adequate.

### **We have not obtained land use right certificates and building ownership certificates to some of the land, buildings and units through which we operate our business.**

As of March 31, 2012, we owned or occupied 62 parcels of land with a total site area of approximately 23.8 million square meters and 607 buildings and units with a total gross floor area of approximately 434.8 thousand square meters, all of which are located in the PRC.

As of the Latest Practicable Date, we had not obtained land use right certificates and/or building ownership certificates to certain land, buildings and units we owned or occupied, including five parcels of land with a total site area of 11,139,024 square meters (among which one parcel of land of 4,873,743 square meters used by Yitai Zhundong Railway Line and one parcel of land of 4,914,264 square meters used by Huzhun Railway Line have been approved by the State Council to convert into land for construction, and one parcel of land of 89,334 square meters has been approved by the People’s Government of Inner Mongolia to be provided by way of land allocation to demonstrate the scientific foundation of our Company’s solar concentrator photovoltaic power station project. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisers, have advised us that there are no material legal impediments to our obtaining the land use right of the above-mentioned three parcels of land and 167 buildings and units with a total gross floor area of 79.3 thousand square meters. We are applying for the relevant legal title certificates to such land, buildings and units. See “Business — Properties.”

We cannot assure you that we will be able to obtain all of the title certificates. Our rights as owner or occupier of these properties may be adversely affected as a result of the absence of title certificates and we may be subject to lawsuits or other actions taken against us and/or lose the right to continue to operate on these properties, which may materially and adversely affect our business, results of operations and financial condition. According to our Directors’ best estimate, if we are unable to obtain the title certificates of the parcels of land are requested to relocate, the total relocation cost would be approximately RMB107.0 million. For more details, please see “Business — Properties.”

### **We cannot guarantee that we will be able to obtain the relevant government approvals in time, or will be successful when developing coal-related chemical operations.**

To further extend our coal industrial chain, we intend to carry out coal-related chemical operations such as the production and sale of synthetic lubricating oil, synthetic wax and solvent naphtha through Yitai Chemical, Yitai Xinjiang and Yitai Yili. For more details, please see “Business — Coal-related Chemical Operations.” We are in the process of applying for the allocation of coal resources, as well as relevant government approvals. In particular, the State Council issued the Circular of the Opinions of NDRC et al. on Controlling the Over-capacity and Repetitive Construction in Certain Industries and Guiding the Healthy Development of the Industries (《國務院批轉發展改革委等部門關於抑制部份行業產能過剩和重複建設引導產業健康發展若干意見的通知》) (the “Circular”). According to the Circular, there were over-capacity and repetitive construction in

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certain industries, including the coal-related chemical industry. The Circular listed principles and measures to guide the healthy development in such industries, including strict market-entry and project approval control, and a combination of control and facilitation regarding different projects. In addition, in March 2011, the NDRC issued the Notice on the Orderly Development of the Coal-related Chemical Industry, which lifted the entry barrier for new entrants, required stricter management of the review and approval processes of new coal-related chemical projects, emphasized environmental protection and energy saving, and implemented an accountability system. While we always consider the likelihood and timing of obtaining the relevant approvals as part of our overall assessment of the feasibility of our proposed projects, there is no guarantee that we will be able to obtain such approvals in time, or at all. In addition, these projects and other new projects and businesses that we may carry out in the future will be subject to risks and uncertainties in a number of areas, including, without limitation, capital requirements and operational risks. Further, there are many factors, some of which are beyond our control, that may adversely affect the construction of facilities for any new business we enter into and make it impossible for us to do so in a timely manner and within budget.

Further, as our coal-related chemical operations employ new technologies, production methods and equipment, we are subject to higher operational risks than with respect to our existing operations. On April 8, 2009, a semi oil storage tank caught fire, which caused damages equivalent to RMB4.8 million, although there was no personal injury or damage to production equipment. We cannot assure you that we will not encounter other accidents, technical difficulties or set-backs in the continuation and possible expansion of our coal-related chemical operations in the future, any of which could result in a significant increase in costs. In addition, the profitability of our coal-related chemical operations depends on international and domestic petroleum prices, which could be volatile, and are affected by various factors beyond our control. Historically, petroleum price is on a steady increase in the last decade. However, it may fluctuate drastically in the near term due to various factors beyond our control. For instance, according to Bloomberg, the WTI petroleum price rose from US\$26.2/barrel in 2002 to US\$94.9/barrel in 2011. As a result of the global financial crisis, the WTI petroleum price dropped from US\$99.9/barrel in 2008 to US\$61.8/barrel in 2009. As the sales price of our coal chemical products will be affected by petroleum price fluctuations, we cannot guarantee that our coal-related chemical projects will be economically viable or continue to generate profits in the future.

### **We rely on key management personnel.**

We believe that the effective operation of our business depends, to a significant extent, upon the experience and continued efforts of our key management personnel, particularly our executive Directors and members of our senior management as listed in “Directors, Supervisors, Senior Management and Employees.” Our senior management team has formulated our strategies and been fundamental to our achievement to date. If we lose any of our key management personnel and are not able to replace them on a timely basis, our business may be disrupted and our business, results of operations and financial condition may be materially and adversely affected.

### **There is no assurance that our Company and our subsidiaries will continue to benefit from preferential tax treatment.**

Under the current PRC laws, our Company and our subsidiaries are subject to PRC corporate income tax. The statutory PRC corporate income tax rate is 25% of taxable income as determined in accordance with the relevant PRC income tax laws and regulations. However, PRC state and local tax laws provide for a number of preferential tax treatments applicable to different enterprises, industries and locations. Pursuant to the “Great Western Development” policy of the PRC Government, our Company and certain of our subsidiaries enjoyed a preferential corporate income tax rate of 15% for the ten years ending December 31, 2020. In July 2011, the MOF, the PRC General Administration of Customs and the SAT jointly issued the Notice on the Tax Policies Relating to the Further Implementation of Great Western Development Strategy (the “SAT Notice”), according to which an enterprise in western China shall enjoy a corporate income tax of 15% from January 1, 2011 to December 31, 2020, provided that (i) over 70% of such enterprise’s revenue is derived from its principal businesses; and (ii) such principal businesses belong to the “encouraged” category of the Western Area Encouraged Industries Catalog to be issued by the PRC Government. In July 2011, the Inner Mongolia State Tax Bureau issued an announcement (the “IMSTB Announcement”), pursuant to which an Inner Mongolia enterprise that previously enjoyed preferential tax treatment under the “Great Western Development” policy may continue to enjoy the preferential corporate income tax rate of 15%, provided that (i) over 70% of such enterprise’s revenue is derived from its principal businesses; (ii) such principal businesses belong to the



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“encouraged” category of the Industry Structure Guidance Index issued by the NDRC; and (iii) the enterprise has obtained a confirmation from the competent state tax bureau. We believe that we are eligible to continue to enjoy the preferential tax treatment according to the IMSTB Announcement and the SAT Notice, and are applying for the confirmation stipulated in the IMSTB Announcement. However, there is no assurance that we will obtain such confirmation in time, or at all.

We and our subsidiaries can apply for new preferential tax treatment but cannot assure you that we will continue to receive such preferential tax treatment. Any change in, or termination of, the preferential tax treatment may result in a significant increase in our tax liability, which would have a material adverse effect on our business, results of operations and financial condition.

**Inspections, examinations, inquiries or audits by PRC regulatory authorities may result in fines, other penalties or actions that could adversely affect our reputation.**

We are subject to various periodic and contingent inspections, examinations, inquiries and audits by PRC regulatory authorities in accordance with applicable PRC laws and regulations, such as safety inspections conducted by SACMS and its local branches. In the past, we have not been subject to corrective actions that indicate any non-compliance issue which have had a material adverse effect on our business, results of operations or financial condition. We cannot assure you that future inspections, examinations and audits by PRC regulatory authorities will not result in fines, other penalties or actions that could materially and adversely affect our business, results of operations or financial condition. In addition, our reputation may be adversely affected if we are fined or otherwise penalised.

**Disputes with our joint venture and other business partners may adversely affect our business.**

In the course of our business, we have in the past formed, and will in the future continue to form, joint ventures or other cooperative relationships with other parties. Our joint venture and other business partners may have economic or business interests or goals that are inconsistent with ours or be unable or unwilling to fulfil their obligations under the relevant joint venture agreements or other cooperative arrangements. A serious dispute with our joint venture or other business partners may cause the loss of business opportunities, disruption to or termination of the relevant project or business venture or lead to potential litigation. As a result, our business, results of operations and financial condition may be materially and adversely affected.

**We are and will continue to be controlled by Yitai Group, whose interests may differ from those of our other shareholders.**

Immediately after the Global Offering, Yitai Group will beneficially own approximately 55.20% of our total issued share capital (or approximately 54.38% if the Over-allotment Option is exercised in full). Therefore, Yitai Group will continue to be our controlling shareholder and will be able to exercise a controlling influence over our business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the issuance of any additional shares or other equity securities;
- the timing and amount of dividend payments; and
- the management of our Company.

As our Directors may serve concurrently as senior management of Yitai Group, there may be an appearance of conflicts of interest. Furthermore, as the interests of Yitai Group may differ from those of our other shareholders from time to time, we cannot assure you that Yitai Group, or the Directors appointed by Yitai Group, will always vote in a way that is in the best interest of our other shareholders.



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**If our Controlling Shareholders fail to perform their obligations under the Non-competition Agreement and other agreements between them and us, our operations will be materially and adversely affected.**

We have entered into the Non-competition Agreement with the Controlling Shareholders, and a number of connected transaction agreements with Yitai Group and its affiliates. See “Relationship with Controlling Shareholders” and “Connected Transactions.”

Pursuant to the Non-competition Agreement, the Controlling Shareholders have undertaken, among other things, not to compete with us in our core businesses and granted us options and pre-emptive rights to acquire the Retained Businesses and any new business opportunities. Pursuant to the Transportation Quota License Agreement, Yitai Group agreed to, among other things, license our transportation quota to us for use at nil consideration. Pursuant to connected transaction agreements, we and Yitai Group will provide each other certain products, materials and services.

The fulfilment by Yitai Group and its affiliates of their respective contractual obligations pursuant to these agreements may therefore have a significant impact on our profitability and ability to operate our business effectively. As such, failure by Yitai Group or its affiliates to fulfil their respective obligations under any of these agreements may have a material adverse effect on our results of operations, financial condition and future prospects.

**Our business is subject to seasonality, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility and adversely affect the price of our shares.**

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenue and results of operations, primarily due to seasonal changes in demand for coal. During the Track Record Period, the sales volume of the first quarter was the lowest of the year primarily because the biggest holiday season, including among others, New Year holidays and spring festivals, is in the first quarter of the year, and our trading amount with our customers was generally lower than other quarters of the year. The sales volume of the first quarter of 2009, 2010 and 2011 was 4.9 million tonnes, 7.6 million tonnes and 8.4 million tonnes, respectively, representing 17.7%, 21.3% and 21.9% of the annual sales volume for 2009, 2010 and 2011, respectively.

Our expenses, however, vary significantly and do not necessarily correspond to changes in the demand for coal and our revenue. We incur maintenance expenses, labor costs and other overhead expenses throughout the year. Therefore, if the demand in the first quarter is the lowest of the year, the revenue generated in the first quarter will be the lowest in turn. And our profit in the first quarter might be the lowest of the year assuming the costs are relatively stable through the year. We expect fluctuations in our revenue and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our shares.

**Our business may be adversely affected by the risks identified in the Competent Person’s Report.**

BOYD has identified several risks in the Competent Person’s Report including, among others, (i) unforeseen geological anomalies which may require alterations of mining plan; (ii) the distribution of remaining marketable reserves by individual mine site may result in some of the operating mines have a relatively short remaining mine life; (iii) extraordinary weather occurrences can result in disruption to the mining operations; (iv) variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities; (v) subsidence of the overlying strata may occur due to the longwall mining practices; (vi) event risks such as major underground fires, explosions and floods; (vii) passage of more restrictive or onerous government regulations could have adverse effects on our operations; and (viii) a substantial reduction in market prices would have a material effect on financial performance. See “Appendix V — Competent Person’s Report” for details. Our business may be adversely affected if any of these risks materialized.

There might be unforeseeable changes in regulations of the coal industry in China that are not disclosed in the Competent Person’s Report but would have material and adverse affect on our operations in the future. In addition, to prepare the Competent Person’s Report, BOYD relies on information developed by others. As a result, the findings and conclusions in the Competent Person’s Report might not be accurate if any information developed by third parties was inaccurate, and our business prospect might be different. Furthermore, the

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Competent Person's Report only reflects the mining and marketing conditions and BOYD's interpretation of regulations of the coal industry in China as of the date of the Competent Person's Report, and BOYD is not responsible for updating the Competent Person's Report after the date of the Competent Persons' Report.

### RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantially all of our assets are located in China and all of our revenue is generated in China. Accordingly, our results of operations, financial condition and prospects are to a significant degree subject to a number of risks relating to conducting business in China.

#### **Changes in China's economic, political and social conditions as well as governmental policies could affect our results of operations and financial condition.**

China's economy differs from the economies of most developed countries in many respects, including the structure of the economy, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange and allocation of resources. China's economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

China has been one of the world's fastest growing economies as measured by GDP in recent years. However, China may not be able to sustain such a growth rate. In order to maintain the sustainable growth of the economy, the PRC government from time to time implements various macroeconomic and other policies and measures, including contractionary or expansionary policies and measures at times of or in anticipation of changes in China's economic condition. Since 2008, there has been a slowdown in the growth of the Chinese economy primarily as a result of the global financial crisis and the deterioration in the global economy. In an effort to stimulate the growth of the Chinese economy, the PRC government has implemented and may continue to implement various monetary and other economic measures to expand investments in infrastructure projects, increase liquidity in the credit markets and encourage employment. However, there is no assurance that such monetary and economic measures will succeed in the future.

In the future, we may not continue to benefit from all, or any, of the economic reform measures, or the monetary or other economic measures adopted by the PRC government in response to the slowdown of the Chinese economy. In addition, we cannot predict whether changes in the PRC's political, economic or social conditions, laws, regulations or policies will have any adverse effect on our current or future business, results of operations or financial condition.

#### **Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and our ability to pay dividends to holders of our H Shares.**

The Renminbi currently is not a freely convertible currency. We receive almost all of our revenues in Renminbi and will need to convert Renminbi to foreign currency in order to meet our foreign currency obligations such as payment of dividends, if any, to holders of our H Shares.

Under the current foreign exchange regulations in the PRC, following completion of the Global Offering, we will be permitted to undertake current account foreign exchange transactions, including payment of dividends, without prior approval from the SAFE. There can be no assurance that the PRC government will not restrict access to foreign currency for capital account and current account transactions. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require prior approval of the SAFE. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditures, and could materially and adversely affect our business, results of operations and financial condition.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in domestic and international political and economic conditions. Since mid-2005, the

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PRC government has adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. Subsequent to mid-2005, the Renminbi appreciated significantly against the U.S. dollar. Since mid-2008, the exchange rate between the Renminbi and U.S. dollar has remained relatively stable. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may materially and adversely affect the value of, and any dividends payable on, our H Shares in foreign currency terms. See “Financial Information — Market Risks — Foreign Exchange Risk.” We are also currently required to obtain the approval of SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

### **Payment of dividends is subject to restrictions under PRC law.**

Under the PRC law, dividends may be paid only out of distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, the net profits for a period, plus the distributable profits or less the accumulated losses, if any, at the beginning of such period, less appropriations to statutory surplus reserve (determined under PRC GAAP), general reserve, and discretionary surplus reserve (as approved at our shareholders’ meeting). As a result, we may not have sufficient distributable profits to make dividend distributions to our shareholders in the future, including in respect of periods where we register an accounting profit. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

### **The PRC legal system is continuously evolving and has inherent uncertainties that could limit the legal protection available to you.**

As we are a company incorporated under PRC law and most of our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as references. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a significant degree of uncertainty.

As a PRC company offering and listing its H Shares in Hong Kong, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of our H Shares on the Hong Kong Stock Exchange, the Listing Rules will become a principal basis for the protection of the rights of holders of our H Shares. The Listing Rules impose particular standards of conduct and disclosure on our Company, our Directors and the controlling shareholders of our Company. As far as we are aware, China has not published any case report that involves a request by a holder of H shares of a PRC company to exercise his or her rights under any constitutional document of a joint stock limited company, the PRC Company Law or any regulatory provisions of the PRC applicable to PRC joint stock limited companies.

Further, substantial amendments to the PRC Company Law (《中華人民共和國公司法》) and the PRC Securities Law (《中華人民共和國證券法》) came into effect on January 1, 2006. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations to implement and reflect amendments to the PRC Company Law and the PRC Securities Law. We cannot assure you that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have an adverse effect on the rights of holders of H Shares.

In addition, we may be subject to various new regulations or policies relating to accounting standards or financial reporting, which may be issued by the relevant authorities in the PRC or Hong Kong or by the International Accounting Standard Board from time to time. Any changes in our accounting policies and estimates may have a significant impact on the reporting of our financial statements, including on our reported profit and shareholders’ equity, and we may be required to adjust or restate our financial statements.

**You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.**

The legal framework to which our Company is subject is substantially different from the Hong Kong Companies Ordinance or corporate law in the United States and other jurisdictions in certain respects, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. On January 1, 2006, amendments made to the PRC Company Law came into effect to allow shareholders to commence an action against the directors, supervisors, senior management or any third party on behalf of a company under certain circumstances.

Although we will be subject to the Listing Rules, the Codes on Takeovers and Mergers and Share Repurchases and other related rules and regulations upon the listing of the H Shares on the Hong Kong Stock Exchange, the holders of our H Shares will not be able to bring actions on the basis of any violations of the Listing Rules and must rely on the Hong Kong Stock Exchange or other relevant authorities to enforce such rules. The Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned* 《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》. Under such arrangement, where any designated People's Court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement came into effect on August 1, 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain.

Our Articles of Association and the Listing Rules provide that most disputes between holders of H Shares and our Company or our Directors, Supervisors or senior management arising out of the Articles of Association or the PRC Company Law and related regulations concerning our Company's affairs, such as transfer of its H Shares, are to be resolved through arbitration. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This arrangement, made in accordance with the spirit of the *New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards* 《承認及執行外國仲裁裁決公約》, was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. Under the arrangement, awards that are made by the PRC arbitral authorities pursuant to the PRC Arbitration Law can be enforced in Hong Kong, and awards made by the Hong Kong arbitral authorities under the Arbitration Ordinance of Hong Kong are also enforceable in the PRC. However, so far as we are aware, no action has been brought in the PRC by a holder of H shares of a PRC company to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favour of a holder of H Shares. Accordingly, we are unable to predict the outcome of any such action.

China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or impossible.

#### **Holders of our H Shares may be subject to PRC taxation.**

Under the current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares.

Foreign individuals who are not PRC residents are currently exempted from PRC individual income tax on gains realized by such individuals upon the sale of H shares. The dividends and bonuses distributed to foreign

individuals by foreign-invested enterprises are temporarily exempt from individual income tax in China. If the PRC government withdraws the exemption in the future, such foreign individuals may be required to pay PRC individual income tax, subject to applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside that reduce, or provide an exemption for, the relevant tax obligations.

For foreign enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, under the new PRC Enterprise Income Tax Law, which became effective from January 1, 2008, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a rate of 20%. Pursuant to the implementation rules to the new PRC Enterprise Income Tax Law, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence.

As the new tax law and the implementation rules relating thereto are new, there remains significant uncertainty as to their interpretation and application by the PRC tax authorities. The implementation of enterprise income tax on capital gains remains uncertain. The PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the new tax law and the related implementation rules are amended, the value of your investment in our H Shares may be materially affected. See "Appendix VII — Taxation and Foreign Exchange" for further details.

**There may be an occurrence of a widespread public health problem.**

An outbreak of any widespread public health problem in China, such as Severe Acute Respiratory Syndrome, or SARS, avian influenza or H1N1 influenza, could have a negative effect on our business, financial condition and results of operations. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and facilities, travel restrictions, major sickness or death of our key senior management and employees and a general slowdown in China's economy.

**RISKS RELATING TO THE GLOBAL OFFERING**

**An active trading market for our H Shares may not develop, and their trading prices may fluctuate significantly.**

Prior to the Global Offering, there has been no public market for our H Shares. The initial price range disclosed to the public for our H Shares was the result of negotiations among us and the Joint Bookrunners on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for the H Shares following the Global Offering. We have applied to list and deal in the H Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for the H Shares. In addition, the price and trading volumes of the H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments relating to our Company may affect the volume and price at which the H Shares will be traded.

**The characteristics of the B share and H share markets are different.**

Our B Shares have been listed and traded on the SHSE since 1997. Following the Global Offering, our B Shares will continue to be traded on the SHSE, and our H Shares will be traded on the Hong Kong Stock Exchange. Without approval from the relevant regulatory authorities, our B Shares and H Shares are neither interchangeable nor fungible, and there is no trading or settlement between the B share and the H share markets. The B share and H share markets have different trading characteristics (including trading volume and liquidity) and investor bases, including different levels of retail and institutional participation. As a result of these differences, the trading price of our B Shares and H Shares may not be the same. There can be no assurance that the price of our H Shares will be greater than or equal to that of our B Shares in the future. Moreover, fluctuations in our B Share price may affect our H Share price, and vice versa.

**Because the Offer Price is higher than the net tangible book value per Share, the holders of H Shares will incur immediate dilution.**

The Offer Price of the H Shares is higher than the net tangible book value per Share as of December 31, 2011. Therefore, purchasers of the H Shares in the Global Offering will experience an immediate dilution in pro



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forma net tangible book value of HK\$17.36 per H Share based on our net tangible book value per share as of December 31, 2011 (assuming an Offer Price of HK\$48.00, which is the mid-point of our indicative Offer Price range, and assuming the Over-allotment Option is not exercised), and our existing shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our H Shares may experience further dilution of their interests if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

**Future sales or perceived sales of substantial numbers of our H Shares in the public market could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future.**

The market price of our H Shares could decline as a result of future sales of substantial numbers of our H Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial numbers of our Shares could also materially and adversely affect the prevailing market price of our H Shares or our ability to raise capital in the future at a time and at a price favorable to us, and our shareholders would experience dilution in their holdings upon issuance or sale of additional securities for any purpose, including, among other things, to improve our capital adequacy in the future.

**We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the Chinese economy and China's coal and coal-related industries contained in this Prospectus.**

Facts, forecasts and other statistics in this Prospectus relating to China, the Chinese economy and China's coal industry have been derived from official government publications and we can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by our Company, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts or statistics, which may not be consistent with other information compiled within or outside China. Our Directors have reproduced the data and statistics extracted from official government publications in a reasonably cautious manner. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Further, there is no assurance that they have been stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts and statistics.

**Since there will be a time gap between the pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.**

The initial price for sale and subscription of our H Shares to the public will be determined on the date of pricing, which is expected to be on or about July 6, 2012. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Business Days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins, such as a fall in our B Share price.

**Dividends declared in the past may not be indicative of our dividend policy in the future.**

We declared dividends in respect of 2009, 2010 and 2011 of RMB732.0 million, RMB2,196.0 million and RMB2,196.0 million, respectively. Dividends paid or declared in respect of prior periods may not be indicative of future dividend payments. We cannot guarantee when, if or in what form dividends will be paid in the future. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits available to enable us to make dividend distributions to our shareholders in the future, even if our IFRS financial statements indicate that our operations have been profitable. See "Financial Information—Dividend Policy."



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**We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.**

Prior to the publication of this Prospectus, there has been press and media coverage regarding us and the Global Offering which may or may not include certain financial projections and other information about us and the Global Offering that does not appear in our Prospectus. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this Prospectus is inconsistent or consistent with the information contained in this Prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our H Shares, you should rely only on the financial, operational and other information included in this Prospectus.

## FORWARD-LOOKING STATEMENTS

We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in China's coal and coal-related products market;
- rules and regulations imposed on the coal industry by the PRC Government;
- our strategy, plans, objectives and goals;
- general economic conditions;
- changes in regulatory or operating conditions in the market in which we operate;
- our ability to reduce costs;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in "Financial Information" with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

In some cases, we use the words "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "going forward," "intend," "ought to," "may," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and similar expressions to identify forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. The Directors confirm that these forward-looking statements are made by the Directors after due and careful considerations and on bases and assumptions that are fair and reasonable. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to this cautionary statement.

## **CONNECTED TRANSACTIONS**

Members of our Group have entered and are expected to enter into certain transactions, which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. We have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the announcement and/or independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for such non-exempted continuing connected transactions. For further details of such waiver, see "Connected Transactions."

## **MANAGEMENT PRESENCE IN HONG KONG**

According to Rule 8.12 and Rule 19A.15 of the Listing Rules, except as otherwise permitted by the Hong Kong Stock Exchange in its discretion, an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since substantially all of our Group's operations are in the PRC, our Group does not and, for the foreseeable future, will not have a management presence in Hong Kong. Currently, substantially all of our Directors reside in the PRC. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under and in respect of Rule 8.12 and Rule 19A.15 of the Listing Rules.

The arrangements proposed by us for maintaining regular communications with the Hong Kong Stock Exchange for the purpose of Rule 8.12 and Rule 19A.15 of the Listing Rules are as follows:

- our Company has one independent non-executive Director who ordinarily resides in Hong Kong;
- our Company will appoint Mr. Liu Chunlin, an executive Director of our Company and Ms. Jian Qing'e, the secretary to the board of our Company and one of the joint company secretaries as our two authorized representatives pursuant to Rule 3.05 of the Listing Rules. The authorized representatives will act as our Company's principal channel of communication with the Hong Kong Stock Exchange, will provide their usual contact details to the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile and e-mail by the Hong Kong Stock Exchange, if necessary, to deal with enquiries from the Hong Kong Stock Exchange from time to time;
- our Company has appointed Ms. Lee Mei Yi, who is an associate of both The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, as one of our joint company secretaries. Each of Mr. Liu Chunlin and Ms. Jian Qing'e would also like to appoint Ms. Lee Mei Yi as their respective alternate in the capacity of authorized representatives of our Company. Ms. Lee Mei Yi is ordinarily resident in Hong Kong. She will maintain constant contact with Ms. Jian Qing'e and the Directors and senior management of our Company through various means, including regular meetings, telephone discussions and whenever necessary;
- the authorized representatives and the alternative authorized representative of our Company will have the means of contacting all Directors promptly at all times, as and when the Hong Kong Stock Exchange wishes to contact our Directors on any matters;
- all Directors have provided their respective mobile phone numbers, office phone numbers, fax numbers and e-mail addresses to the Hong Kong Stock Exchange;
- all Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong for business purpose and would be able to come to Hong Kong and meet with the Hong Kong Stock Exchange upon reasonable notice; and
- our Company will, in accordance with the requirement of Rule 3A.19 and Rule 19A.05 of the Listing Rules, retain CICC as our compliance adviser to provide our Company with professional advice on continuous compliance with the Listing Rules. Such retention will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. The compliance adviser will provide professional advice on matters relating to compliance with the Listing Rules and other obligations for companies listed in Hong Kong. The compliance adviser will, in addition to the authorized representatives and alternative authorized representative, act as our Company's principal channel of communication with the Hong Kong Stock Exchange. The compliance adviser shall have

access at all times to our authorized representatives and our alternative authorized representative, our Directors and other senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Hong Kong Stock Exchange in respect of our Company.

## **QUALIFICATION OF COMPANY SECRETARY**

According to Rule 8.17 and Rule 3.28 of the Listing Rules, the secretary of our Company must be a person who has the requisite knowledge and experience to discharge the functions of a company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister (as defined in the Legal Practitioners Ordinance) or a certified public accountant (as defined in the Professional Accountants Ordinance), or (ii) an individual who, by virtue of his or her academic or professional qualifications or relevant experiences, is in the opinion of the Hong Kong Stock Exchange capable of discharging those functions.

Our Company has appointed Ms. Jian Qing'e as one of the joint company secretaries who is experienced in handling administrative work and preparing meeting materials for the Board, and has a thorough understanding of the internal systems, daily operation and administration of the Board, our Company and our Group. However, Ms. Jian does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules and may not be able to solely fulfill the requirements as stipulated under Rules 8.17 and Rule 3.28 of the Listing Rules. As such, our Company has appointed Ms. Lee Mei Yi as another joint company secretary who is able to fully comply with the requirements set out under Rule 8.17 and Rule 3.28 of the Listing Rules.

Over a period of one year from the Listing Date, our Company proposes to implement the following measures to assist Ms. Jian to become a joint company secretary who possesses all the requisite qualifications as required under the Listing Rules:

- Ms. Lee Mei Yi will assist and guide Ms. Jian in her discharge of duties as a joint company secretary and in gaining the relevant experience as required by the Listing Rules;
- as our Company's principal channel of communication with the Hong Kong Stock Exchange, Ms. Lee is expected to work closely with Ms. Jian in respect of any communications with the Hong Kong Stock Exchange;
- our Company has appointed Ms. Jian as the contact person within our Company to Ms. Lee in compliance with the code provision F1.1 of Appendix 14 of the Listing Rules;
- both Ms. Jian and Ms. Lee will be advised by our Hong Kong legal adviser and CICC, the compliance adviser of our Company, as and when required; and
- our Company will ensure Ms. Jian has access to the relevant training and support to enable her to familiarise herself with the Listing Rules and the duties required for a company secretary of a PRC issuer listed on the Hong Kong Stock Exchange.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under and in respect of Rule 8.17 of the Listing Rules. The waiver is valid for an initial period of one year from the Listing Date. Upon the expiry of such one-year period, our Company will re-evaluate the qualifications and experience of Ms. Jian to consider whether the requirements stipulated in Rules 8.17 of the Listing Rules can be satisfied. In the event Ms. Lee Mei Yi, during such one-year period, ceases to provide assistance and guidance to Ms. Jian, the waiver will be revoked with immediate effect.

## **PUBLIC FLOAT REQUIREMENTS**

Rule 8.08(1)(a) and (b) of the Listing Rules require that there must be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalisation at the time of listing of not less than HK\$50 million.

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 8.08(1)(b) of the Listing Rules to allow a minimum public float for H Shares to be higher of (a) 10% of the total issued Shares; or (b) a higher percentage after completion of the Global Offering and the exercise of the Over-allotment Option.

The above waiver is subject to the condition that we will make appropriate disclosure of the lower prescribed percentage of public float in the Prospectus and we will confirm sufficiency of public float in our successive annual report after the Listing. In the event that the public float percentage falls below the minimum percentage prescribed by the Hong Kong Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Hong Kong Stock Exchange is complied with.

## SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS

Rule 10.04 of the Listing Rules requires that existing shareholders may only subscribe for securities provided no securities will be offered to them on a preferential basis and no preferential treatment will be given to them in the allocation of the securities and that the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved.

Our Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Listing Rule 10.04 and the consent under paragraph 5(2) of Appendix 6 to the Listing Rules in relation to the placing of our H Shares with our existing B Shareholders or their associates under the International Offering.

The above waiver has been granted by the Hong Kong Stock Exchange on the conditions that:

- no Director, Supervisor and senior management of our Company will participate directly or indirectly in the H Shares offering;
- the Existing B Shares Shareholders individually hold less than 2% of our Company's issued share capital immediately prior to the H Shares listing, and have no influence over our Company's share allocation process and no board representation in our Company;
- none of the Existing B Shares Shareholders has been and will be connected person or an associate of the connected person of our Company and therefore will not negatively impact our Company's ability to meet the public float requirements under Rule 8.08; and
- the Existing B Shares Shareholders will be subject to the same book building process and allocation process as other investors in the International Placing and no preferential treatment will be given to them in the allocation.

Any placing of our H Shares with our existing B Shareholders will be conducted in accordance with all applicable PRC and Hong Kong laws and regulations.

## GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD. ("GIC") TO BE ALLOCATED H SHARES IN THE INTERNATIONAL OFFERING OF THE COMPANY AS A PLACEE

According to Paragraph 5(1) of Appendix 6 of the Listing Rules, "no allocations will be permitted to "connected clients" of the lead broker or of any distributors (as defined in paragraph 13)... without the prior written consent of the Exchange". Paragraph 13 of Appendix 6 of the Listing Rules states that "Connected client" in relation to an Exchange Participant means any client of such member who is... where the Exchange Participant is a company... (a) any person who is a substantial shareholder of such Exchange Participant."

GIC is a sovereign wealth fund wholly owned by the Government of Singapore and is currently holding 16.35% of the registered capital of China International Capital Corporation, which is the parent company of

|                                                              |
|--------------------------------------------------------------|
| <b>WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES</b> |
|--------------------------------------------------------------|

CICC. As CICC is one of the Joint Sponsors, Joint Bookrunners and Joint Lead Managers for our Company in connection with our proposed Global Offering, GIC will fall into the definition of “connected clients” of CICC by virtue of being a “substantial shareholder” of a lead broker and distributor in the proposed Global Offering under paragraph 5(1) of Appendix 6 of the Listing Rules.

An application has been made to the Hong Kong Stock Exchange for a waiver from strict compliance with paragraph 5(1) of Appendix 6 of the Listing Rules for GIC to be allocated H Shares in the International Offering of our Company as a placee on the basis that, among others, such allocation of H Shares will not have undue influence on future fair share allocation process or cause any unfair treatment to other investors. Such waiver has been granted by the Hong Kong Stock Exchange on the condition that GIC can be allocated H Shares in the International Offering of the Company as a placee only when:

- there is insufficient public demand for the Global Offering (including both the public subscription and the international placing tranches), and is not fully subscribed for at the lowest price in the announced price range of the offering; and
- information on the amount of shares allocated to GIC would be disclosed in the allotment results announcement and the placee lists to be submitted to the Hong Kong Stock Exchange prior to listing.



## **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This Prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Companies Ordinance, the securities and futures (Stock Market Listing) rules of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Prospectus 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 in this Prospectus misleading.

## **CSRC APPROVAL**

The CSRC issued an approval letter on April 5, 2012 for the Global Offering and for the submission of the application to list our H Shares on the Hong Kong Stock Exchange. In granting its approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this Prospectus or in the Application Forms.

## **UNDERWRITING**

This Prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of Global Offering. For applicants applying under the Hong Kong Public Offering, this Prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Global Offering comprises the Hong Kong Public Offering of initially 16,267,000 H Shares and the International Offering of initially 146,400,000 H Shares (subject, in each case, to reallocation on the basis described in "Structure of the Global Offering" and without taking into account the exercise of the Over-allotment Option).

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by CICC and BOCI as the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Bookrunners, on behalf of the Underwriters, and us. The International Offering is managed by the Joint Bookrunners and is expected to be underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or about July 6, 2012, subject to agreement on the Offer Price between our Company and the Joint Bookrunners, on behalf of the Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners, on behalf of the Underwriters, on or before July 10, 2012, or such later date or time as may be agreed between the Joint Bookrunners (on behalf of the Underwriters) and our Company, the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this Prospectus.

## **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be determined by the Joint Bookrunners (on behalf of the Underwriters) and us on or around July 6, 2012, and in any event no later than July 10, 2012.

If the Joint Bookrunners (on behalf of the Underwriters) and we are unable to reach an agreement on the Offer Price on or before July 10, 2012, or such later date or time as may be agreed between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

## **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this Prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus and the related Application

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Underwriters and any of their respective directors, supervisors, officers, employees, agents or representatives or any other persons or parties involved in the Global Offering.

Neither the delivery of this Prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this Prospectus or imply that the information contained in this Prospectus is correct as of any date subsequent to the date of this Prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this Prospectus and in the relevant Application Forms.

### RESTRICTIONS ON OFFERS AND SALES OF THE OFFER SHARES

Each person acquiring Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or by his acquisition of Hong Kong Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this Prospectus.

No action has been taken to permit a Hong Kong Public Offering of the Offer Shares or the general distribution of this Prospectus and/or the related Application Form in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold and will not be offered or sold, directly or indirectly, in the PRC.

### APPLICATION FOR LISTING FOR OUR H SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, our Offer Shares to be issued or sold pursuant to the Global Offering (including any additional H Shares which may be issued or sold by us pursuant to the exercise of the Over-allotment Option).

Save for our B Shares, which are listed on the SHSE in the PRC, no part of the Share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Hong Kong Companies Ordinance, any allotment made in respect of any application will be invalid if the granting of listing of, and permission to deal in, the Offer Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Hong Kong Stock Exchange.

### REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF OUR H SHARES

We have instructed the H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until such holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of the shareholders, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

- (ii) agrees with us, each of our shareholders, Directors, Supervisors, our senior management, and we acting for ourselves and for each of the Directors, the Supervisors, our senior management agree with each of our shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive. See “Appendix VIII — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix IX — Summary of the Articles of Association of our Company”;
- (iii) agrees with us and each of our shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his or her behalf with each of the Directors and our senior management whereby such Directors and senior management undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not associates of any of the Directors of our Company or an existing shareholder of our Company or a nominee of any of the foregoing.

#### **H SHARES REGISTER AND STAMP DUTY**

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited at shop 1712-1716, 17<sup>th</sup> floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Our principal register of members will also be maintained by us at our head office in the PRC.

Dealings in the H Shares registered in our H Shares register will be subject to Hong Kong stamp duty. See “Appendix VII — Taxation and Foreign Exchange.”

#### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

#### **PROFESSIONAL TAX ADVICE RECOMMENDED**

We recommend that applicants for the Offer Shares consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the H Shares. It is emphasised that none of us, the Joint Sponsors, the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the H Shares resulting from the subscription, purchase, holding, disposal of, dealing in, or exercise of any rights in relation to, the H Shares.

#### **OVER-ALLOTMENT OPTION AND STABILIZATION**

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in “Structure of the Global Offering — The Global Offering — Over-allotment Option” and “Underwriting — Stabilization And Over-allotment.”

## PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set forth in “How to Apply for the Hong Kong Offer Shares” and in the relevant Application Forms.

## STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in “Structure of the Global Offering.”

## LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. The translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations, natural persons or other entities (including certain of our subsidiaries) and the like included in this Prospectus and for which no official English translation exists are unofficial translations for your reference only.

## ROUNDING

Any discrepancies in any table or chart between the total shown and the sum of the amounts listed thereon are due to rounding. Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments, or have been rounded to one decimal place.

## MARKET SHARE DATA

The statistical and market share information contained in this Prospectus has been derived from official government publications, market data providers and other independent third-party sources. Unless otherwise indicated, the information has not been verified by us independently. This statistical information may not be consistent with other statistical information from other sources within or outside the PRC. While reasonable caution has been made in the process of reproducing the data and statistics extracted from such official government publications or other sources, the Joint Sponsors and our Company, or any of their directors, employees, agents, and representatives make no representation to the appropriateness, accuracy, completeness or reliability of any such statistical and market share information.

## SEGMENT REVENUE AND EXTERNAL REVENUE

Unless otherwise indicated, the term “segment revenue” used in this Prospectus refers to the revenue of a business segment after elimination of inter-segment revenue.

## EXCHANGE RATE CONVERSION

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into HK dollars and of Renminbi into U.S. dollars at specified rates. We make no representations and none should be construed as being made, that any of the Renminbi, HK dollar or U.S. dollar amounts contained in this Prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date. Unless indicated otherwise, the translation of Renminbi into HK dollars was made at the rate of RMB0.8120 to HK\$1.00, the exchange rate prevailing on the Latest Practicable Date, set by PBOC for foreign exchange transactions. The translation of Renminbi into U.S. dollars was made at the rate of RMB6.3004 to US\$1.00, the exchange rate prevailing on the Latest Practicable Date. Further information on exchange rates is set forth in “Appendix VII — Taxation and Foreign Exchange.”

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| DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING |
|--------------------------------------------------------------------|

## DIRECTORS

| <u>Name</u>                                | <u>Residential Address</u>                                                                                             | <u>Nationality</u> |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------|
| <i>Executive Directors</i>                 |                                                                                                                        |                    |
| Zhang Donghai (張東海)                        | No.100, No.4 Block<br>North Jilaoqing Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China                       | Chinese            |
| Liu Chunlin (劉春林)                          | Room 402, No.91, Lane 811<br>East Boshan Road<br>Pudong New Area<br>Shanghai, China                                    | Chinese            |
| Ge Yaoyong (葛耀勇)                           | No. 9, Unit 1, Building No.8<br>Youyi District, Xuejiawan Town<br>Jungar Banner, Ordos<br>Inner Mongolia, China        | Chinese            |
| Zhang Dongsheng (張東升)                      | No. 9, No. 17 Block<br>North Jilaoqing Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China                      | Chinese            |
| Kang Zhi (康治)                              | No. 1-2-201, No. 8 Block<br>Baoritaohai East Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China                | Chinese            |
| Zhang Xinrong (張新榮)                        | No. 15-3-331, No. 6 Block<br>Dalate South Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China                   | Chinese            |
| Lv Guiliang (呂貴良)                          | No. 12, No. 21 Block<br>Hangmian North Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China                      | Chinese            |
| <i>Independent non-executive Directors</i> |                                                                                                                        |                    |
| Xie Xianghua (解祥華)                         | No.17, Unit 3, Building No. 6<br>Hai Community, Bayi Road<br>Xincheng District, Huhhot<br>Inner Mongolia, China        | Chinese            |
| Lian Junhai (連俊孩)                          | No. 789, Chengguan Town<br>Horinger Town<br>Inner Mongolia, China                                                      | Chinese            |
| Song Jianzhong (宋建中)                       | No. 5, Building No. 15<br>Area 6, Qingsong Residential Community<br>Kundulun District, Baotou<br>Inner Mongolia, China | Chinese            |
| Tam Kwok Ming, Banny (譚國明)                 | 38 H. Tower 2 Cheerful Garden<br>Siu Sai Wan, Hong Kong                                                                | Chinese            |

# DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

## SUPERVISORS

| <u>Name</u>           | <u>Residential Address</u>                                                                           | <u>Nationality</u> |
|-----------------------|------------------------------------------------------------------------------------------------------|--------------------|
| Li Wenshan (李文山)      | No.109, No.17 Block<br>Daqiao Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China             | Chinese            |
| Zhang Mingliang (張明亮) | No.10, Group 4<br>Zhangjiata, Xuejiawan Town<br>Jungar Banner, Ordos<br>Inner Mongolia, China        | Chinese            |
| Wang Sanmin (王三民)     | No. 8-402, Jiguanhu<br>Xini Town<br>Hangjin Banner, Ordos<br>Inner Mongolia, China                   | Chinese            |
| Ji Zhifu (姬志福)        | No. J-1, No.1 Block<br>Tianjiao Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China           | Chinese            |
| Han Zhanchun (韓占春)    | No. 4-1-501, No. 2 Block<br>North Hangjin Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China | Chinese            |
| Wang Yongliang (王永亮)  | No. 104, No. 4 Block<br>Narisong Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China          | Chinese            |
| Wu Qu (鄢曲)            | No. 42, No. 6 Block<br>South Yihua Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China        | Chinese            |

## PARTIES INVOLVED

|                          | <u>Name and Address</u>                                                                                                                                                                                                                                                                           |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Joint Sponsors</b>    | China International Capital Corporation<br>Hong Kong Securities Limited<br>29 <sup>th</sup> Floor, One International Finance Centre<br>1 Harbour View Street<br>Central, Hong Kong<br><br>BOCI Asia Limited<br>26 <sup>th</sup> Floor, Bank of China Tower<br>1 Garden Road<br>Central, Hong Kong |
| <b>Joint Bookrunners</b> | China International Capital Corporation<br>Hong Kong Securities Limited<br>29 <sup>th</sup> Floor, One International Finance Centre<br>1 Harbour View Street<br>Central, Hong Kong                                                                                                                |



|                                                                    |
|--------------------------------------------------------------------|
| DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING |
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Merrill Lynch International  
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Macquarie Capital Securities Limited  
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**Joint Lead Managers**

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|--------------------------------------------------------------------|
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China Merchants Securities (HK) Co., Limited  
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Macquarie Capital Securities Limited  
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 1 Harbour View Street  
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**Auditors and reporting accountants**

Ernst & Young  
 Certified Public Accountants  
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 1 Tim Mei Avenue  
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**Legal advisors to our Company**

*as to Hong Kong and U.S. law*

Clifford Chance  
 28<sup>th</sup> Floor, Jardine House  
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 Central, Hong Kong

*as to PRC law*

Jingtian & Gongcheng Attorneys at Law  
 34<sup>th</sup> Floor, Tower 3, China Central Place  
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 Beijing, China

**Legal advisors to the Joint Sponsors and the Underwriters**

*as to Hong Kong law and U.S. law*

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|                                                                    |
|--------------------------------------------------------------------|
| DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING |
|--------------------------------------------------------------------|

Name and Address

*as to PRC law*

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Property valuer

CBRE HK Limited  
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Competent person and competent evaluator

John T. Boyd Company  
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Canonsburg, PA 15317  
United States of America

Receiving banks

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1 Garden Road  
Hong Kong

Bank of Communications Co., Ltd.  
Hong Kong Branch  
20 Pedder Street  
Central, Hong Kong

Wing Lung Bank Limited  
45 Des Voeux Road  
Central, Hong Kong

## CORPORATE INFORMATION

|                                                                           |                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Registered office, principal place of business in the PRC and headquarter | Yitai Building, North Tianjiao Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China                                                                                                                                                                                                                                                                          |
| Principal place of business in Hong Kong                                  | Level 28, Three Pacific Place<br>1 Queen's Road East<br>Hong Kong                                                                                                                                                                                                                                                                                                  |
| Company's website                                                         | www.yitaicoal.com<br><br><i>(information on the website does not form part of this Prospectus)</i>                                                                                                                                                                                                                                                                 |
| Joint Company secretaries                                                 | Jian Qing'e<br>Lee Mei Yi, ACIS, ACS                                                                                                                                                                                                                                                                                                                               |
| Authorized representatives                                                | Liu Chunlin<br>Room 402, No. 91, Lane 811<br>East Boshan Road<br>Pudong New Area<br>Shanghai, China<br><br>Jian Qing'e<br>No. 2-2-242, No. 1 Block<br>South Hangjin Road<br>Dongsheng District, Ordos<br>Inner Mongolia, China<br><br>Lee Mei Yi (as Liu Chunlin and Jian Qing'e's alternate)<br>Level 28, Three Pacific Place<br>1 Queen's Road East<br>Hong Kong |
| Strategic Planning Committee                                              | Zhang Donghai (Chairman)<br>Liu Chunlin<br>Ge Yaoyong<br>Zhang Dongsheng<br>Kang Zhi<br>Zhang Xinrong<br>Lv Guiliang<br>Song Jianzhong<br>Xie Xianghua<br>Lian Junhai<br>Tam Kwok Ming                                                                                                                                                                             |
| Audit Committee                                                           | Lian Junhai (Chairman)<br>Xie Xianghua<br>Song Jianzhong<br>Tam Kwok Ming                                                                                                                                                                                                                                                                                          |
| Remuneration and Assessment Committee                                     | Xie Xianghua (Chairman)<br>Zhang Donghai<br>Liu Chunlin<br>Ge Yaoyong<br>Song Jianzhong<br>Lian Junhai<br>Tam Kwok Ming                                                                                                                                                                                                                                            |

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| CORPORATE INFORMATION |
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|                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nomination Committee | <p>Song Jianzhong (Chairman)</p> <p>Zhang Donghai</p> <p>Liu Chunlin</p> <p>Ge Yaoyong</p> <p>Xie Xianghua</p> <p>Lian Junhai</p> <p>Tam Kwok Ming</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Production Committee | <p>Zhang Donghai (Chairman)</p> <p>Ge Yaoyong</p> <p>Zhang Xinrong</p> <p>Lian Junhai</p> <p>Xie Xianghua</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Compliance adviser   | <p>China International Capital Corporation</p> <p>Hong Kong Securities Limited</p> <p>29<sup>th</sup> Floor, One International Finance Centre</p> <p>1 Harbour View Street</p> <p>Central, Hong Kong</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| H Share Registrar    | <p>Computershare Hong Kong Investor Services Limited</p> <p>Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre</p> <p>183 Queen's Road East</p> <p>Wanchai, Hong Kong</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Principal banks      | <p>Industrial and Commercial Bank of China</p> <p>Ordos Dongsheng Sub-branch</p> <p>No. 4 Baoritaohai East Road</p> <p>Dongsheng District, Ordos</p> <p>Inner Mongolia, China</p> <p>Bank of China Limited</p> <p>Ordos Branch</p> <p>No. 29 Yijinhuoluo West Road</p> <p>Dongsheng District, Ordos</p> <p>Inner Mongolia, China</p> <p>China Development Bank</p> <p>No. 16 Taipingqiao Street</p> <p>Xicheng District</p> <p>Beijing, China</p> <p>Agricultural Bank of China</p> <p>Ordos Tianjiao Sub-branch</p> <p>No. 24 Yijinhuoluo West Road</p> <p>Dongsheng District, Ordos</p> <p>Inner Mongolia, China</p> <p>Bank of Communications</p> <p>Ordos Branch</p> <p>Wanbo Plaza, Tianjiao North Road</p> <p>Dongsheng District, Ordos</p> <p>Inner Mongolia, China</p> <p>China Construction Bank</p> <p>Ordos Tianjiao Sub-branch</p> <p>1<sup>st</sup> Floor, Building A, Chuangye Plaza</p> <p>Tianjiao North Road</p> <p>Dongsheng District, Ordos</p> <p>Inner Mongolia, China</p> |

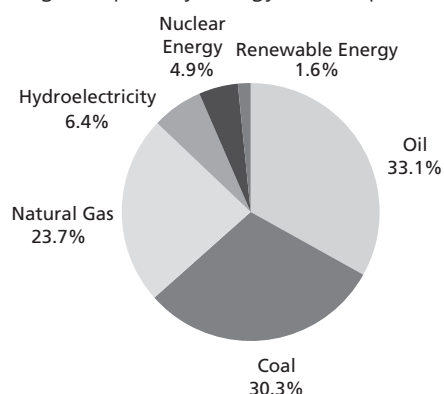
This and other sections of this Prospectus contain information relating to the PRC economy and the PRC coal industry and international coal markets. Such information was derived from various government publications, market data providers and other independent third-party sources. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. We have reproduced the data and statistics extracted from such publications in a reasonably cautious manner. Neither we, the Underwriters nor any of their respective associates or advisers or any party involved in the Global Offering has independently verified the information directly or indirectly derived from these sources, and such information may not be consistent with other information compiled within or outside China. No representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon.

Unless otherwise specified, references to coal production data in this section are to raw coal production.

## OVERVIEW OF GLOBAL COAL INDUSTRY

Coal is one of the most important energy resources in the world. According to the BP Statistical Review 2012, worldwide primary energy consumption totalled 12.3 billion tonnes of oil equivalent in 2011, of which coal represented 30.3%, and oil and natural gas represented 33.1% and 23.7%, respectively.

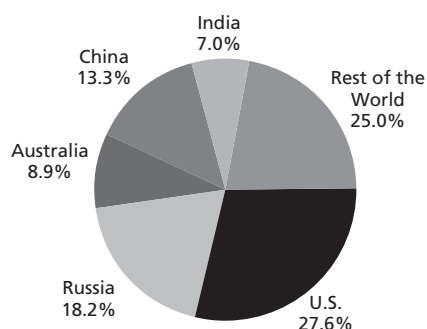
The following chart illustrates the global primary energy consumption in 2011:



Source: BP Statistical Review 2012

World coal reserves are abundant. According to the BP Statistical Review 2012 estimates, the world's total proved coal reserve base represents approximately 112 years of production at current mining rates. Coal reserves have a wide distribution pattern, with particular concentration in countries including the United States, Russia, China, Australia and India. According to the BP Statistical Review 2012, these countries controlled 27.6%, 18.2%, 13.3%, 8.9% and 7.0%, respectively, of the proved worldwide coal reserves at the end of 2011.

The following chart illustrates the global distribution of proved coal reserves at the end of 2011:



Source: BP Statistical Review 2012



## INDUSTRY OVERVIEW

The continuous rise in global coal consumption in recent years has resulted from various macro factors, including global economic growth, price increases of other energy sources such as oil and natural gas, and improvements in coal mining and processing technologies and productivity.

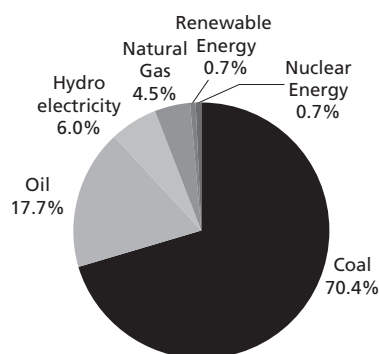
The Asia-Pacific region is one of the fastest growing economic regions and the largest and fastest growing energy market in the world. According to the BP Statistical Review 2012, the region's total primary energy consumption increased from 4,254.1 million tonnes of oil equivalent in 2009 to 4,803.3 million tonnes of oil equivalent in 2011, representing a CAGR of 6.3%. This growth rate was much higher than the growth rates in North America and Europe (including Eurasia), which were 1.6% and 1.6%, respectively, for the same period. In 2011, the Asia-Pacific region's primary energy consumption accounted for 39.1% of the worldwide total, higher than North America and Europe (including Eurasia), which accounted for 22.6% and 23.8% of the worldwide total, respectively, in the same year. Demand for energy, including coal, in the Asia-Pacific region is therefore considered to be high.

Many major coal consumers and producers are located in the Asia-Pacific region. According to the BP Statistical Review 2012, coal consumption and production in this region in 2011 accounted for 68.6% and 67.9%, respectively, of global coal consumption and production. From 2009 to 2011, coal consumption and production in the Asia-Pacific region increased by a CAGR of 7.3% and 7.7%, respectively, exceeding the CAGRs of worldwide coal consumption and production during the same period, which were 5.5% and 6.0%, respectively.

### OVERVIEW OF PRC COAL INDUSTRY

According to the BP Statistical Review 2012, China is the world's largest producer of coal, with 3,520.0 million tonnes of output in 2011, which corresponds to 1,956.0 million tonnes of oil equivalent and accounts for 49.5% of global coal production. China is also the world's largest consumer of coal, with domestic coal consumption amounting to 1,839.4 million tonnes of oil equivalent in 2011, accounting for 49.4% of global consumption. BP Statistical Review 2012 considers coal to be China's most important energy resource, accounting for 70.4% of the country's total primary energy consumption in 2011.

The following chart illustrates China's total primary energy consumption in 2011:



Million tonnes of oil equivalent

|                        |         |
|------------------------|---------|
| Oil .....              | 461.8   |
| Natural Gas .....      | 117.6   |
| Coal .....             | 1,839.4 |
| Hydroelectricity ..... | 157.0   |
| Nuclear Energy .....   | 19.5    |
| Renewable Energy ..... | 17.7    |

Source: BP Statistical Review 2012

According to the BP Statistical Review 2012, China's coal consumption increased from 720.8 million tonnes of oil equivalent in 2001 to 1,839.4 million tonnes of oil equivalent in 2011, representing a CAGR of 9.8% over the period. Coal production and consumption in China continued to increase from 2009 to 2011. In 2011, according to the NBSC, China produced 3,520 million tonnes of raw coal, imported 182.4 million tonnes

## INDUSTRY OVERVIEW

of coal and exported 14.7 million tonnes of coal, resulting in net imports of 167.7 million tonnes. China has therefore been a coal net-importing country for three consecutive years since 2009.

The PRC coal industry is characterized by (i) abundant coal reserves and uneven distribution; (ii) geographic separation of the principal regions of supply and demand; (iii) rapid growth in coal transportation capacity; (iv) thermal coal as the dominant source of energy; (v) a market-driven pricing mechanism and competition; (vi) a fragmented market in the process of consolidation; and (vii) stricter regulations on safety and environmental protection.

With increased transportation capacities, improved production technologies, increasing industry consolidation and more extensive usage, we believe that coal will maintain its strategic importance as the primary energy source and raw material in China.

The foregoing characteristics and challenges are discussed and analyzed in more detail below:

### Abundant Coal Reserves and Uneven Distribution

Coal reserves in China are abundant but unevenly distributed. According to the BP Statistical Review 2012, China had 114.5 billion tonnes of proved coal reserves at the end of 2011, representing 13.3% of world proved coal reserves, and is ranked third in the world in terms of proved coal reserves following the United States and Russia. According to the China Coal Resources website, the coal reserves in China are mainly deposited in northern China and north-western China, with 60% deposited in the area referred to as the “Tri-West Area,” which consists of Shanxi, western Inner Mongolia and Shaanxi.

### Geographic Separation of the Principal Regions of Supply and Demand

Coal production in the Tri-West Area accounts for a significant portion of the total coal production in the PRC. This area holds high quality coal reserves, and favourable geological conditions contribute to high coal production volume.

The table below sets out coal production in Shanxi, Inner Mongolia and Shaanxi:

|                                 | 2009<br>(million tonnes) | % of<br>total coal<br>production in<br>PRC | 2010<br>(million tonnes) | % of<br>total coal<br>production in<br>PRC | 2011<br>(million tonnes) | % of<br>total coal<br>production in<br>PRC |
|---------------------------------|--------------------------|--------------------------------------------|--------------------------|--------------------------------------------|--------------------------|--------------------------------------------|
| <b>Shanxi</b> . . . . .         | 594                      | 19.5                                       | 730                      | 22.5                                       | 872                      | 24.8                                       |
| <b>Inner Mongolia</b> . . . . . | 601                      | 19.7                                       | 787                      | 24.3                                       | 979                      | 27.8                                       |
| <b>Shaanxi</b> . . . . .        | 296                      | 9.7                                        | 361                      | 11.1                                       | 411                      | 11.7                                       |
| <b>PRC Total</b> . . . . .      | 3,050                    | 100.0                                      | 3,240                    | 100.0                                      | 3,520                    | 100.0                                      |

Source: CEIC, NBSC

Inner Mongolia has the largest total proved coal reserves among all provinces in China according to the MLR. The coal production in Inner Mongolia experienced significant growth in recent years. According to the NBSC, the coal production volume in Inner Mongolia further increased to 979 million tonnes for 2011, ranking first among all provinces in China since 2009.

Most of China’s coal resources are concentrated in the inland provinces of northern and north-western China, especially in the Tri-West Area. In contrast, most industrial centers and many of China’s coal-consuming enterprises are concentrated in the eastern and southern regions. The majority of coal production in the Tri-West Area was transported to places outside the area. The Tri-West Area will remain the major coal supplying region for other regions in China.

### Rapid Growth in Coal Transportation Capacity

As a result of the uneven geographic distribution between coal production and consumption, transportation of coal to the eastern parts of China has been critical to China’s coal industry. For most coal

producers located in the inland areas of China, the railway system has been the most important means of coal transportation.

According to the NDRC, coal transported by railways reached 2.3 billion tonnes in 2011, representing a year on year increase of 13.4%. Coal is transported via a railway system that mainly consists of the Daqin Line, Shuohuang Line, Shitai Line, Houyue Line, Longhai Line and Ningxi Line. The Daqin Line, 653 km long, is China's largest railway line in terms of transportation capacity dedicated to coal transportation. It connects the major coal production bases in the Tri-West Area with the major ports in eastern parts of China, where coal is further transported by sea to customers in eastern and southern China. The Daqin Line achieved a total transportation volume of 440 million tonnes in 2011 and the PRC government plans to further increase its annual transportation capacity in 2012.

The NDRC sets railway freight charge rates for coal transportation on the national railway system. The freight charge of the national railway system for coal transportation consists of two rates: one based on both tonnage and transportation distance plus one based on tonnage only regardless of transportation distance. The NDRC has increased the charge rates of the national railway system five times since 2007, from RMB0.0434 per tonne per kilometer plus RMB9.30 per tonne to RMB0.0454 per tonne per kilometer plus RMB9.30 per tonne effective November 5, 2007, further to RMB0.0484 per tonne per kilometer plus RMB9.60 per tonne effective July 1, 2008, further to RMB0.0537 per tonne per kilometer plus RMB10.50 per tonne effective December 13, 2009, further to RMB0.0553 per tonne per kilometer plus RMB10.80 per tonne effective April 1, 2011, and further to RMB0.0629 per tonne per kilometer plus RMB12.20 per tonne effective May 20, 2012.

### Thermal Coal as the Dominant Source of Energy

China's economic growth in recent years has led to a surge in the demand for energy. From 2009 to 2011, China's total primary energy consumption grew at a CAGR of 8.7% according to the BP Statistical Review 2012.

China's large-scale and fast-growing power industry relies heavily on thermal coal. According to the U.S. Energy Information Administration, China's power industry is the second largest in the world after that of the United States. According to the China Electricity Council, at the end of 2011, China's total installed capacity was 1,055.8 GW, 72.5% of which was generated by thermal power plants.

Therefore, the rapid growth in the PRC power industry has been driving demand for thermal coal. According to the NBSC, the thermal power industry in China generated a total of 2,982.8 billion Kwh in 2009 and 3,825.3 billion Kwh in 2011. From 2009 to 2011, thermal power generation in China grew at a CAGR of 13.2%.

The table below sets out China's power generation and coal consumption:

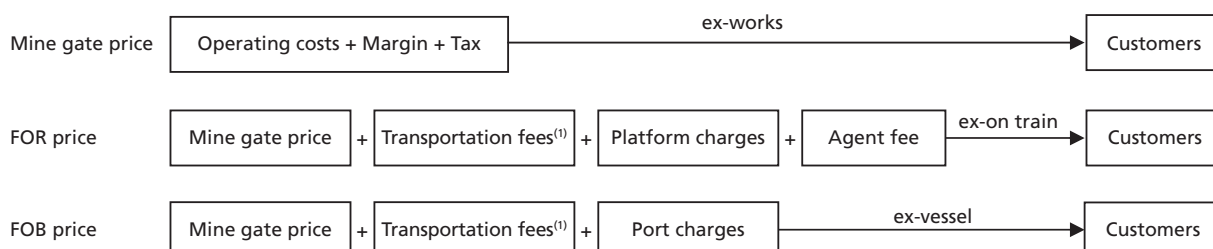
|                                                                  | 2009    | 2010    | 2011    |
|------------------------------------------------------------------|---------|---------|---------|
| Coal-fired power generation (billion Kwh) . . . . .              | 2,982.8 | 3,330.1 | 3,825.3 |
| Total power generation (billion Kwh) . . . . .                   | 3,714.7 | 4,206.5 | 4,700.0 |
| Coal consumption for power generation (million tonnes) . . . . . | 1,468.1 | 1,615.0 | 1,868.7 |

Source: NBSC, China Coal Resources website

## A Market-driven Pricing Mechanism and Competition

### Market pricing mechanism

There are three common coal pricing mechanisms in China: mine gate (also called mine mouth), free-on-rail ("FOR") and free-on-board ("FOB"). Mine gate price refers to the sales price of coal sold at the producing mines. FOR price refers to the sales price when the coal is loaded onto trains, which is mainly impacted by the mine gate price, freight charges (usually short-distance trucking), platform fee and agent fee. FOB price refers to the price of coal loaded onto ships for export markets.



(1) including trucking fees and railway charges.

In China, the price of thermal coal is primarily determined by the energy content, and affected by sulphur content and volatile matter content. Generally, when the sulphur content and the volatile matter content are within the acceptable range, thermal coal with higher energy content commands a higher price.

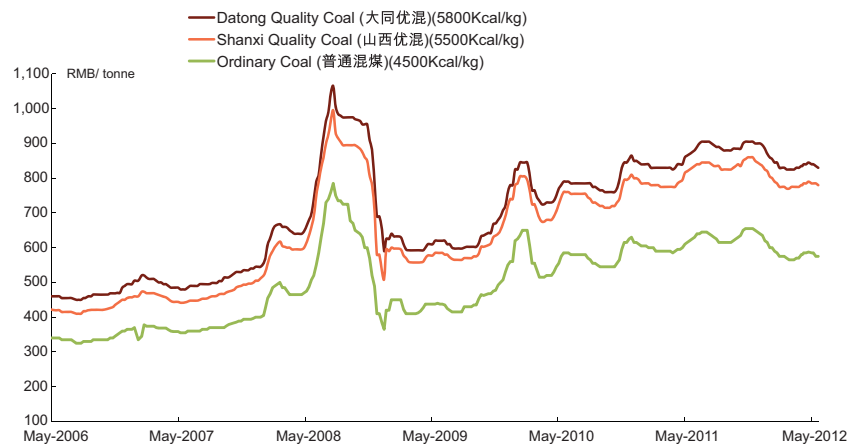
Domestic coal prices have been mainly market-driven since 2002, when the PRC government eliminated the price control measures for coal used in electric power generation. Prior to 2006, however, the PRC government implemented temporary measures to intervene and control unusual fluctuations in thermal coal prices. This, among other reasons, caused thermal coal contract prices for major users to be generally lower than spot market prices during the period. On December 27, 2005, the NDRC announced the elimination of this temporary thermal coal price intervention practice, thus completely removing control over thermal coal prices, including contract prices for major users.

However, on November 30, 2011, to stabilize the coal market and the market prices of thermal coal, the NDRC announced new temporary thermal coal price intervention measures, the *NDRC Notice on Enhancing of Administration and Regulation of Thermal Coal Price*, promulgated by the NDRC ([2011]No.299) ("Notice No. 299"), which provides for (i) controlling the increase in contract thermal coal prices: (a) for the annual crucial contract coal to be transited for national trans-provincial product transportation, the increase in contract prices in 2012 should be capped at 5% of the prices in 2011; (b) for the thermal coal generated and used by the province (district, city) which itself generates coal, the annual increase in contract prices should not exceed 5% of contract prices of last year; (ii) implementing capped prices for the thermal coal in market transactions. Since January 1, 2012, the FOB price of thermal coal with a calorific value of 5,500 kcal/kg at nine ports including Qinhuangdao port, Tian Jin port and Jingtang port should not exceed RMB800 per tonne. FOB price of other thermal coal should be calculated correspondingly based on the capped price of thermal coal with a calorific value of 5,500 kcal/kg. The market transaction price of thermal coal transported by railway and highway by the parties should not exceed the actual accounting settlement price of the end of April 2011, and should not increase the price by way of changing accounting settlement means.

Notice No. 299 has no material adverse effect on our Group's business and operation. The contract price for thermal coal of the calorific value of 5,500 kcal/kg was RMB620 per tonne under the contracts entered into by our Group in 2011, lower than RMB 800 per tonne specified in the Notice No. 299, representing certain room for price increase. In addition, the majority of the coal products of our Group are not sold at the abovementioned nine ports and therefore, is not subject to Notice No. 299. Furthermore, the contract price for thermal coal of calorific value of 5,500 kcal/kg of our Group was RMB651 per tonne in 2012, presenting a 5% price increase over that of 2011, which is in compliance with the above Notice No. 299. The Directors confirm that, from November 2011 to the Latest Practicable Date, our Group has strictly observed and abided by the Notice No. 299 and no violations thereof have occurred.

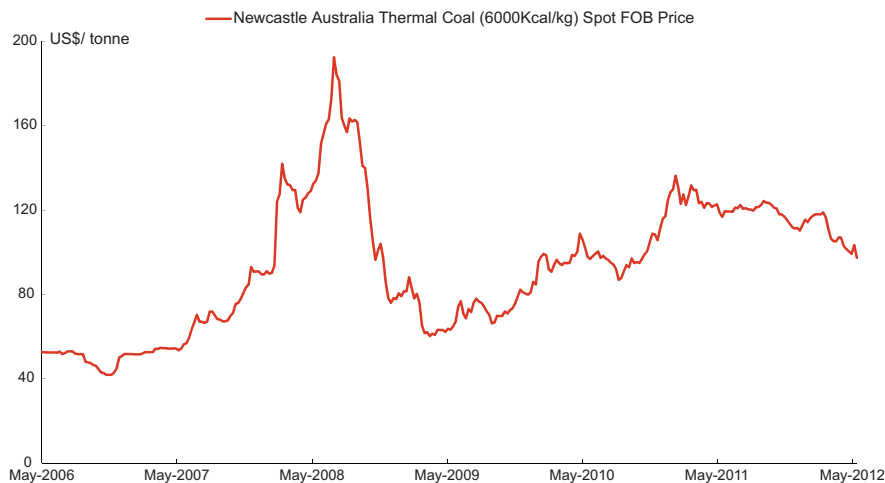
## INDUSTRY OVERVIEW

The following chart sets forth historical coal prices at Qinhuangdao Port in China, which were representative indicators for the PRC coal prices.



Source: China Coal Resources website

The following chart sets forth historical coal prices at Newcastle Harbour in Australia, which were often quoted as an indicator of coal prices globally.



Source: globalCOAL

Leveraging on our self-owned railway and highway transportation network, brand reputation and market-oriented business strategies, we have built up strong sales network of coal and established long-term and stable relationship with major customers. In our view, the foreseeable future coal market will remain the overall balance against supply and demand.

### Competition

Affected by factors such as geographical distance between coal mines and coal consumers, supply and demand and government intervention, PRC coal enterprises mainly compete in the following ways:

- *Reserves.* To ensure sustainable growth, coal enterprises compete for new resources, the exploration and development of which are subject to governmental approval.
- *Production capacities.* Coal enterprises compete in expanding production capacities. According to the NBSC, the coal industry's investment in fixed assets reached RMB489.7 billion for 2011, a 25.9% increase over 2010.
- *Transportation capacities.* Coal enterprises, especially those in the Tri-West Area, rely heavily on the national railway system and compete for the transportation quota. They also compete in constructing local railways and roads to assure access to the national railway system.

## INDUSTRY OVERVIEW

- *Long-term customers.* Coal enterprises compete for long-term customers and sales contracts based on product quality and transportation capacities which can better support their production and operations.
- *Pricing.* Since the prices for coal products have become increasingly market-driven, we expect that competition based on price will intensify.
- *M&A opportunities.* Large coal enterprises seek to take advantage of government initiatives to close small coal mines and carry out industry consolidation. They compete for opportunities involving potential mergers with, and acquisitions of, smaller coal enterprises with considerable coal reserves and good coal quality.
- *Industrial chain expansion opportunities.* Coal enterprises compete for opportunities to expand further along the industrial chain to the power industry and the coal-related chemical industry.

### A Fragmented Market in the Process of Consolidation

China's coal production is characterized by the existence of a large number of small coal production companies. However, in response in part to safety and efficiency concerns, the PRC government has taken initiatives to consolidate the coal industry and has promulgated a number of policies and regulations since 1999 to encourage the integration and reform of the domestic coal industry. These policies and regulations were implemented to resolve certain problems arising from small local mining operations, such as low resource utilization and the lack of adequate environmental protection and safety measures. As a result, market concentration has increased significantly. In November 2007, the NDRC issued *Coal Industry Policies*, which called for acceleration of consolidation of ownership of coal resources and cultivation of thirteen coal production bases in China by 2010. In October 2010, the State Council approved the NDRC's Opinions on the Acceleration of the Advancement of Mergers and Reorganizations of Coal Enterprises, for details of which see "— Outlook for the PRC Coal Industry."

The table below lists the 20 largest coal production enterprises in terms of output volume in China in 2010:

| Ranking | Enterprise                                                               | Coal production in<br>2010<br>(million tonnes) |
|---------|--------------------------------------------------------------------------|------------------------------------------------|
| 1       | Shenhua Group Corporation Limited . . . . .                              | 357.0                                          |
| 2       | China National Coal Group Corporation Limited . . . . .                  | 153.7                                          |
| 3       | Shanxi Coking Coal Group Company Limited . . . . .                       | 102.1                                          |
| 4       | Shanxi Datong Coal Mine Group Company Limited . . . . .                  | 101.2                                          |
| 5       | Shaanxi Coal and Chemical Industry Group Company Limited . . . . .       | 100.4                                          |
| 6       | Henan Coal Chemical Industry Group Company Limited . . . . .             | 74.0                                           |
| 7       | Hebei Jizhong Energy Group Company Limited . . . . .                     | 73.3                                           |
| 8       | Shanxi Lu'an Mining Industry Group Company Limited . . . . .             | 71.0                                           |
| 9       | Anhui Huainan Mining (Group) Company Limited . . . . .                   | 66.2                                           |
| 10      | Hebei Kailuan Group Company Limited . . . . .                            | 60.9                                           |
| 11      | Shandong Yankuang Group Corporation Limited . . . . .                    | 60.1                                           |
| 12      | CPI Mengdong Energy Group Company Limited . . . . .                      | 53.4                                           |
| 13      | Shanxi Yangquan Coal Industry (Group) Company Limited . . . . .          | 51.6                                           |
| 14      | Inner Mongolia Yitai Group Corporation Limited . . . . .                 | 51.1                                           |
| 15      | Heilongjiang Longmay Mining Holding Group Company Limited . . . . .      | 50.1                                           |
| 16      | China Pingmei Shenma Energy and Chemical Group Company Limited . . . . . | 49.7                                           |
| 17      | Shanxi Jincheng Anthracite Mining Group Company Limited . . . . .        | 46.0                                           |
| 18      | Inner Mongolia Yidong Investment Group Corporation Limited . . . . .     | 39.5                                           |
| 19      | Henan Yima Coal Industry (Group) Corporation Limited . . . . .           | 31.2                                           |
| 20      | Anhui Huaibei Mining (Group) Company Limited . . . . .                   | 30.6                                           |

Source: CNCA

## Stricter Regulations on Safety and Environmental Protection

### *Safe production*

Mining safety has always been an area of major concern in the PRC coal industry. According to the SACMS, there were 1,201 accidents and 1,973 fatalities from coal industry operations in China in 2011.

In China, both the PRC government and the country's coal production enterprises have become increasingly aware of the importance of mining safety. SACMS and SAWS are the main regulators of mining safety and miners' health. See "Regulations — Coal Production — Safety." The PRC government has also established a Cross-Ministry Coordination Force for Prevention of Gas Incidents in Coal Mines to reduce accidents caused by gas in underground coal mines. In addition, the PRC government continues to allocate funding for the improvement of mining safety. The PRC government requires operators of coal mines to regard safe production as their top priority, and requires coal production enterprises to set aside funds to maintain and improve safe production. In addition, coal production enterprises offer various training programs to educate their mining workers to raise their safety awareness.

According to the Guidance Opinion on Deepening the Work of Coal Mine Regulation and Closure issued on August 19, 2009 jointly by 14 PRC government ministries including SACMS and SAWS, the PRC government has shut down over 12,000 relatively small coal mines since 2005 because of the lack of requisite safe production conditions, damage to resources, contamination of environment or contradiction of industry policy. During the same period, the PRC government increased its efforts in consolidating mining operations. A large number of coal mines have passed safety inspections and have progressively enhanced their standards of safe production.

### *Environmental protection*

In recent years, environmental protection has become an increasingly important factor for the PRC government to consider when planning for economic development. The PRC government plans to make further efforts to reduce the discharge and emission of pollutants, such as carbon dioxide and sulphur dioxide, released by certain major industrial sectors. China is a signatory to the Kyoto Protocol and the United Nations Framework Convention on Climate Change.

China is making considerable efforts to develop clean coal technology. The PRC government encourages the development of coal processing, coal blending and coal briquette technologies to improve coal selection and processing, as well as the use of advanced coal-burning and environmentally friendly technologies to increase utilization rates and reduce the emission of pollutants.

## Outlook for the PRC Coal Industry

Based on the foregoing, the continued development of the PRC's coal industry depends on the following government and corporate initiatives:

### *Accelerate the construction of large-scale coal production bases*

Under the *Twelfth Five-year Plan on the Development of Coal Industry*, during the five years of 2011 to 2015:

- the coal industry should develop under the principle of "control the east, stabilize the middle and develop the west," and form 14 large coal production bases;
- there should form ten 100-million-tonne-level large coal enterprise groups and ten 50-million-tonnes level large coal enterprise groups, output of which shall constitute more than 60% of the national output;
- the local industry shall vigorously promote mergers and reorganizations among coal mines enterprises and shut down backward production capacity, and develop large coal group companies. Based on the principle of "one developer for one coal mine area," mergers and reorganizations plans shall be made and implemented for each coal mine area, to reduce the number of coal mine developers. For



major coal production provinces/areas such as Shanxi, Inner Mongolia, He'nan and Shaanxi, the industry concentration level should be further increased by supporting the large coal enterprises so as to promote scaled-up development of coal preserves. Through mergers and reorganizations, the number of coal enterprises should be reduced within 4,000 and the average annual production capacity of a single coal enterprise shall be increased to one million tonnes.

In October 2010, the State Council approved the NDRC's Opinions on the Acceleration of the Advancement of Mergers and Reorganizations of Coal Enterprises, which pointed out that the government should rely on market mechanisms and should:

- support qualified state-owned as well as private coal enterprises to become principals in mergers and acquisitions mainly through equity participation;
- support enterprises with economic, technological and managerial advantages to merge or reorganize lesser ones across different regions, industries and ownership systems;
- support operations consolidating coal, power and transportation;
- strengthen fiscal and tax policy support by government subsidies and tax concessions in relation to coal enterprise mergers and reorganizations; and
- for mid-sized and large coal enterprises that have merged small coal mines that reached certain number and scale, prioritize the approval of their new coal mines, their conversion or expansion of coal mines, mine-gate power stations and comprehensive utilization power stations, as well as coal processing and conversion projects.

### *Enhance productivity and eliminate outdated methods of production*

The PRC government supports the restructuring of the coal industry and encourages large coal enterprises to acquire small- and mid-sized mines in order to increase production scale and enhance competitiveness in the marketplace. The PRC government's policy is to improve the overall productivity of the industry and the stability of the coal market by closing down small mines that utilize outdated technologies and are not equipped with the necessary facilities to ensure mining safety. The construction of coal mines must comply with governmental policies. To the extent possible, coal producers should expand their coal mining operations through integration of existing mines. And coal producers should actively promote technology progress. It is planned that the mechanization ratio for coal mines shall reach 75% or higher nationally from 2011 to 2015.

To improve the safety and productivity of the coal industry, the PRC government has stated that it will give priority to projects involving the construction of large, modernized open pit mines as well as underground mines that have annual production capacities of over ten million tonnes. The PRC government has stated that it will also give priority to integrated projects of coal mining and power generation, thereby strictly controlling the development of small mining operations. From 2011 to 2015, a total number of 9,616 small-scale mines shall be closed down and 540 million tonnes of production capacity shall be eliminated.

In October 2011, the *Notice on Further Elimination of Outdated Capacities in the Coal Industry during the Twelfth Five-year Plan Period* was issued by the NDRC, the National Energy Bureau, the SAWS, which provided that from 2011 to 2015, the PRC government will eliminate 97.2 million tonnes of outdated coal production capacities and 2,917 small coal mines.

The release of the *Notice on Further Elimination of Outdated Capacities in the Coal Industry during the Twelfth Five-year Plan Period* brings positive influence on our Group, which will earn our Group an advantageous position in the integration of coal industry. For more information, see "Business — Our Competitive Strengths — We have gained high recognition and policy support from the PRC government, and are ideally positioned in the consolidation of the PRC coal industry." As of the Latest Practicable Date, our Group has not received any notice or opinion from any governmental institution which points out or deems that the mines owned by our Group fall or might fall under the category of outdated coal production capacities or small coal mines specified in the *Notice on Further Elimination of Outdated Capacities in the Coal Industry during the Twelfth Five-year Plan Period*.

*Intensify, develop and manage coal resources*

The PRC government is reforming the coal market based on existing laws and regulations on mineral and coal resources. The PRC government divides coal resources into development, reserve and protection areas in order to establish a preservation mechanism for scarce and high-quality coal resources. Mining rights are controlled and allocated by the central government and the local governments of the respective provinces, autonomous regions or municipalities directly under the central government.

*Implement a compensation scheme for the exploitation of coal resources*

The PRC government and the PRC coal industry are focused on the preservation and efficient utilization of coal resources. Through the reform of the resource tax system and the implementation of a compensation scheme for coal resource exploitation, the PRC government is committed to raising the entry barrier into the coal industry and further preventing the wasteful exploitation of coal resources. The new resources tax for coal exploitation may no longer be calculated based on production volume but instead must be based on reserve volume and recovery rate. Therefore, the cost of resources is expected to constitute a higher percentage of total mining costs.

*Orderly development of advanced and demonstrative projects of modern coal-related chemical operations*

In accordance with the *Twelfth Five-year Plan on the Development of Coal Industry*, the Chinese government will steadily promote construction of demonstrative projects of further processing of coal. In selected areas with suitable type of coal products in Inner Mongolia, Shaanxi, Shanxi, Yunnan, Guizhou, Xinjiang and other areas, support will be made available to large enterprises to conduct upgraded and demonstrative coal processing projects such as coal-to-oil production, coal based natural gas production, coal based olefins production, and coal based ethylene glycol production, and to facilitate industrial application of advanced technologies.

## OVERVIEW

The main businesses of our Company, including the production, sale and transportation of coal, must comply with national industry policies, related laws and regulations, and are subject to extensive government regulation. The scope of regulation covers investment, exploration, production, mining rights, distribution, trading and transportation, and the production and sale of drugs. Moreover, all of operations of our Company in China are subject to the relevant fees, charges and taxes as well as laws and regulations concerning safety and environmental protection.

## MAIN REGULATORY BODIES

- The State Council as the top executive body is responsible for the examination and approval of some major investment projects determined as such in the *Catalogue of Government Approved Investment Projects* (2004 Edition) published by the PRC government;
- The NDRC was established pursuant to the resolution adopted by the 10th National People's Congress in March 2003 and has taken over most of the functions previously performed by the former National Development and Planning Commission. The NDRC develops and implements the main policies concerning the socio-economic development of China; examines and approves investment projects exceeding specific investment amounts or in special industries, including the examination and approval of foreign invested projects; supervises the reform of state-owned enterprises (SOEs); and establishes industry policies and investment guidelines for the natural resource industries, such as coal, coal trading, coal-to-oil and coke production enterprises. Moreover, the NDRC works in conjunction with the MOFCOM to determine the state's total quota for coal exports and its allocation. Also, the NDRC is tasked with assessing and implementing the linked pricing mechanism between the coal price and that of electric power;
- The MLR is authorized to issue land use rights and mining rights certificates; approves the transfer and leasing of mining rights ; reviews the expense(s) of mining rights and reserve valuation;
- The MOFCOM works in conjunction with the NDRC to determine the state's total quota for coal exports and its allocation;
- The SACMS supervises the safe operation of coal mines, establishes various safety requirements, assumes responsibility for the implementation and supervision of the laws and regulations concerning coal mines and their safe operation;
- The MOR supervises the operation of the Chinese railways and develops the strategic development plan for railway transport. The MOR works together with the NDRC to examine and approve all applications for railway construction, including railways dedicated to or used for coal transport as well as the allocation of the transport capacity of the railways;
- The MEP monitors and controls environmental protection works, and exercises supervision over the environmental system throughout the country;
- The Ministry of Housing and Urban-Rural Development is responsible for managing construction projects, including railways, and managing the qualifications and quality of the design, construction and supervisory units; and
- The State Food and Drug Administration is responsible for supervision over and administration of drugs, medical apparatuses and equipment, consumer food and cosmetics in China.

## COAL PRODUCTION

### Main Regulations

The main Chinese laws and regulations relating to the coal resource development industry include:

- Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法》);
- Implementation Rules for the Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法實施細則》);

- Coal Law of the People's Republic of China (《中華人民共和國煤炭法》);
- Interim Measures for the Supervision and Administration of Mineral Resources (《礦產資源監督管理暫行辦法》);
- Administrative Measures for Mineral Resources Exploration Area and Segment Registration (《礦產資源勘查區塊登記管理辦法》);
- Measures for the Administration of Registration of Development of Mineral Resources (《礦產資源開採登記管理辦法》);
- Administrative Measures for the Transfer of Exploration and Mining Rights (《探礦權採礦權轉讓管理辦法》);
- Notice of the General Office of the State Council on Forwarding the Opinions of the Ministry of Land and Resources for Improving and Rectifying the Order of Administration of Mineral Resources (《國務院辦公廳轉發國土資源部關於進一步治理整頓礦產資源管理秩序意見的通知》);
- Reply of the State Council on Approving the Trial Implementation Scheme of the Reform of the Non-Gratuitous Use Policy of Coal Resources (《國務院關於同意深化煤炭資源有償使用制度改革試點實施方案的批覆》);
- the People's Republic of China Resource Tax Provisional Regulations (《中華人民共和國資源稅暫行條例》);
- Measures for the Administration of Licenses for Coal Production (《煤炭生產許可證管理辦法》);
- Opinions of the General Office of the State Council for Several Issues Relating to Strengthening the Administration of the Coal Industry (《國務院辦公廳關於加強煤炭行業管理有關問題的意見》);
- Implementation Measures for Further Promoting the Integration and Non-Gratuitous Use of the Coal Resources (Trial) (《關於進一步推進煤炭資源整合和有償使用的實施辦法(試行)》);
- Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (《國務院關於預防煤礦生產安全事故的特別規定》);
- Decision of the State Council Concerning the Reform of the Investment Mechanism (《國務院關於投資體制改革的決定》) (the "Investment Reform Decision");
- Catalogue of Government Approved Investment Projects (2004 Edition) (《政府核准的投資項目目錄(2004年本)》); and
- the Notice of the State Council on Adjusting the Ratio of Capital Funds of Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》).

These laws and regulations contain provisions for the exploration, mining and management of mineral resources.

### Business Qualification Requirements

Pursuant to the Law of Mineral Resources of the People's Republic of China and the Coal Law of the People's Republic of China, coal mineral resources belong to the State; the state ownership of surface or underground mineral resources shall not change with the alteration of ownership or right to use the lands to which mineral resources are attached; the exploration and development of coal shall be subject to the approval and supervision of the MLR and related local mineral resource departments. Enterprises that plan to carry out coal exploration and development activities must obtain the approval and be subject to the supervision of MLR and related local mineral resource departments in advance. If the MLR and related local mineral resource departments consider that an applicant meets the requirements of the laws and regulations, an exploration license or mining license will be issued for each mine for which an application is filed. The holder of the mining right license must submit an annual report to the administrative body that issues the license. Apart from the mining right license, each coal producer must obtain a coal production license for each mine from the competent department in charge of the coal industry at the national, provincial and municipal levels of government before the producer can carry out coal production and sales activities. If a coal producer plans to engage in coal product businesses other than production or processing on its own, such as coal trading, it must also obtain a business qualification certificate issued by related authorities prior to the commencement of such business.

Pursuant to the requirements of the Investment Reform Decision, an application shall be made to the NDRC for all coal development projects within the mining areas embraced in State plans for its approval before it can be implemented. As for other mining projects, the application shall be filed with the investment regulatory department of the local government. The NDRC shall submit major mining projects to the State Council for approval. Moreover, coal liquefaction projects with annual productivity of 500,000 tonnes or above shall be approved by the competent department in charge of investments under the State Council.

Pursuant to the requirements of the Administrative Measures for Mineral Resources Exploration Area and Segment Registration (《礦產資源勘查區塊登記管理辦法》), the State implements a unified regional registration system for exploration of mineral resources, and each enterprise that engages in the exploration of mineral resources must apply to the related administrative department for an exploration license, pay the related use fee for the exploration right and the price of exploration right, which is determined through assessment so as to become the holder of the exploration right.

Pursuant to the requirements of the Measures for the Administration of Registration of Development of Mineral Resources (《礦產資源開採登記管理辦法》), each enterprise that engages in coal mining must go through registration and examination and approval procedures with the competent department in charge of geology and mineral resources under the State Council before becoming the holder of the mining right, apply for the mining license, and pay the related use fee and the price of the exploration right. Before applying for the mining right, the applicant for a mining right shall apply to the relevant registration and administration authorities for the demarcation of mining areas in accordance with an approved geologic reserve report.

Moreover, pursuant to the requirements of the Chinese laws and regulations concerning the resource development industry, various other qualifications shall be obtained with respect to the quantity and reserve of the resources involved in the exploration and resource development, including the geologic exploration qualification, qualification of the appraisal unit of mining rights, professional qualification of the appraiser of mining rights, qualification of the appraisal unit of mineral reserves and the professional qualifications of the appraiser of mineral reserves.

Pursuant to the Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法》) and the Coal Law of the People's Republic of China (《中華人民共和國煤炭法》), each coal production enterprise must reach a specified resource recycling rate. The recycling rate is determined by the relevant coal regulatory departments under the State Council in accordance with the resource quantity and mining conditions of each mine. Any coal production enterprise that fails to meet the required recycling rate may be subject to penalties, including the revocation of its production license.

It is illegal for any entity or individual to carry out mining operations in areas in which another coal production enterprise has already been authorized to carry out development activities. If the mining operation of an entity undermines the production or living standard of others, it must compensate the damaged parties for the losses sustained and take necessary remedial measures. Pursuant to the requirements of the Detailed Rules of Implementation of the Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法實施細則》), a mine operator must comply with particular procedures in closing down a mine, including but not limited to the submission of geologic activities reports of the mine to be closed down to the department that originally approved the operation of the coal mining and a mine closedown report must be submitted to related mineral resources departments.

### **Related Rectifying Efforts of Coal Resources and Mining**

The Investment Reform Decision introduces major revisions to the government examination and approval procedures of the main investment projects of China. The purpose of the legislation is to minimize direct intervention by the PRC government in enterprise operations; permit allocation of the resources through the market mechanism; increase investment efficiency and promote the sustainable, coordinated and sound development of the Chinese economy. With the release of the Investment Reform Decision, the government simplified the examination and approval of fixed asset investment projects that do not utilize government funds for investment and construction, which are managed by the government by means of "approval" and "filing." Other than the investment projects listed in the Catalogue of Government Approved Investment Projects

《政府核准的投資項目目錄》(major and restricted fixed asset investment projects that do not utilize government funds for investment and construction are specified therein) and projects in which investment is specifically prohibited by the laws and regulations of the State and the State Council, all projects are subject to management by means of filing.

Pursuant to the attachment of the Investment Reform Decision, the Catalogue of Government Approved Investment Projects (2004 Edition) 《政府核准的投資項目目錄(2004年本)》, coal development, coal liquefaction and railway construction are major investment projects that are subject to approval and an application must be filed for approval of such investment projects pursuant to the Investment Reform Decision and related administrative provisions issued by the NDRC.

The Coal Law of the People's Republic of China 《中華人民共和國煤炭法》, issued in 1996 and amended respectively in 2009 and 2011 by the Standing Committee of the National People's Congress, provides requirements for the supervision and administration of coal production development and planning and mine construction, coal production and coal safety, coal trading and protection of the coal mine areas and specifies the rights of the coal administration departments to supervise and inspect the coal enterprises and coal trading enterprises with respect to the implementation of the coal related laws and regulations. The law also increases the market access requirements for coal trading to prevent enterprises and individuals with insufficient capital and obsolete equipment from entering the coal industry, and requires coal production enterprises to provide and use safe production fees and safe production risk deposits and make other investments in safe production pursuant to the requirements of the State. To ensure optimized use of coal resources, safe production and environmental protection, the government agencies are required to examine the scope of the mining areas, mining proposals, production technology conditions, safety measures and environmental protection measures when issuing mining licenses and approving the establishment of coal production enterprises.

On June 7, 2005, the State Council published Certain Opinions on the Promotion of the Coal Industry Health Development 《關於促進煤炭工業健康發展的若干意見》, and announced the development objectives and principles of the PRC government for the development and standardization of the coal industry aim at improving the supervision of the development of coal resource; accelerating the transformation of industry structure; improving the coal supply system and enhancing the safety of the coal mine production and environmental management.

In order to stringently protect and reasonably develop coal resources, eliminate obsolete production capacities, adjust and optimize the structure of the coal industry, enhance the degree of intensiveness and productivity level of coal production and promote a continuous, stable and healthy development of the coal industry, the General Office of the State Council forwarded NDRC's *Certain Opinions on Accelerating the Merger and Restructuring of Coal Mine Enterprises* 《關於加快推進煤礦企業兼併重組的若干意見》 on October 6, 2010 to raise certain opinions on accelerating the merger and restructuring of coal mine enterprises, by which the important implications, guiding principles and main missions of accelerating the recommendation of the merger and restructuring of coal enterprises have been elucidated. At the same time, it was also suggested that the merger and restructuring of coal enterprises should be based on such policy measures as scientific allocation of coal resources, enhancement of support from fiscal and tax policies, widening of financing means, as well as provision of support for the enhancement of enterprises' productivity levels.

### Coal Operations and Production Capacity

Pursuant to the Measures for the Supervision of Coal Trading 《煤炭經營監管辦法》 published by the NDRC on December 27, 2004 and came into effect on January 27, 2005, the State has established policies regarding coal trading and qualifications for the coal business (including wholesale and retail sales of raw coal and processed coal and processing and distribution of civil coal). An enterprise must obtain coal trading qualification certificate before pursuing in the coal business. A coal production enterprise must obtain coal trading certificate before selling any coal products produced and processed by someone other than itself. No person shall trade coal products produced and processed by a coal mining enterprise without a coal production license or products of a coal trading enterprise without the coal trading qualification or sell coal products to a coal trading enterprise without the coal trading qualification certificate.

The Rules on the Administration of the Production Capacity of Coal Mines 《煤礦生產能力管理辦法》 were jointly promulgated by the NDRC, the State Administration of Work Safety and the SACMS and came into



effect on April 30, 2006. It provides that the maximum annual volume of coal production at a given mine, as determined by the department in charge of the issue and administration of coal production permits, shall be stated on the coal production permit issued in respect of the mine. On a national level, the department in charge of the coal industry under the State Council shall be responsible for guiding the supervision and administration of coal mine production capacities, and shall be directly responsible for the supervision and administration of the production capacity of coal enterprises owned by the central government. On a local level, the department in charge of the coal industry under the local people's governments at or above county level shall be responsible for the supervision and administration of coal mine production capacities in their own administrative regions, except in the case of coal enterprises owned by the central government. The Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (《國務院關於預防煤礦生產安全事故的特別規定》) effective from September 3, 2005 onwards, also provides that a coal mine shall not produce in excess of its permitted capacity. If a coal mine's actual production exceeds its permitted capacity, an order will be given by the relevant department in charge to suspend the production and rectify relevant infringing activities. In the meantime, fines will be imposed on the coal mine of no less than RMB500,000 but no more than RMB2,000,000 and on the mine manager of no less than RMB30,000 but no more than RMB150,000. In cases where a coal mine exceeds its permitted production twice or more in any given three month period, the coal production permit, mine manager's qualification certificate and mine manager's safety qualification certificate may be revoked and an application may be made to the local government to shut down the coal mine.

The NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance and the Ministry of Land and Resources promulgated the *Notice on Certain Opinions on Hampering the Excessive Production Capacities and Duplicated Construction in Certain Industries and Promoting the Healthy Development of Sectors* (《關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知》) on September 26, 2009, in which the severity of the issues of excessive production capacities and duplicated construction in industries like the coal chemistry industry was explained, the policy orientation regarding the hampering of excessive production capacities and duplicated construction was elucidated, and specific requirements were proposed concerning the recent development objectives and elimination of obsolete production capacities of various industries in the related sector. The notice also focused on putting forward responsive measures for hampering excessive production capacities and duplicated construction, which include stringent market entrance, enhancement of environmental supervision, lawful supply and use of related land, implementation of a financial policy that stresses both protection and control, rigorous management of project approval, sufficient efforts in merger and restructuring work, establishment of an information release system and implementation of a system of accountability as well as further elaboration of the regime reform.

The NDRC, the National Energy Administration, the State Administration of Work Safety and the SACMS issued the *Notice on Further Promoting the Work for Eliminating Obsolete Production Capacities in the Coal Industry during the 12<sup>th</sup> Five-year Plan* (《關於「十二五」期間進一步推進煤炭行業淘汰落後產能工作的通知》) in October 2011, in which the planned eliminated tonnage of obsolete production capacities in the national coal industry during the 12<sup>th</sup> Five-year Plan and the number of small coal mines that have gone out of the market were released. Clearer elimination standards for the production capacity, recovery rate, level of mechanization and safety aspects of coal mines were also given.

On March 23, 2011, the NDRC issued the *Notice on Regulating an Orderly Development of the Coal Chemistry Sector* (《關於規範煤化工產業有序發展的通知》), in which various places were requested to render the sector entrance policies more stringent, enhance the management of project approval, strengthen the allocation of key resources, and implement an administrative system of accountability in respect of the development of the coal chemistry sector. Development and reform bodies of various levels are requested to strictly comply with the relevant national management provisions and approval procedures regarding construction projects, to further enhance the management of project approval in the coal chemistry sector, and not to delegate the approval authority to lower-level bodies; Strengthening of allocation of key resources for coal chemistry production and strengthening of environmental assessment review and energy-saving review on coal chemistry projects, management on aspects such as water and land use approval are requested.

In March 2012, the NDRC established the *Twelfth Five-year Plan on the Development of Coal Industry* (《煤炭工業發展“十二五”規劃》) with proposals on the orderly establishment of upgrade demonstration work on modern coal chemistry and policies on the promotion of efficient and clean utilization of coal. Specific proposals are made in the *Twelfth Five-year Plan on the Development of Coal Industry* on the stable promotion



of the development of demonstration projects of advanced coal processing, selection of regions with suitable coal types and relatively rich water resources in areas such as Inner Mongolia and Xinjiang, key support on the development of demonstration work of coal-to-oil, coal-to-synthetic natural gas, coal-to-olefin, coal-to-ethylene glycol, etc. of large enterprises and the acceleration of application of advanced technology on industrialization.

## Pricing

Since the PRC government eliminated the price control over the coal used for power generation in 2002, the domestic coal price is primarily driven by the market. However, the central government still has the right to take interim price intervention measures against particular coal types. For instance, between June 19 and December 31, 2008, the NDRC implemented an interim price intervention measure for coal used for power generation for the entire country and determined the maximum price of the coal at the main ports and distribution centers in order to implement the measure. Moreover, through the control of the electricity price and allocation of transport capacity of the country's railways, the PRC government could indirectly influence coal prices.

## Railway Transport

### *Railway construction*

The MOR is responsible for the planning and administration of China's national railway system. Any plan to build a new railway line must conform to the national railway development plan and be approved by the MOR or its designated department in advance. Before a railway line is put into commercial operation, related governmental departments must approve the construction plan of the railway line.

### *Allocation of transport capacity of the railway*

Coal produced in the provinces and regions far away from the coastal areas is transported to the primary consumers in the coastal areas by rail. The MOR and the NDRC are responsible for allocating the coal transport capacity of the national railway system. Each year, coal production enterprises must apply to the MOR for a portion of the transport capacity. The MOR and the NDRC will give full consideration to the needs of different coal production enterprises that adopt railway transport, and publish the annual quota of transport capacity of the railway. If a coal production enterprise needs additional railway transport capacity outside the annual railway transport capacity allocation plan published by the MOR, it shall apply to related railway and transport regulatory authorities for additional transport capacity.

### *Freight charge*

China's railway system must collect freight charges from the coal production enterprises that use the railway system for coal transport at the unified rate of cargo freight determined by the NDRC. The NDRC determines the rate of the freight by taking into account the construction cost of the railway and a reasonable return on investment, and the freight of the railway lines owned and operated by a coal production enterprise itself may not exceed the maximum freight approved by the NDRC. Any adjustment of such maximum freight is subject to the approval of the NDRC. The maximum freight reflects the construction cost of the railway and a reasonable return on investment.

## Safety

China has promulgated relatively comprehensive laws, regulations, rules and codes governing production safety and coal mine production safety. Pursuant to existing regulations, the safety facilities of a coal mine project must be designed, built and put into operation simultaneously with its main project.

Pursuant to the Mining Safety Law of the PRC (《中華人民共和國礦山安全法》), promulgated by the SCNPC on November 7, 1992 and revised on August 27, 2009, mining enterprises must install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to both strengthen the safety administration of mines and improve the work conditions of staff and workers. Labor authorities at county level and above are responsible for the administration and supervision of these safety measures. Design plans for the engineering and construction of a mine must comply with mining industry safety rules and technological standards and are subject to approval by the labor authorities and geological and mineral administrative authorities under the State Council. The engineering and construction of a mine must be

in accordance with the approved design plans and, after the installation of requisite safety facilities, completed mines are subject to inspection and approval by both the geological and mineral administrative authorities and the labor authorities before the mine can commence operations. Any breach of the above provisions may result in fines, suspension of operations and/or the revocation of relevant mining right licenses or the business license of the mine operator.

The State adheres to integrated administration of the coal mines and strengthens the coal mine production safety assurance system. The SACMS is responsible for centralized supervision and monitoring of coal mine safety. Safety measures, such as ventilation, fire-proof, water-proof, gas-proof, toxic-proof and dust-proof facilities and coal safety resources, must comply with statutory mandatory requirements. The coal mines must allocate and use reserved funds according to the law and related regulations to meet coal mine safety technology standards. The coal mines must implement the gas inspection policy in strictly.

SACMS is the PRC government authority that is responsible for supervising the safety of coal production. To conduct any coal mine construction project, the safety design and procedures of the project must be examined and approved by SACMS or its local branch. Upon completion of the project and before it is put into operation, coal mine equipment and conditions must pass re-inspection and acceptance performed by SACMS or its local branch. The design of the coal mine must pass the examination and approval of SACMS, and the operating conditions of the ventilation equipment and fire-proof facilities must pass a inspection performed by the SACMS. The coal mine design, equipment, apparatus, tools, metering devices and protective items used must conform to the relevant safety standards. In accordance with the Measures for Administrative Penalties for Coal Mine Safety (《煤礦安全監察行政處罰辦法》) (promulgated by SACMS and enters into force as of August 15, 2003), the SACMS has the right to inspect the conditions of coal production enterprises on a regular basis for safety pursuant to the laws and regulations concerning safe production and coal mine safety. No coal producer shall mine a coal pillar without authorization or undermine production safety of neighboring coal mines by employing dangerous mining methods. Coal production enterprises that do not meet the relevant safety requirements may be assessed penalties such as fines or suspension of business. In accordance with the Regulations Governing the Reporting, Investigation and Disposition of Production Safety Accident (《生產安全事故報告和調查處理條例》) passed by the One Hundred and Seventy-second Session of the Standing Committee of the State Council on March 28, 2007 and implemented since June 1, 2007, in the event of any production safety accidents that involve personal injury/death and direct economic loss, the relevant person(s) at the scene of accident shall immediately report the accident to the relevant person in charge of its employer, and such person in charge shall report, within one hour, the same to the production safety supervision and administration department and the relevant department in charge of supervision and administration of production safety under the people's governments at the county level or above where the relevant accident is located.

Pursuant to the requirements of the Measures for the Implementation of Safe Production Licenses of Coal Mine Enterprises (《煤礦企業安全生產許可證實施辦法》) effective as of May 17, 2004, any coal mine in operation must have a valid production safety license issued by the SACMS. No coal mine enterprise shall engage in coal production before obtaining a production safety license. Coal mine enterprises and coal mines that fail to fulfill the safe production requirements set forth in the document or violate the terms of the document will be penalized accordingly. The production safety license shall remain valid for an initial term of three years, which may be renewed if the coal mine still meets the safe production requirements established by relevant agencies upon the expiration of the license. No operation of a coal mine without a valid production safety license is permitted. In order to further strengthen the supervision over the safety of the coal mines, the Coal Mine Safety Code (《煤礦安全規程》) effective as of January 1, 2005 revised by the SACMS provides that all coal production enterprises in China shall comply with high safe production requirements and meet stringent safe production standards. Moreover, pursuant to the Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (《國務院關於預防煤礦生產安全事故的特別規定》) effective as of September 3, 2005, coal mine enterprises shall be responsible for preventing coal mine related production safety accidents. If a coal mine fails to obtain mining right license, safe production license, coal production safety license or business license and the mine manager fails to obtain mine manager qualification certificate and mine manager safety qualification certificate by law, the coal mine shall not carry out production. Each coal mine shall have sufficient safety equipment, facilities and resources, appropriate safety accident prevention measures and a sound emergency accident contingency plan. Coal mine enterprises shall establish the potential safety risk monitoring, inspection, handling and reporting policies. In case that any major potential safety risk of production listed in the documents is identified in a coal mine, the enterprise shall

cease production immediately and eliminate the potential safety risk. Coal mine enterprises shall provide safety education and training to their underground personnel and specific operational personnel in accordance with relevant rules and regulations of the State. The person-in-charge of the coal mine and the management personnel responsible for production and operation shall lead the shift to work underground in accordance with the rules and regulations of the State and create the underground registration files.

On July 19, 2010, the State Council released the Notice of the General Office of the State Council on Further Improving Production Safety of Enterprises (《國務院辦公廳關於進一步加強企業安全生產工作的通知》), requiring enterprises, particularly those in the coal mining and other mining, transportation, construction, dangerous chemicals, fireworks, civil explosives, metallurgy industries, to improve safety management. This Notice requires enterprises to conduct frequent safety inspections, enhance the responsibility and accountability of persons in charge of production, and improve safety education and training for employees.

Pursuant to the requirements of the Law of Railways of the People's Republic of China (《中華人民共和國鐵路法》) (the "Law of Railways") effective as of May 1, 1991, the MOR and other related government agencies shall be responsible for the supervision and administration of operation safety of the railways in China. The Law of Railways and relevant specific industry regulations state the requirements for the maintenance and periodic inspection of the railway equipment.

### Transfer of Mining Rights

Pursuant to the Interim Provisions on the Administration of the Transfer of Mineral Property Rights (《礦業權出讓轉讓管理暫行規定》) promulgated by the MLR on November 1, 2000, mining rights, including exploratory rights and excavation rights, are categorized as "property rights" and may be transferred through sale, contribution as registered capital to a PRC registered company, establishment of a joint exploration or exploitation arrangement, and other means as permitted by the regulations. The transfer of mining rights is subject to supervision and approval by the geological and mineral administrative authorities under the State Council and at the provincial level.

### ENVIRONMENTAL PROTECTION

On September 1, 2006, the State Administration of Environmental Protection and the State Administration of Quality Supervision, Inspection and Quarantine (SAQIQ) jointly promulgated the Standard for Discharge of Pollutants of the Coal Industry (《煤炭工業污染物排放標準》), which, effective as of October 1, 2006, is applicable to all coal mines, including open pit mines, coal preparation plants, coal gangue, coal storage and loading and unloading stations.

Mining operations, including open pit mine and underground mine operations may affect the surface and underground environment, and result in pollution of the water bodies, collapses and other environmental damages. In order to effectively regulate the negative influences of the coal industry on the environment, China has promulgated a series of laws and regulations.

With these laws and regulations in place, China has established a system of national and local environmental protection system, and promulgated national and local standards for discharge control, externally discharged wastes and pollutants, generation, handling, storage, transportation, processing and disposal of waste materials resulting from production facilities, land reclamation and reforestation.

Promulgated by the National People's Congress on December 26, 1989, the Environmental Protection Law of the People's Republic of China (the "Environmental Protection Law") (《中華人民共和國環境保護法》) is the most important environmental protection law in China. It sets forth the basic principles of coordinated development of economic growth, social progress and environmental protection and defines the rights and responsibilities of the different levels of government in China.

Pursuant to the Environmental Protection Law of the People's Republic of China, for the purpose of preventing environmental pollution and protecting the ecological environment, the State Administration of Environmental Protection is authorized to establish national environmental quality standards and discharge standards and is responsible for monitoring the national environmental protection system. The environmental protection department under the people's governments at the county level or above shall be responsible for

environmental protection work in the areas under their jurisdiction. The environmental protection department of the local governments shall have the right to develop local standards more stringently than the national standards, and enterprises must comply with the more stringent ones of the national and local environmental protection standards. The Environmental Protection Law of the People's Republic of China provides that any factory whose operation may result in pollution or other hazardous substances shall adopt environmental protection measures in its operations, establish an environmental protection accountability mechanism, and take effective measures to control and properly disposal of waste gas, waste water, waste slag, dust and other waste materials.

Moreover, any new project, expansion project or renovation project that involves direct or indirect discharge of pollutants into the environment and other equipment installation projects shall comply with the laws and regulations of the State concerning environmental protection of related projects. Entities that undertake these projects shall submit a statement of pollutant discharge to the competent departments, describing the discharge quantity, type, discharge location, handling methods and other related information concerning the pollutants in detail for review. The competent departments may allow the operator of the construction projects to discharge a certain quantity of pollutants, provided that the operator shall pay the pollutant discharge fee and obtain the pollutant discharge license for the relevant quantity. The discharge of pollutants shall be subject to the supervision of the competent department in charge of environmental protection. In case any entity discharges pollutants exceeding the standards, local environmental protection department shall have the right to impose fines equivalent to several times that of the pollutant discharge fee, order it to cease operation or take other remedy measures.

Pursuant to the Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) passed by the Standing Committee of the National People's Congress on October 28, 2002 and implemented from September 1, 2003, relevant departments under the State Council, the people's government at the city (with districts) level or above and its relevant departments must organize environmental impact assessments for specific plans, including but not limited to development plans for energy and natural resources, before they are submitted for examination and approval and furnish the environmental impact assessment report to the agencies that are responsible for the examination and approval of the specific plans. Moreover, before the people's government at the city (with districts) level or above examines and approves the draft of a specific plan and makes decisions, the competent administrative department in charge of environmental protection designated by the people's government or other departments shall convene a review panel formed by representatives of relevant departments and experts to review the environmental impact report and provide written review opinions. In the environmental impact report of a construction project, the operator of the project shall assess possible pollution and environmentally hazardous substances of the project and their possible impact on the ecological environment and describe the prevention and control measures. The Operator shall submit the report to the competent department in charge of environmental protection for examination and approval in accordance with the specified procedures. Moreover, before a wastewater discharge port can be built within a water source reserve area (for instance, the canal, irrigation channel and reservoir, etc.), the consent of related departments in charge of the water source reserve area must be obtained.

Any facility that is built for the purpose of prevention and control of environmental protection must be designed, built and put into use or operation simultaneously with the main body of related projects. The above facility is also subject to the inspection of the competent department in charge of environmental protection. In the event that these facilities fail to fulfill the specified requirements, the operator is not allowed to put them into operation or use.

Land reclamation in the mining areas is another issue that the PRC government attaches great importance to and strives to solve. Pursuant to the Law of Land Administration of the People's Republic of China (《中華人民共和國土地管理法》) promulgated on June 25, 1986 and revised as of August 28, 2004 and the Provisions on Land Reclamation (《土地復墾規定》) promulgated by the State Council in 1988 and effective as of January 1, 1989, if the coal mining operations damage the arable land, grassland or forest, the coal production enterprise must take measures within the specified time to restore the damaged land to the arable status. The reclaimed land may be put into use only upon the fulfillment of the reclamation requirements set forth in the laws from time to time passing an inspection and approval by the land administration department. If the coal production enterprise fails to meet the above requirements or fails to restore the land in the mining areas to its original status, the local bureau of land and resources may impose fines on it, force it to pay land reclamation fee and/or reject the application for the land use right it submits.

The Law of Water Pollution Prevention and Control of the People's Republic of China (《中華人民共和國水污染防治法》) promulgated by the Standing Committee of the National People's Congress in 1984 and revised in 2008 and the Regulations Governing the Collection and Use of the Pollutant Discharge Fee (《排污費徵收使用管理條例》) promulgated by the State Council on January 2, 2003 and effective as of July 1, 2003 state the requirements for the wastewater discharge of coal mines. It is necessary to submit an environmental impact report for any newly-built project (such as a coal mine), which includes assessment of possible water pollution accidents on the project and their impact on the ecological environment. Moreover, the environmental impact report shall also describe related measures to be taken to prevent and control the water pollution accidents. Any new production facility must be equipped with wastewater treatment equipment, which shall be put into use simultaneously with the production facilities. For construction projects that involve the discharge of pollutants to the water, it is necessary to pay the pollutant discharge fee pursuant to the requirements of relevant laws and regulations of the State. Moreover, the Law of Atmosphere Pollution Prevention and Control of the People's Republic of China (《中華人民共和國大氣污染防治法》) promulgated by the Standing Committee of the National People's Congress in 1987 and revised in 2000 sets out supervision and administration measures for the prevention and control of pollution caused by burning coal, motorized vehicles/vessels, waste gases, dust and fodor to the atmosphere, and the Law of Prevention and Control of Environmental Pollution Caused by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》) promulgated by the Standing Committee of the National People's Congress in 1995 and revised in 2004 states the supervisory and administrative measures for the prevention and control of environmental pollution caused by solid wastes.

Any person that violates the Environmental Protection Law of the People's Republic of China and various laws and regulations concerning environmental protection may be penalized through warnings, liquidated damages and fines. Any entity that commences construction or production activities before the environmental protection department inspects and approves the pollutant and waste control and treatment facilities may be ordered to cease production or operation and be fined. In the event of major property loss and personnel injury/death due to violation of the laws, the person that violates the related environmental protection laws and regulations may be held criminally liable.

The remedies set forth in the Law of Environmental Protection and various environmental protection regulations include warnings, liquidated damages and mandatory fines. Any entity that fails to install pollution prevention and control facilities in building a project in order to comply with applicable environmental protection regulations may be ordered to cease production or operation and be fined. Any person that seriously violates the environmental protection laws and regulations resulting in property losses or personnel injury/death may be held criminally liable.

According to the series of laws and regulations including the Provisions on Environmental Protection of Railways (《鐵路環境保護規定》) promulgated by the MOR in 1997, railway operators must take measures to minimize the pollution caused by coal powder and dust and noise to the environment along the railway lines.

In addition to the environmental protection laws and regulations of the People's Republic of China, China and over 160 other countries are signatories to the 1992 United Nations Framework Convention on Climate Change (《聯合國氣候變化框架公約》). The Convention aims to limit the emission of carbon dioxide and other greenhouse gases. In December 1997, 84 signatory states of the Convention including China formulated a set of emission standards for the developed countries in Kyoto, Japan. The limitations known as the Kyoto Protocol (《京都議定書》) set forth the emission control objectives of reducing greenhouse gas emissions and such objectives may adversely affect the demand for and price of coal. The Kyoto Protocol came into force on February 16, 2005. Currently, the Kyoto Protocol does not include any particular emission standard for several countries including China.



## REGULATIONS

### TAXES AND EXPENSES

The table below lists the specific taxes and expenses payable by Chinese coal production enterprises as well as the rates of tax or expense.

| <u>Item</u>                                    | <u>Tax base</u>                                   | <u>Tax rate</u>                                                                            | <u>Related business classification</u> |
|------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------|
| Corporate income tax . . . . .                 | Amount of taxable income                          | 25% <sup>1</sup>                                                                           | All                                    |
| Value-added tax . . . . .                      | Income                                            | 17%                                                                                        | All                                    |
| Business tax . . . . .                         | Service income                                    | 3% or 5%                                                                                   | All                                    |
| Urban development tax . . . . .                | Total amount of value-added tax plus business tax | 1%, 5% or 7%                                                                               | All                                    |
| Educational surtax . . . . .                   | Total amount of value-added tax plus business tax | 3%                                                                                         | All                                    |
| Local educational surtax . . . . .             | Total amount of value-added tax plus business tax | 1%                                                                                         | All                                    |
| Resource tax . . . . .                         | Total sales volume of raw coal or coal products   | RMB0.3 to RMB5 per tonne                                                                   | Coal                                   |
| Mining right charge . . . . .                  | Scope of the mining area                          | RMB1,000 per square kilometer per annum                                                    | Coal                                   |
| Mineral resource compensation . . . . .        | Sales revenue of coal                             | 1% of the re-mining rate of approved mining divided by the actual re-mining rate of mining | Coal                                   |
| Fee for keeping simple re-production . . . . . | Raw coal output                                   | RMB8.50 per tonne or RMB10.50                                                              | Coal                                   |
| Coal production safety expense . . . . .       | Raw coal output                                   | No less than RMB5.0 per tonne to RMB30.0 per tonne                                         | Coal                                   |

(1) Our Company and certain of our subsidiaries are entitled to a preferential corporate income tax rate of 15% during the Track Record Period.

### DRUG MANUFACTURING INDUSTRY

#### Drug Manufacturing

No drug manufacturer may commence operations before obtaining a business license, drug manufacturing license, medicine Good Manufacture Practice certificate, medical examination and approval documents as well as other permits and licenses.

#### Drug Manufacturing License and Business License

Each drug manufacturer shall obtain a drug manufacturing license issued by the Administration of Food and Drugs at the provincial level under the PRC government. Before issuing the license, relevant authorities must determine that the manufacturer's production facilities, hygiene conditions, quality control system, management structure and equipment meet the relevant indicators and standards. In accordance with Regulations for the Implementation of the Law of Administration of Drugs of the People's Republic of China (《中華人民共和國藥品管理法實施條例》) effective as of September 15, 2002, the license shall remain valid for five years and may be renewed as long as it is submitted to relevant authorities by the license holder for review at least six months prior to the expiry date.

#### Drug Examination, Approval and Registration

Pursuant to the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) effective as of October 1, 2007, a new drug must be registered and approved by the State Administration of Drugs and

Food before it can be manufactured. The registration and approval procedures require the manufacturer to submit an application for registration to the State Administration of Drugs and Food specifying the effect and quality, the manufacturing process of related drugs as well as the production facilities to be used by the manufacturer. Depending on the nature of the drugs to be examined, the quality of the data supplied as well as the workload of the State Administration of Drugs and Food, the procedures generally take at least several months. To obtain the approval documents of the State Administration of Drugs and Food for registration and production, the manufacturer must also conduct pre-clinical trials, apply to the State Administration of Drugs and Food for permission to conduct clinical trials and submit the clinical data to the State Administration of Drugs and Food for examination and approval upon the completion of the clinical trials. In January 2009, the State Administration of Drugs and Food promulgated the Provisions on Special Approval for the Registration of New Drugs (《新藥註冊特殊審批管理規定》), streamlining the conventional procedures for the approval of certain new drugs.

## Drug Distribution

### *Drug Trading License and Business License*

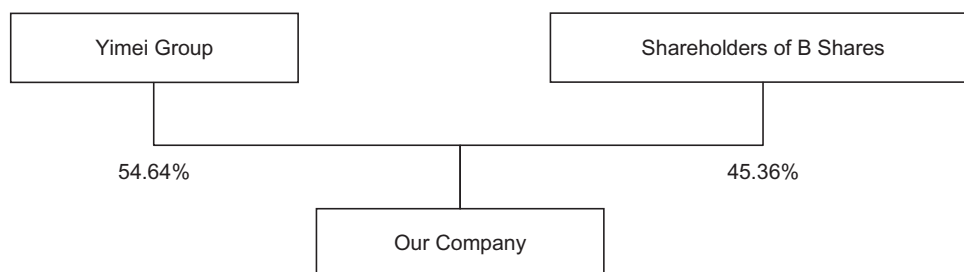
The approval of the local administration for drugs and food under the people's government of the province, autonomous region or municipality directly under the central government of China is required before a drug wholesale company may be established. Once the application is examined and approved, relevant authorities will issue a drug trading license. The approval of the local administration of drugs and food under the people's government at the county level or above is required before a drug retailing store can be opened. Once the application is examined and approved, relevant authorities will issue a business license. Once the license is obtained, the related drug wholesale or retail company must be registered with the relevant administrations for industry and commerce. Related administrations must check the operator's facilities, warehouses, hygiene conditions, quality control system, personnel (including whether the pharmacists and other professionals have relevant qualifications) and equipment before issuing the license. Pursuant to the Measures for the Administration of the Drug Trading License (《藥品經營許可證管理辦法》) effective as of April 1, 2004, the drug trading license shall be valid for five years and may be renewed as long as it has submitted to related departments responsible for the examination and approval of the license for review by the license holder at least six months prior to the expiry date. Moreover, the drug businesses must obtain a business license issued by the relevant administration for industry and commerce prior to the commencement of business.



## OUR HISTORY AND DEVELOPMENT

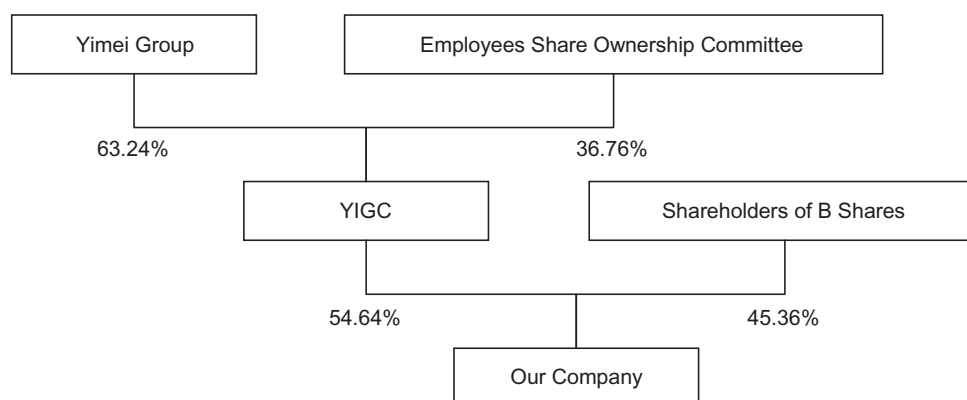
### Our Establishment

In 1997, we were established in the PRC as a joint stock limited company by our sole promoter, Yimei Group, by way of offering B Shares to public shareholders. Upon our establishment, we issued 200 million state-owned legal entity shares to Yimei Group, representing 54.64% of our issued share capital. Meanwhile, we issued 166 million B Shares of RMB1.00 each to public shareholders, representing 45.36% of our issued share capital. On September 23, 1997, the Inner Mongolia Administration for Industry and Commerce issued a business license to us and we became officially established. Our shareholding structure as of the date of our establishment is as follows:



### The Restructuring of Our Controlling Shareholders

In 1998, according to the arrangement and approval of Ikochao League People's Government, Yimei Group reformed its property right system, pursuant to which Yimei Group and Yimei Group's employees share ownership committee (the "Employees Share Ownership Committee") jointly established Inner Mongolia Yimei Industrial Group Co., Ltd. ("YIGC") (內蒙古伊煤實業集團有限公司) in October 1999. At the time of the establishment of YIGC, Yimei Group injected all the appraised operating assets of Yimei Group including all of the 54.64% share capital of our Company held by Yimei Group. Upon the establishment of YIGC, our shareholding structure was as follows:



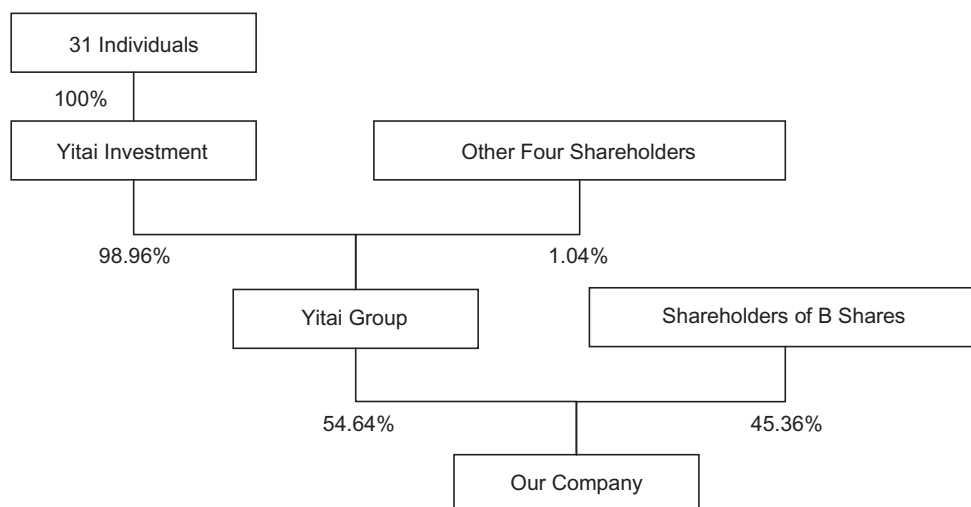
In September 2001, YIGC was renamed Yitai Group.

From 2001 to 2002, according to the opinions and approvals of Ordos People's Government, Department of Finance of Inner Mongolia and Inner Mongolia People's Government, Ordos People's Government withdrew the net assets owned by Yimei Group, which valued at RMB529,811,500 matching along with its 63.24% shareholding in Yitai Group as of December 31, 2000, and meanwhile injected it to Ordos State-owned Assets Investment and Management Co., Ltd. ("SAIMC") (鄂爾多斯市國有資產投資經營有限責任公司). In April 2002, all the relevant legal procedures with respect to the withdrawal and injection (劃轉) of the state-owned assets have been completed. After the withdrawal and injection, Yitai Group transformed to a limited liability company without any state-owned assets and it was controlled by the Employees Share Ownership Committee and the 54.64% shareholding in our Company held by Yitai Group changed to social legal entity shares. To standardize the ownership by the Employees Share Ownership Committee, all the employees of Yitai Group entrusted 31 individual shareholders to hold their capital contributions and established Yitai Investment with the entrusted capital, please see "Relationship with Controlling Shareholders — Background of Yitai Group and Yitai Investment" for more details.

## OUR HISTORY AND CORPORATE STRUCTURE

In relation to the aforementioned withdrawal and injection of state-owned assets and the restructuring, the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) has issued letters in November 2010 and June 2011, respectively, to recognize the approval by Inner Mongolia People’s Government on matters relating to the restructuring of our controlling shareholders. As such, the restructuring of Yitai Group and the change in nature of the share capital of our Company held by Yitai Group have been approved by Inner Mongolia People’s Government and recognized by the SASAC.

Upon the establishment of Yitai Investment, Yitai Investment and four independent shareholders owned as to 98.96% and 1.04%, respectively of the equity interest of Yitai Group. Our shareholding structure upon completion of the aforementioned restructuring was as follows:



After the completion of the aforementioned restructuring, Yitai Investment increased its shareholding in Yitai Group to 99.54% in December 2011. Apart from that, there was no major change in the shareholding structure of our Company.

Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law have confirmed that the changes in shareholdings resulting from the aforementioned withdrawal and injection of state-owned assets have been approved and/or recognized by SASAC, Inner Mongolia People’s Government and other relevant governmental authorities, in compliance with then applicable power of approval and policies in respect of the transformation of state-owned enterprises, and were in compliance with the applicable PRC laws and regulations regarding the withdrawal and injection of state-owned assets. The shareholding structure after each restructuring step is true, legal and valid and there has not been any dispute or legal proceedings as to the change in shareholders.

### Recent Developments

In 2008, our total issued share capital was increased from RMB366 million to RMB732 million through the issuance of bonus shares and conversion of capital reserve into share capital. The shareholding percentage of the existing shareholders remained unchanged.

From November 2008 to November 2009, to stabilize the share price of our B Shares, Yitai Group, through its wholly-owned subsidiary, Yitai HK, purchased in aggregate approximately 26.38 million B shares on SHSE, representing approximately 3.61% of our total issued share capital. As a result, Yitai Group increased its shareholding in our Company to approximately 58.25% of our total issued share capital.

In May 2010, our total issued share capital was increased from RMB732 million to RMB1,464 million through the issuance of bonus shares into share capital. The shareholding percentage of the existing shareholders remained unchanged.

From May 2010 to November 2010, Yitai Group through Yitai HK further purchased, in aggregate, approximately 26.97 million B shares on SHSE and therefore Yitai HK owned approximately 5.45% of our total issued share capital. As a result, Yitai Group increased its shareholding in our Company from approximately 58.25% to approximately 60.09%.

From June 11, 2012 to the Latest Practicable Date, Yitai Group, through Yitai HK, further purchased 18,113,064 B Shares on the SHSE, representing approximately 1.24% of our total issued shares. Therefore, as of the Latest Practicable Date, Yitai Group owned, directly and indirectly, approximately 61.33% of our total issued share capital. The purchase of B shares was announced by the Company on the SHSE on June 12, 2012 and June 20, 2012.

In connection with the above purchases, Yitai Group is entitled to continue to purchase through Yitai HK, in the six months commencing from June 11, 2012, no more than 5% of our total issued share capital (prior to the purchases made on June 11, 2012) on the SHSE at a price of no more than US\$7.00 per B Share, representing an aggregate value of no more than approximately US\$512.4 million.

It is expected that Yitai Group may continue to purchase our B Shares, which are listed and traded on the SHSE, from the Latest Practicable Date to the date of our proposed Listing. However, to the best knowledge of our Directors, the expected purchases by Yitai Group during such period will not exceed 3% of our total issued share capital as of the date of this prospectus.

As of the Latest Practicable Date, Yitai Group owned, directly and indirectly through Yitai HK, approximately 54.64% and 6.69% of our total issued share capital, respectively, or beneficially owned an aggregate of approximately 61.33% of our total issued share capital. Immediately after the Global Offering, Yitai Group will own approximately 55.20% of the issued share capital (or approximately 54.38% if the Over-allotment Option is exercised in full).

## **MILESTONES IN OUR HISTORY**

The key milestones in our business development are as follows:

- In 1997, we were established and listed on SHSE as the first B Share listed coal company in the PRC.
- After our establishment in 1997, we commenced our coal production business and continued to expand our production capacity.
- In February 2001, we obtained the ISO-9002 Quality Assurance System certification and in the same year our product “Yitai No. 1-8” coal was certified as “product of assured quality” (質量信得過產品) by the China Association of Quality Inspection (中國質量檢驗協會).
- In 2003, we invested in Yitai Huzhun and commenced the Huzhun railway construction. In December 2007, we acquired a further 35% equity interest in Yitai Huzhun from China Railway Twenty-third Bureau, Ltd. (中鐵二十三局集團有限公司) and after the acquisition, we became the controlling shareholder of Yitai Huzhun with a 65% equity interest. In August 2008, our shareholding in Yitai Huzhun was further increased to 75.67%.
- In 2004, we expanded our coal transportation capacity with our acquisition of a 62% equity interest in Yitai Zhundong, the operator of Zhundong Railway, and we subsequently increased our equity interest in Yitai Zhundong to 96% in 2008. In June 2010, we acquired the remaining 4% equity interest of Yitai Zhundong from Inner Mongolia Ruyi Co., Ltd. After the acquisition we became the sole shareholder of Yitai Zhundong.
- In 2004, our product “Yitai Dust Coal” was certified as a “Satisfied Customer Product in the Autonomous Region” (自治區用戶滿意產品) by the Inner Mongolia Autonomous Region Association for Quality (內蒙古自治區質量協會).
- In 2004, we were named as a “Customer Satisfaction Enterprise in the Autonomous Region” (全區用戶滿意企業) by Inner Mongolia Autonomous Region Association for Quality.
- In December 2005, we commenced an upgrade project for our coal mines in response to the people’s government of Inner Mongolia and the people’s government of Ordos’ policy on upgrading production technology and increasing the coal recovery rate. The upgrade project was successfully completed in 2008.
- In March 2006, we commenced our coal-to-oil business with the establishment of Yitai Coal-to-oil which began a trial operation in 2009.

## OUR HISTORY AND CORPORATE STRUCTURE

- In August 2007, we were named the Most Valuable Listed Company to Invest in 2007 (2007年最具投資潛力的上市公司) by Shanghai Securities News.
- In 2008, Nalinmiao No. 2 Mine and Hongjingta No. 1 Mine were certified as “Safe and High Efficient Open-Cast Mines in the Coal Industry in 2008 — Distinction Class” (2008年度煤炭工業安全高效礦井（露天）— 特級) by CNCA.
- In 2008, we were named as one of the Top 20 Industry Enterprises of the Inner Mongolia (內蒙古工業二十強企業) by the Inner Mongolia Autonomous Regional Committee (內蒙古自治區委員會). In the same year, the Inner Mongolia Autonomous Region People’s Government Financial Affairs Office (內蒙古自治區人民政府金融工作辦公室) and Inner Mongolia Autonomous Region Department of Finance (內蒙古自治區財政廳) identified our Company as a Trustworthy Enterprise of the Inner Mongolia Autonomous Region (內蒙古自治區誠信企業).
- In 2010, we were named as an Advanced Enterprise in Quality and Economic Benefit for the Inner Mongolia Autonomous Region (內蒙古自治區質量效益型先進企業) by the Inner Mongolia Autonomous Region Association for Quality.
- In 2011, our Company, Yitai Coal-to oil and Yitai Zhundong have obtained GB/T 24001-2004/ISO 14001:2004 certification for the environmental management systems from the Beijing Zhongjing Quality Certification Co., Ltd. (北京中經科環質量認證有限公司), an organization authorized to issue quality control certification, such as ISO certifications.

## PROPOSED ACQUISITION

To achieve our strategy of expanding our coal business, as disclosed in “Future Plans and Use of Proceeds,” and further delineating our businesses from those operated by Yitai Group, we intend to apply the net proceeds from our Global Offering to acquire substantially all of Yitai Group’s coal production, sales and transportation businesses (except for the Retained Businesses), which are similar in nature to our core businesses. Details of the Proposed Acquisition are set out in “Relationship with Controlling Shareholders — Competition — Proposed Acquisition.”

## OUR SUBSIDIARIES

We currently hold the following subsidiaries, details of which are summarized below:

### Coal Operations

#### *Yitai Suancigou*

Yitai Suancigou is a limited liability company established on September 18, 2007 in the PRC. On December 13, 2007, to strengthen strategic cooperation and long-term relationships with our major customers, namely Jingneng Power and Shanxi Yudean, who are our connected persons, we transferred to both Jingneng Power and Shanxi Yudean 15% of the equity interest in Yitai Suancigou at a consideration of RMB516,193,500, respectively. The consideration was arrived at based on the appraised value of the DCF of Yitai Suancigou as of September 30, 2007. On May 22, 2009, to further strengthen the relationship with Jingneng Power and Shanxi Yudean, we transferred to both Jingneng Power and Shanxi Yudean an additional 9% of the equity interest in Yitai Suancigou at a consideration of RMB402,800,000, respectively. The consideration was arrived at based on the appraised value of the net assets of Yitai Suancigou as of April 30, 2009. We currently hold 52% of its equity interest, Jingneng Power holds 24% of its equity interest and Shanxi Yudean holds 24% of its equity interest. Both Jingneng Power and Shanxi Yudean, save for their equity interest in Yitai Suancigou, are Independent Third Parties. Yitai Suancigou’s registered capital is RMB1,080,000,000 and it is primarily engaged in coal production and sales.

#### *Huhhot Yitai Coal Sales*

Huhhot Yitai Coal Sales is a one-person limited liability company established on September 3, 2009 in the PRC. Huhhot Yitai Coal Sales is our wholly-owned subsidiary. The registered capital of Huhhot Yitai Coal Sales is RMB50,000,000 and it is primarily engaged in coal sales.

### *Yitai Tiedong*

Yitai Tiedong is a limited liability company established on September 3, 2008 in the PRC. On June 30, 2009, to establish strategic relationship with Yitai Tiedong's major client and increase the transportation volume of the Huzhun and Dazhun Railway, to which Yitai Tiedong's storage and transportation facilities were connected, we transferred 30% of the equity interest in Yitai Tiedong to Ordos Dongchen Coal Co., Ltd., an Independent Third Party and a major client of Yitai Huzhun, at a consideration of RMB79,805,500. On the same date, we transferred 19% of the equity interest in Yitai Tiedong to Ordos Dinghua Resources Development Co., Ltd., an Independent Third Party, at a consideration of RMB50,543,500. The considerations were arrived at based on the appraised value of the net assets of Yitai Tiedong as of April 30, 2009. We currently hold 51% of its equity interest, Ordos Dinghua Resources Development Co., Ltd. (鄂爾多斯市鼎華資源開發有限責任公司), an Independent Third Party save for its equity interest in Yitai Tiedong, holds 19% of its equity interest and Ordos Dongchen Coal Co., Ltd. (鄂爾多斯市東辰煤炭有限責任公司), an Independent Third Party save for its equity interest in Yitai Tiedong, holds 30% of its equity interest. Yitai Tiedong's registered capital is RMB123,000,000 and it is primarily engaged in the storage, transportation and sale of coal.

### *Yitai Yili Mining*

Yitai Yili Mining is a limited liability company established on March 13, 2012 in the PRC. We currently hold 90% of the equity interest and Yitai Group holds 10% of the equity interest. Yitai Yili Mining's registered capital is RMB50,000,000 and it is primarily engaged in the investment in the coal mining industry. As of the Latest Practicable Date, Yitai Yili Mining has not commenced operations.

## **Transportation Operations**

### *Yitai Transport*

Yitai Transport is a limited liability company established on March 20, 2007 in the PRC. On July 30, 2008, to consolidate the transportation resources, reduce connected transactions between us and Yitai Group, we acquired 90% of the equity interest in Yitai Transport from Yitai Group, at a consideration of RMB5,585,989. The consideration was arrived at based on the appraised value of the net assets of Yitai Transport minus its semi-annual dividend distribution as of June 30, 2008. Yitai Transport currently is our wholly-owned subsidiary. Yitai Transport's registered capital is RMB5,000,000 and it is primarily engaged in car transportation.

### *Yitai Zhundong*

Yitai Zhundong is a limited liability company established on October 5, 1998 in the PRC. On February 26, 2008, to strengthen our Group's transportation capacity and reduce the connected transactions between us and Yitai Group, we acquired 28% of the equity interest in Yitai Zhundong from Yitai Group at a consideration of RMB343,275,700 and acquired 6% of the equity interest in Yitai Zhundong from Inner Mongolia Ruyi Co., Ltd., an Independent Third Party, at a consideration of RMB73,559,100. The considerations were arrived at based on the respective shareholding percentage of the appraised value of the net assets of Yitai Zhundong as of December 31, 2007. On June 23, 2010, to further strengthen our control in Yitai Zhundong, we acquired 4% of the equity interest in Yitai Zhundong from Inner Mongolia Ruyi Co., Ltd., an Independent Third Party, at a consideration of RMB108,750,153. The consideration was arrived at after arms-length negotiations. On July 28, 2010, Yitai Zhundong's registered capital was increased to RMB1,310,000,000. And on March 21, 2011, Yitai Zhundong's registered capital was further increased to RMB1,496,000,000. Yitai Zhundong currently is our wholly-owned subsidiary and it is primarily engaged in railway transportation.

Yitai Zhundong currently holds 51% of the equity interest in Inner Mongolia Yitai Zhundong Jintai Storage and Transportation Co., Ltd. (內蒙古伊泰准東金泰儲運有限責任公司) ("Zhundong Jintai"). Zhundong Jintai's registered capital is RMB12,800,000 and it is primarily engaged in the operation of coal loading station. Inner Mongolia Jintai Coal Group Co., Ltd. (內蒙古金泰煤業集團有限責任公司), an Independent Third Party save for its equity interest in Zhundong Jintai, holds the remaining 49% of the equity interest.

### *Yitai Huzhun*

Yitai Huzhun is a limited liability company established on February 26, 2003 in the PRC. In December, 2007, to strengthen the control in Yitai Huzhun, we acquired 35% of the equity interest in Yitai Huzhun from China Railway Twenty-third Bureau, Ltd., an Independent Third Party, at a consideration of RMB353,877,440. The consideration was arrived at based on the appraised value of the DCF of Yitai Huzhun as of September 30, 2007. We currently hold 76.46% of its equity interest, and Inner Mongolia Mengtai Buliangou Coal Co., Ltd. (內蒙古蒙泰不連溝煤業有限責任公司), an Independent Third Party save for its equity interest in Yitai Huzhun, holds 21.56% of its equity interest and Huhhot Railway Bureau, holds 1.98% of its equity interest. On February 28, 2012, Yitai Huzhun's registered capital was increased to RMB1,360,000,000 and it is primarily engaged in railway transportation. Yitai Huzhun currently holds 51% of the equity interest in Zhungeer Huzhun Ruyi Logistics Co., Ltd. (准格爾旗呼准如意物流有限責任公司). Zhungeer Guanniuju Cargo Transportation and Trading Co., Ltd. (准格爾旗官牛犂貨物運輸貿易有限責任公司), an Independent Third Party save for its equity interest in Zhungeer Huzhun Ruyi Logistics Co., Ltd., holds the remaining 49% of the equity interest.

### *Ordos Yitai Transport*

Ordos Yitai Transport is a limited liability company established on December 1, 2004 in the PRC. On July 29, 2008, to consolidate the transportation resources, reduce connected transactions between us and Yitai Group, we acquired 10% of the equity interest in Ordos Yitai Transport from Yitai Group, at a consideration of RMB4,590,274.07. The consideration was arrived at based on the appraised value of the net assets of Ordos Yitai Transport as of June 30, 2008. We currently hold 100% of its equity interest. Ordos Yitai Transport's registered capital is RMB38,560,000 and it is primarily engaged in car transportation.

## **Coal-related Chemical Operations**

### *Yitai Coal-to-oil*

Yitai Coal-to-oil is a limited liability company established on March 17, 2006 in the PRC. We currently hold 80% of the equity interest and Yitai Group holds 20% of the equity interest. On September 21, 2011, Yitai Coal-to-oil's registered capital was increased to RMB1,500,000,000 and it is primarily engaged in the production and sale of coal chemical products. Yitai Coal-to-oil currently holds 39% of the equity interest in Avic Liming Jinhuaaji Petrochemical Equipment (Inner Mongolia) Co., Ltd. (中航黎明錦化機石化裝備(內蒙古)有限公司). Avic Liming Jinxi Chemical Machinery (Group) Co., Ltd. (中航黎明錦西化工機械(集團)有限責任公司), an Independent Third Party, and Synfuels China hold the remaining 51% and 10%, respectively. Yitai Coal-to-oil also holds 100% of the equity interest in Inner Mongolia Yitai Oil Product Sales Co., Ltd. (內蒙古伊泰成品油銷售有限公司).

### *Yitai Chemical*

Yitai Chemical is a limited liability company established on October 29, 2009 in the PRC. Yitai Chemical is our wholly-owned subsidiary. Yitai Chemical's registered capital is RMB100,000,000 and it is primarily engaged in chemical production and sales. As of the Latest Practicable Date, Yitai Chemical has not commenced operations.

### *Yitai Yili*

Yitai Yili is a one person limited liability company established on September 24, 2009 in the PRC. In December 2009, to develop our business in the Xinjiang Uygur Autonomous Region, we acquired 100% of the equity interest in Yitai Yili from Yitai Group, at a consideration of RMB100,000,000. The consideration was arrived based on the value of the net assets of Yitai Yili as stated in its financial report dated November 30, 2009. Yitai Yili is currently our wholly-owned subsidiary. Yitai Yili's registered capital is RMB100,000,000 and it is primarily engaged in the production and sale of coal chemical products and related technology development and consulting. As of the Latest Practicable Date, Yitai Yili has not commenced any operation in the production and sale of coal chemical products.



### *Xinjiang Zhundong*

Xinjiang Zhundong is a one person limited liability company established on August 9, 2010 in the PRC. Xinjiang Zhundong is a wholly-owned subsidiary of our Company with a registered capital of RMB100,000,000. It is primarily engaged in coal and coal chemical technology development and consulting.

### *Yitai Hami*

Yitai Hami is a one person limited liability company established on January 13, 2012 in the PRC. Yitai Hami is a wholly-owned subsidiary of our Company with a registered capital of RMB10,000,000. It is primarily engaged in the processing and sales of minerals and the sales of coal chemical products. As of the Latest Practicable Date, Yitai Hami has not commenced operations.

### *Yitai Xinjiang*

Yitai Xinjiang is a limited liability company established on February 16, 2012 in the PRC. We currently hold 90% of the equity interest and Yitai Group holds 10% of the equity interest. Yitai Xinjiang's registered capital is RMB100,000,000 and it is primarily engaged in the production and sales of coal chemical products, coal-related chemicals and coal technology consultation services. As of the Latest Practicable Date, Yitai Xinjiang has not commenced operations.

## **Other Operations**

### *Yitai Pharmaceutical*

Yitai Pharmaceutical is a limited liability company established on May 20, 1998 in the PRC. Yitai Pharmaceutical is a wholly subsidiary of our Company. On November 28, 2011, Yitai Pharmaceutical's registered capital was increased to RMB358,400,000, and it is primarily engaged in the production and sale of pharmaceutical products. Yitai Pharmaceutical currently holds 51% of the equity interest in Yitai Pharmatech Co., Ltd. (伊泰(北京)合成技術有限公司). The remaining 10% and 39% of the equity interest are held by Mr. Feng Wenhua (an Independent Third Party save for his equity interest in Yitai Pharmatech Co., Ltd.), and Mr. Liu Zhike (an Independent Third Party save for his equity interest in Yitai Pharmatech Co, Ltd.), respectively. Yitai Pharmaceutical also holds 100% of the equity interest in Beijing Yitai Biotechnology Co., Ltd. (北京伊泰生物科技有限公司).

### *Yitai Share (HK)*

Yitai Share (HK) is a company incorporated in Hong Kong on June 27, 2011. It has an authorized share capital of US\$99,000,000 divided into 99,000,000 shares of US\$1.00 each. Yitai Share (HK) is a wholly-owned subsidiary of our Company. Its primary business is coal imports and international trade.

## **APPROVALS**

Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law advised that all the registered capital/increased registered capital of the PRC companies comprising our Group have been fully paid up in the required manner and within the required timeframe. Our PRC legal advisors also advised that our Company and the Controlling Shareholders have complied with all the relevant laws and regulations and have obtained all relevant regulatory and shareholders' approvals in respect of the Listing.

## **MINING RIGHTS**

We obtained the mining rights of five of our self-owned coal mines, namely Nalinmiao No. 1 Mine, Nalinmiao No. 2 Mine, Hongjingta No. 1 Mine, Fuhua Mine and Yangwangou Mine through self-exploration. Yitai Group obtained the mining rights of three of the Target Mines, namely Chengyi Mine, Baijialiang Mine and Dadijing Mine, through self-exploration.

In April 2006, we consolidated Kaida No. 1 Mine (the mining right was obtained by self-exploration) with Huayuan Mine, which was owned by Ordos Huayuan Coke Co., Ltd., an Independent Third Party, to form

Kaida Mine, which is currently owned by our Company. At that time, our Company and Ordos Huayuan Coke Co., Ltd. jointly established Inner Mongolia Yitai Huayuan Coal Co., Ltd. ("Yitai Huayuan") by cash contributions. Yitai Huayuan managed to obtain the mining right of Kaida Mine by means of the mining rights application procedure. The consolidation of Kaida Mine was approved by the Inner Mongolia Coal Industry Bureau and had no relation to any acquisition of mining rights or coal mine assets, or any payment to third parties. In April 2008, we acquired the equity interest of Yitai Huayuan held by Ordos Huayuan Coke Co., Ltd. at a consideration of RMB81.4 million and then Yitai Huayuan became our wholly-owned subsidiary. The consideration was arrived at based on the appraised value of the net assets of Yitai Huayuan as of December 31, 2007. In July 2008, with the approval of the Inner Mongolia Coal Industry Bureau, we obtained the mining right of Kaida Mine from Yitai Huayuan and then became the holder of the mining right of Kaida Mine.

In November 2005, Yitai Group consolidated its Qiaojiaata Mine and the former Baoshan Mine (both mining rights were obtained by self-exploration) with Niujialiang Mine, which was owned by Yiqi Mengtai Coal Sales Co., Ltd., an Independent Third Party, to form Baoshan Mine. At that time, Yitai Group and Yiqi Mengtai Coal Sales Co., Ltd. jointly established Yitai Baoshan through cash contributions. Yitai Baoshan managed to obtain the mining right of Baoshan Mine by means of the mining rights application procedure. The consolidation of Baoshan Mine was approved by Inner Mongolia Coal Industry Bureau, and had no relation to any acquisition of mining rights or coal mine assets, or any payment to third parties.

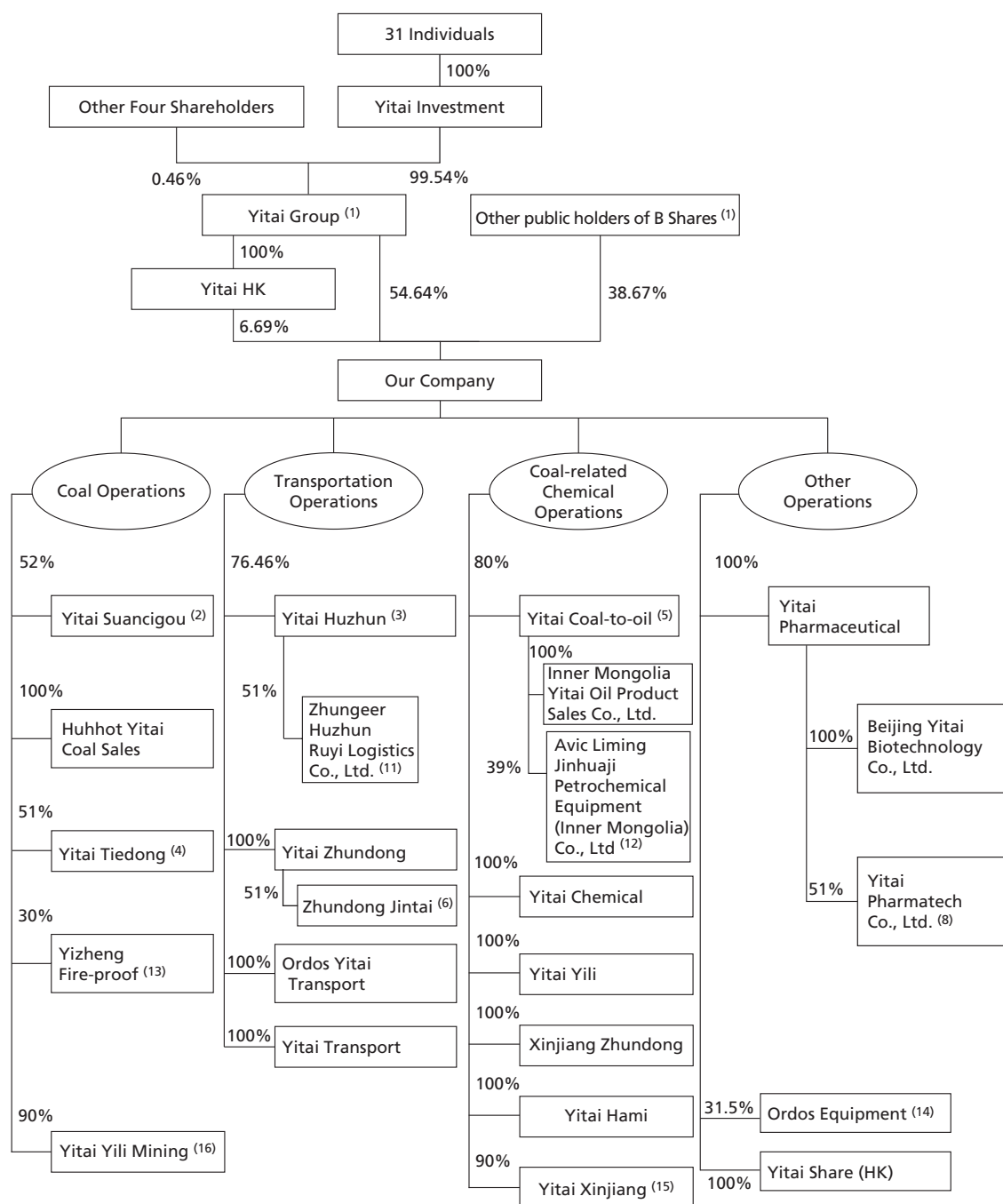
In November 2005, Yitai Group consolidated its Dingjiaqu Mine (the mining right was obtained by self-exploration) with Sanhechang No. 2 Mine, which was owned by Ordos Tongda Coal Sales Co., Ltd., an Independent Third Party, to form Dingjiaqu Mine. At that time, Yitai Group and Ordos Tongda Coal Sales Co., Ltd. jointly established Yitai Tongda by cash contributions. Yitai Tongda managed to obtain the mining right of Dingjiaqu Mine by means of the mining rights application procedure. The consolidation of Dingjiaqu Mine was approved by the Inner Mongolia Coal Industry Bureau. Yitai Group paid Ordos Tongda Coal Sales Co., Ltd. an amount of RMB3.5 million for the consolidation. Since the consolidation of Dingjiaqu Mine had no relation to any acquisition of mining rights or coal mine assets, the amount paid by Yitai Group to Ordos Tongda Coal Sales Co., Ltd. did not constitute a consideration.

Suancigou Mine is owned by our Company and it is divided into two mining areas. The mining right of one mining area was acquired by our Company from Zhunqi Yidong Coal Co., Ltd., an Independent Third Party, at a consideration of RMB18.86 million with the approval of Inner Mongolia Coal Industry Bureau in December 2003. The consideration was arrived at based on the appraised value of the net assets of Suancigou Mine as of January 31, 2001. The mining right of the other mining area of Suancigou Mine, the larger mining area, was obtained by our Company through self-exploration.

## CORPORATE STRUCTURE CHART

## A. Existing Group Structure\*,\*\*

The following chart illustrates the shareholding structure as well as our subsidiaries and associates as of the Latest Practicable Date:

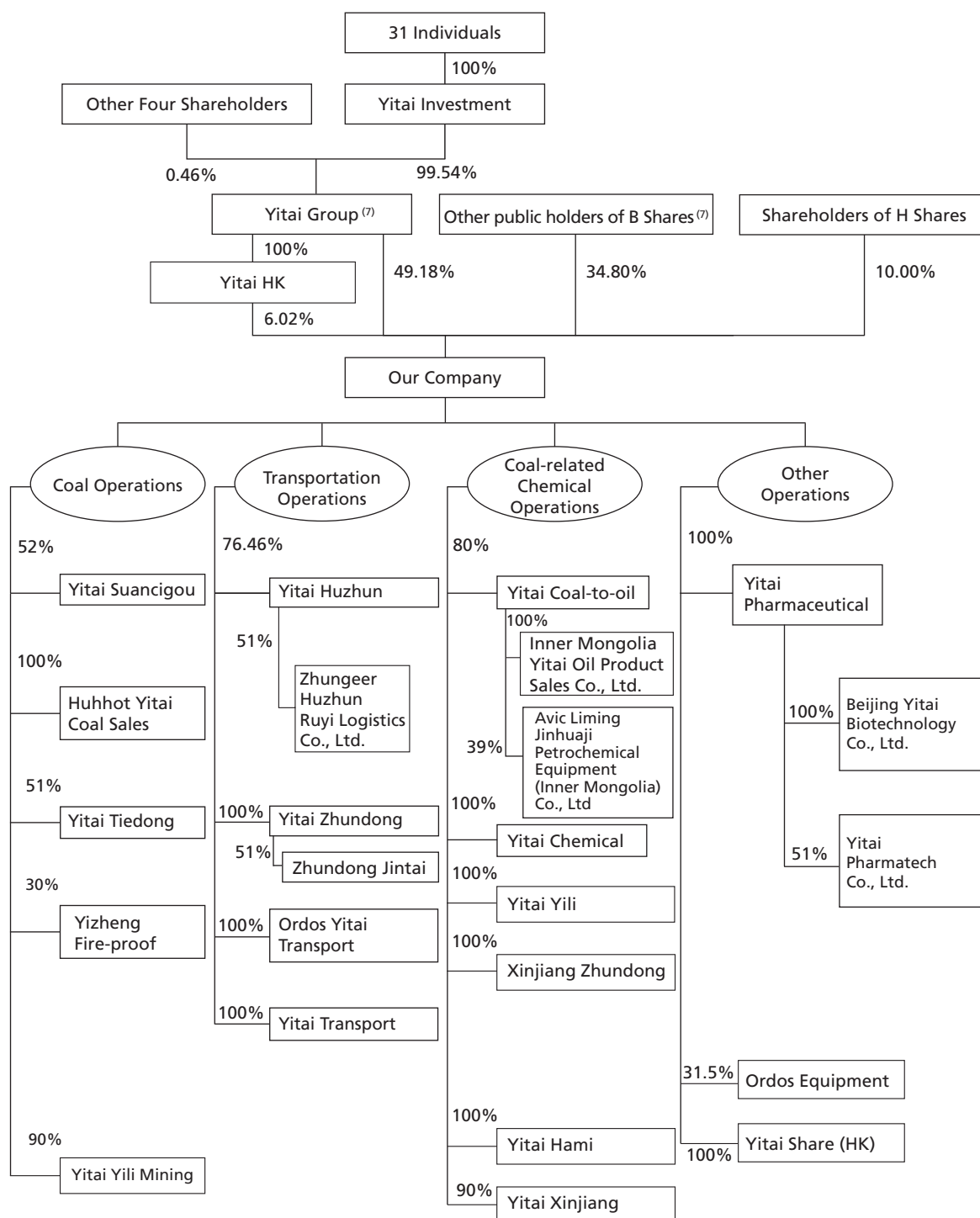


\* Other than Yitai HK and Yitai Share (HK), which were incorporated in Hong Kong, all the companies in this group chart were established in PRC.

\*\* Other than Yitai Coal-to-oil, Yitai Xinjiang and Yitai Yili Mining, none of the non-wholly-owned subsidiaries of our Company is a connected person of our Company.

**B. Group Structure following Global Offering but before Completion of the Proposed Acquisition\*,\*\***

The following chart illustrates the shareholding structure as well as our subsidiaries and associates immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised):



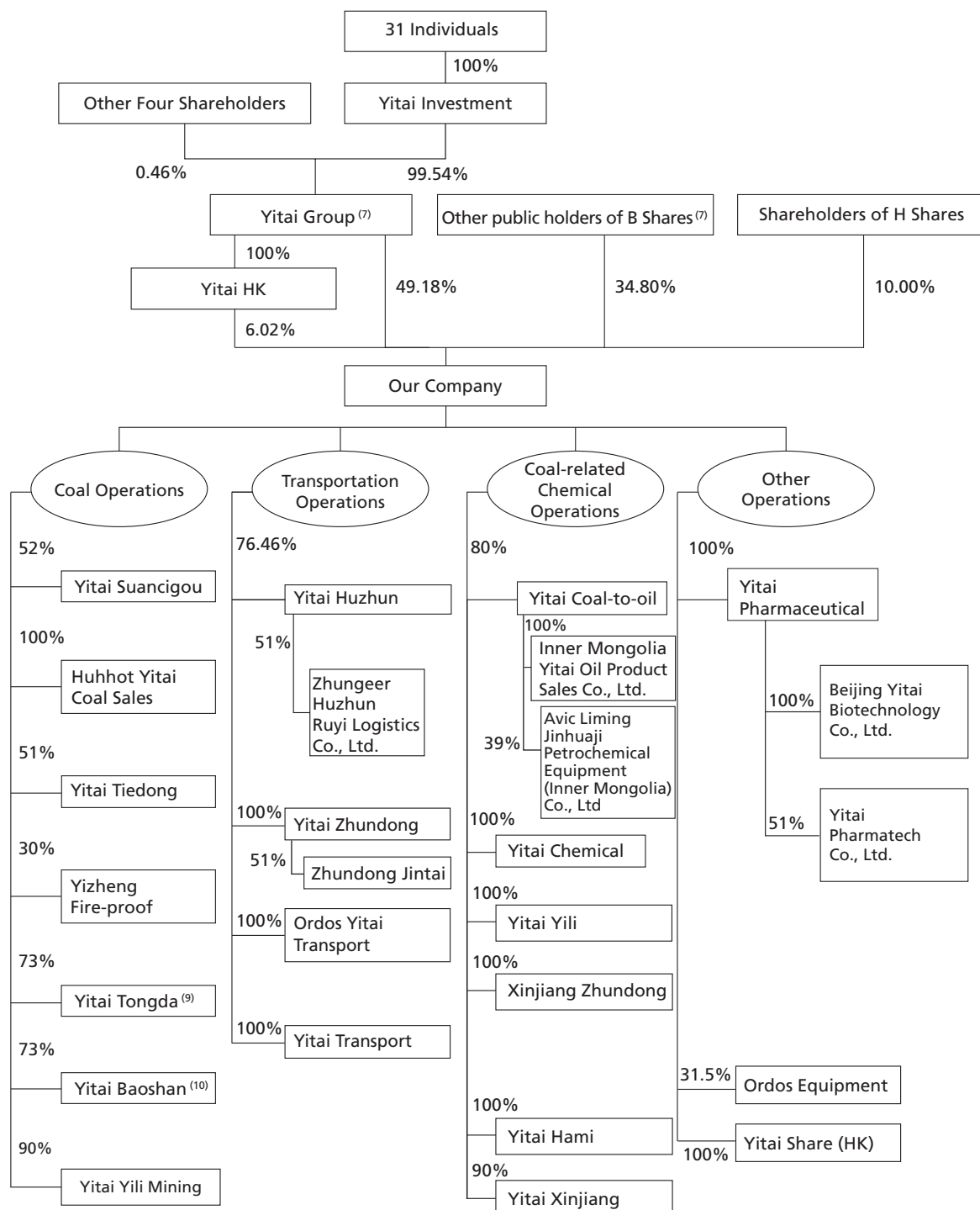
\* Other than Yitai HK and Yitai Share (HK), which were incorporated in Hong Kong, all the companies in this group chart were established in PRC.

\*\* Other than Yitai Coal-to-oil, Yitai Xinjiang and Yitai Yili Mining, none of the non-wholly-owned subsidiaries of our Company is a connected person of our Company.

## OUR HISTORY AND CORPORATE STRUCTURE

### C. Group Structure following the Proposed Acquisition\*,\*\*

The following chart illustrates the shareholding structure as well as our subsidiaries and associates immediately following completion of the Proposed Acquisition (assuming that the Over-allotment Option is not exercised):



\* Other than Yitai HK and Yitai Share (HK), which were incorporated in Hong Kong, all the companies in this group chart were established in PRC.

\*\* Other than Yitai Coal-to-oil, Yitai Xinjiang and Yitai Yili Mining, none of the non-wholly-owned subsidiaries of our Company is a connected person of our Company.

Notes:

- (1) Yitai Group owned approximately 6.69% of our transferrable B Shares through its wholly-owned subsidiary, Yitai HK. Therefore, together with the 54.64% direct interest in the form of Domestic Shares it held, Yitai Group owned approximately 61.33% of our issued shares.

- (2) The remaining 24% and 24% of the equity interest are held by Beijing Jingneng Thermal Power Co., Ltd. (北京京能熱電股份有限公司) (an Independent Third Party save for its equity interest in this company and it is mainly engaged in the generation and sales of power and heating, and the operation of power equipment.) and Shanxi Yudean (an Independent Third Party save for its equity interest in this company which is mainly engaged in investing in the coal industry and the transport industry.), respectively.
- (3) The remaining 21.56% and 1.98% of the equity interest are held by Inner Mongolia Mengtai Buliangou Coal Co., Ltd. (內蒙古蒙泰不連溝煤業有限責任公司) (an Independent Third Party save for its equity interest in this company which is mainly engaged in the sales of coke and coke flour, the distribution of mechanical and electrical products for mining and the supply of heat) and Huhhot Railway Bureau (呼和浩特鐵路局) (an Independent Third Party save for its equity interest in this company and it is mainly engaged in rail transportation), respectively.
- (4) The remaining 19% and 30% of the equity interest are held by Ordos Dinghua Resources Development Co., Ltd. (鄂爾多斯市鼎華資源開發有限責任公司) (an Independent Third Party save for its equity interest in this company which is mainly engaged in the storage and sales of coal) and Ordos Dongchen Coal Co., Ltd. (鄂爾多斯市東辰煤炭有限責任公司) (an Independent Third Party save for its equity interest in this company which is mainly engaged in the coal production and sales), respectively.
- (5) Yitai Group holds the remaining 20% of the equity interest.
- (6) The remaining 49% of the equity interest is held by Inner Mongolia Jintai Coal Group Co., Ltd. (內蒙古金泰煤業集團有限責任公司) (an Independent Third Party save for its equity interest in Zhundong Jintai).
- (7) Yitai Group owned approximately 6.02% of our transferrable B Shares through its wholly-owned subsidiary, Yitai HK. Therefore, together with the 49.18% direct interest in form of Domestic Shares it held, Yitai Group owned approximately 55.20% of our issued shares.
- (8) The remaining 10% and 39% of the equity interest are held by Mr. Feng Wenhua (an Independent Third Party save for its equity interest in this company) and Mr. Liu Zhike (an Independent Third Party save for its equity interest in this company), respectively.
- (9) Ordos Huijiabao Investment Company Limited (鄂爾多斯市匯家寶投資有限責任公司) (an Independent Third Party save for its equity interest in this company and it is mainly engaged in the investment in the coal industry.) holds the remaining 27% of the equity interest.
- (10) Beijing Jielongda Investment Company Limited (北京傑隆達投資有限責任公司) (an Independent Third Party save for its equity interest in this company and it is mainly engaged in the investment in the coal industry and commerce.) holds the remaining 27% of the equity interest.
- (11) Zhungeer Guanniuju Cargo Transportation and Trading Co., Ltd. (准格爾旗官牛棋貨物運輸貿易有限責任公司) (an Independent Third Party save for its equity interest in this company which is mainly engaged in the storage and loading services and other services related to rail transportation.) holds the remaining 49% of the equity interest.
- (12) The remaining 51% and 10% of the equity interest are held by Avic Liming Jinxi Chemical Machinery (Group) Co., Ltd. (中航黎明錦西化工機械(集團)有限責任公司) (an Independent Third Party save for its equity interest in this company which is mainly engaged in the production of chlorine-caustic soda and organic products.) and Synfuels China (it is mainly engaged in the development, transfer and consulting of coal chemical technology.), respectively.
- (13) The remaining 35% and 35% of the equity interest are held by Ordos Urban Infrastructure Construction and Investment Co., Ltd. (鄂爾多斯城市基礎設施建設投資有限公司) (an Independent Third Party save for its equity interest in this company) and Ordos State-owned Assets Investment and Management Co., Ltd. (an Independent Third Party save for its equity interest in this company and Yitai Huzhun), respectively.
- (14) The remaining 51%, 10% and 7.5% of the equity interest are held by Tiandi Science & Technol Co., Ltd. (天地科技股份有限公司) (an Independent Third Party save for its equity interest in this company), Inner Mongolia Yidong Coal Group Co., Ltd. (內蒙古伊東煤炭集團有限責任公司) (an Independent Third Party save for its equity interest in this company) and Zhengzhou Coal Mining



## OUR HISTORY AND CORPORATE STRUCTURE

Machinery Group Co., Ltd. (鄭州煤礦機械集團股份有限公司) (an Independent Third Party save for its equity interest in this company), respectively.

(15) The remaining 10% of the equity interest is held by Yitai Group.

(16) The remaining 10% of the equity interest is held by Yitai Group.

## BUSINESS

This section discusses information regarding our business and, where so indicated, the Target Business Group that we plan to acquire from Yitai Group under the Assets Transfer Agreement after the completion of the Global Offering.

Unless otherwise specified, all technical data in this section are based on the Competent Person's Report (which is included as Appendix V to this Prospectus) and references to coal production data in this section are to raw coal production.

### OVERVIEW

We are the largest Local Coal Enterprise in Inner Mongolia, China, and one of the largest coal enterprises in China, in terms of revenue in 2010, according to the CNCA. Inner Mongolia has the largest total proved coal reserves according to the MLR, and the highest coal production volume in 2009, 2010 and 2011 according to the NBSC, among all provinces in China. We have grown rapidly in recent years, primarily from the successive completion of internal consolidations and technology upgrades in our coal mines, which has led to increased production capacity, production equipment mechanization and recovery rate. From 2006 to 2011, our coal output increased from 9.7 million tonnes to 35.1 million tonnes, and our primary mining method changed from room-and-pillar mining to fully mechanized longwall mining, which enabled us to extract substantially all coal of mining faces without having to leave a significant portion of coal as pillars, as would be the case in room-and-pillar mining. Accordingly, the mechanization ratios of our mines increased from under 50% to above 95%; and the overall mining-zone recovery rates increased from under 50% to around 80% from 2006 to 2011. For 2009, 2010 and 2011, we sold 27.7 million tonnes, 35.7 million tonnes and 38.3 million tonnes of coal, respectively, representing a CAGR of 17.6% from 2009 to 2011. Our total revenue for 2009, 2010 and 2011 was RMB10,252.2 million, RMB13,853.8 million and RMB16,515.8 million, respectively, representing a CAGR of 26.9% from 2009 to 2011. Our profit for 2009, 2010 and 2011 was RMB3,148.4 million, RMB5,316.0 million and RMB5,749.3 million, respectively, representing a CAGR of 35.1% from 2009 to 2011.

Our principal operations include:

- Coal operations, which are our core business and mainly include the production, transportation and sale of coal;
- Transportation operations, through which our Company and our subsidiaries provide coal transportation service to third parties, other than coal transportation service for the sale of our own coal;
- Coal-related chemical operations, which mainly include the production and sale of coal-based synthetic fuels and other coal-related chemical businesses; and
- Other operations, which mainly include the development, production and sale of traditional Chinese medicine.

The following table sets forth the contributions by each of our operating segments in terms of revenue and as a percentage of our total revenue for the periods indicated:

| Segments                         | Year ended December 31, |              |                 |              |                 |              |
|----------------------------------|-------------------------|--------------|-----------------|--------------|-----------------|--------------|
|                                  | 2009                    |              | 2010            |              | 2011            |              |
|                                  | RMB million             | %            | RMB million     | %            | RMB million     | %            |
| Coal operations                  | 9,676.0                 | 94.4         | 13,360.1        | 96.4         | 15,197.3        | 92.0         |
| Transportation operations        | 534.5                   | 5.2          | 435.3           | 3.2          | 604.4           | 3.7          |
| Coal-related chemical operations | —                       | —            | —               | —            | 677.8           | 4.1          |
| Other operations                 | 41.7                    | 0.4          | 58.4            | 0.4          | 36.3            | 0.2          |
| <b>Total</b>                     | <b>10,252.2</b>         | <b>100.0</b> | <b>13,853.8</b> | <b>100.0</b> | <b>16,515.8</b> | <b>100.0</b> |

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The following table sets forth the contributions by each of our operating segments in terms of net profit for the periods indicated:

| <u>Segment</u>                            | <u>Year ended December 31,</u> |                       |                       |
|-------------------------------------------|--------------------------------|-----------------------|-----------------------|
|                                           | <u>2009</u>                    | <u>2010</u>           | <u>2011</u>           |
|                                           | RMB million                    |                       |                       |
| Coal operations .....                     | 3,050.7                        | 5,203.7               | 5,425.0               |
| Transportation operations .....           | 147.1                          | 186.0                 | 342.0                 |
| Coal-related chemical operations .....    | (0.7)                          | 2.0                   | 27.5                  |
| Other operations .....                    | (21.0)                         | (16.9)                | (31.6)                |
| Elimination of intersegment results ..... | (27.7)                         | (58.8)                | (13.6)                |
| <b>Total</b> .....                        | <b><u>3,148.4</u></b>          | <b><u>5,316.0</u></b> | <b><u>5,749.3</u></b> |

### Our Coal Operations

We have seven operating mines and two mines under development. All of our coal mines are located in the Ordos region, Inner Mongolia. We have a large and high quality coal reserves base, with geological and depositary conditions favorable to low-cost mining. The majority of our coal reserves are deposited in the Dongsheng Coalfield, which is known for high quality coal deposits and, combined with the adjacent Shenfu Coalfield, is listed by the State Council as one of the 14 large-scale coal production bases in China. The total proved and probable recoverable coal reserves of our operating mines and mines under development amounted to 1,432.9 million tonnes as of December 31, 2011, which we expect to be sufficient for more than 40 years of production based on our 2011 annual production of 35.1 million tonnes of coal. The estimated remaining life of our Suancigou Mine, in which we hold a 52% interest, is 41 years, while the estimated remaining lives of our other operating mines range from two years to nine years, according to the Competent Person's Report. Talahao Mine, Bulamao West Mine and Bulamao East Mine, which are under development, have estimated mine lives of 103, 18 and nine years respectively, according to the Competent Person's Report.

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The following table sets forth certain data for each of our nine mines:

|                                                                                         | In operation        |                     |                     |                     |                     |                     | Under development   |                     |                     |
|-----------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                         | Suancigou           | Nalinmiao No.2      | Hongjing-ta No.1    | Nalinmiao No.1      | Yangwan-gou         | Fuhua               | Kaida               | Talahao             | Bulamao             |
| Background data                                                                         |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Location. . . . .                                                                       | Zhunge'er Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Zhunge'er Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Dongsheng Coalfield | Dongsheng Coalfield |
| Date of initial operation . . . . .                                                     | Aug 8, 2008         | Oct 1, 2006         | Aug 12, 2007        | Jan 1, 2008         | Sep 24, 2009        | Jul 1, 2008         | Mar 17, 2008        | —                   | —                   |
| Mining area (square kilometers) . . . . .                                               | 49.8                | 21.0                | 28.4                | 9.4                 | 1.0                 | 8.6                 | 5.5                 | 42.6                | 40.2                |
| In-place resource data (as of December 31, 2011) <sup>(1)(2)</sup>                      |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| (million tonnes)                                                                        |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Measured coal resources . . . . .                                                       | 389.9               | 25.2                | 43.0                | 14.5                | 8.7                 | 2.9                 | 6.0                 | 498.0               | 23.1                |
| Indicated coal resources . . . . .                                                      | 805.6               | 73.6                | 17.2                | —                   | —                   | 1.7                 | 0.6                 | 249.4               | 9.7                 |
| Inferred coal resources . . . . .                                                       | —                   | 2.3                 | —                   | —                   | —                   | —                   | —                   | 9.6                 | 1.5                 |
| Reserve data (as of December 31, 2011) <sup>(1)(2)</sup>                                |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Total proved and probable recoverable reserves (million tonnes) . . . . .               | 659.9               | 71.9                | 40.4                | 10.1                | 6.2                 | 2.8                 | 5.2                 | 616.0               | 20.5                |
| Total proved and probable marketable reserves <sup>(3)</sup> (million tonnes) . . . . . | 458.8               | 63.9                | 35.9                | 9.3                 | 5.8                 | 2.5                 | 4.2                 | 550.2               | 16.8                |
| Number of mineable seams . . . . .                                                      | 4                   | 3                   | 2                   | 3                   | 2                   | 1                   | 2                   | 6                   | 4                   |
| Average seam thickness (meters) . . . . .                                               | 6.6                 | 4.5                 | 4.1                 | 3.7                 | 6.9                 | 2.0                 | 2.0                 | 3.3                 | 1.8                 |
| Mine life <sup>(4)</sup> . . . . .                                                      | 41                  | 9                   | 6                   | 3                   | 4                   | 2                   | 3                   | 103                 | West: 18<br>East: 9 |
| Coal production (million tonnes)                                                        |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| 2009 . . . . .                                                                          | 6.4                 | 6.9                 | 7.5                 | 2.4                 | 0.3                 | 1.2                 | 1.4                 | —                   | —                   |
| 2010 . . . . .                                                                          | 8.2                 | 8.1                 | 8.2                 | 5.8                 | 1.4                 | 1.3                 | 3.1                 | —                   | —                   |
| 2011 . . . . .                                                                          | 8.4                 | 8.1                 | 7.3                 | 6.6                 | 1.0                 | 1.4                 | 2.4                 | —                   | —                   |
| Average mine operating costs <sup>(5)</sup> (RMB per tonne)                             |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| 2009 . . . . .                                                                          | 64                  | 57                  | 53                  | 102                 | 201                 | 90                  | 95                  | —                   | —                   |
| 2010 . . . . .                                                                          | 90                  | 78                  | 77                  | 60                  | 108                 | 91                  | 104                 | —                   | —                   |
| 2011 . . . . .                                                                          | 104                 | 91                  | 65                  | 54                  | 137                 | 85                  | 127                 | —                   | —                   |
| Expiry date of the mining right . . . . .                                               |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| First: December 2033 <sup>(6)</sup>                                                     |                     | July 2015           | September 2036      | November 2019       | June 2015           | November 2013       | June 2013           | —                   | —                   |
| Second: April 2038 <sup>(6)</sup>                                                       |                     |                     |                     |                     |                     |                     |                     |                     |                     |

- (1) Reserves and resources data include reserves and resources of our operating mines and mines under development.
- (2) Resources and reserves are reported on a 100% ownership basis for our wholly and majority owned mines. We own 100% interests in all of our mines except for Suancigou Mine. We own a 52% interest in Yitai Suancigou, which in turn owns 100% interest of Suancigou Mine. Jingneng Power and Shanxi Yudean each holds a 24% interest in Yitai Suancigou.
- (3) Proved and probable marketable reserves equal proved and probable recoverable reserves after accounting for losses during coal preparation and processing at the coal preparation plants.
- (4) Mine lives are estimated from recoverable reserves, according to the Competent Person's Report.
- (5) Average composite costs include a weighted average of drill and blast, and fully mechanized output achieved with fully-mechanized longwall face methods. The average mine operating costs of most of our operating mines increased from 2009 to 2010 primarily because the Inner Mongolia government required coal enterprises in Inner Mongolia to contribute to a coal price-regulation fund that it managed since the second half of 2009. The average mine operating costs for Nalinmiao No.1 Mine and Yangwangou Mine decreased substantially from 2009 to 2010 primarily due to the decrease of the fees for moving from one working face to another. The average mine operating costs of most of our operating mines increased from 2010 to 2011 primarily due to increases in relocation compensation and depreciation.
- (6) The first refers to the mining right permit with permit number of C1000002009121120050702, and the second refers to the mining right permit with permit number C1000002009121110050703.

The output of certain mines in certain years has exceeded the Assessed Capacities as recorded on its coal production permit, for details of which see “Business — Coal Operations — Over-production.” In addition, the mining right permits for Fuhua Mine and Kaida Mine will expire in November 2013 and June 2013, respectively. According to applicable PRC laws and regulations, a mining right permit can be renewed by filing an extension application at least 30 days prior to the expiry date. We plan to renew the mining right permits for Fuhua Mine and Kaida Mine in line with the applicable laws and regulations.

We have obtained mining rights for all of our operating mines. In respect of our two mines under development, namely Talahao Mine and Bulamao Mine, we have obtained approvals from the MLR regarding the demarcation of their respective mining areas. Based on such approvals, we will formulate our production plans for these two mines, and will apply for mining right permits from the MLR in due course. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that there is no material legal impediment to obtaining the relevant mining rights provided that we submit application documents in compliance with applicable laws and regulations to the MLR to apply for the grant of the relevant mining rights and the issuance of the relevant mining right permits, and that we will not need to pay mining right prices as we have already paid exploration right prices in full and there has been no subsequent investment by the government on these two mines. We cannot legally produce coal from Talahao Mine and Bulamao Mine before obtaining these mining right permits and other relevant permits and licenses.

Our coal products primarily comprise high-quality thermal coal produced from raw coal excavated at our own mines with commercially attractive characteristics, including medium to high calorific value, high volatile matter content, low sulphur content, medium to low ash content and low phosphorous content. The major criteria to classify thermal coals are ash content, sulphur content and calorific value. According to the PRC national standard for the classification of the quality of coal for power generation, low ash content refers to ash content between 10.01% and 20.00%, ultra-low sulphur content refers to sulphur content below 0.50%, and medium-to-high calorific value refers to calorific value between 24.31mj/kg and 27.20mj/kg. According to the Competent Person’s Report, the average ash content of our seven operating mines is approximately 12.49%, the average sulphur content is approximately 0.34%, and the average gross calorific value\* is approximately 6,100kcal/kg (equivalent to approximately 25.50mj/kg). In addition, according to the evaluation report issued by the Beijing Research Institute of Coal Chemistry of China Coal Research Institute, our coal products are high-quality thermal coal with low ash content, low sulphur content and low phosphorous content. In addition to the sales of self-produced coal, we also purchase a small percentage of coal from third-party coal companies for resale.

We sell all of our coal products in China by means of both long-term sales contracts and spot market sales, and procure customers through our own sales force. Our high-quality thermal coal products are mainly sold to large-scale industrial customers, particularly power producers. As of the Latest Practicable Date, Yitai Group had entered into 22 long-term agreements with customers, most of which are large scale power producers. These agreements are legally binding and constitute sale and purchase commitments of the parties. All rights and obligations of Yitai Group under these long-term agreements will be transferred to us on the Listing Date. Each of these agreements has a duration of five years, with fixed purchase and sales volume for each year, and provides that selling prices should either be set by reference to market prices or negotiated annually. The expiry dates of these agreements are December 31, 2014, which may be extended upon mutual agreement between the parties. Yitai Group’s sales commitments under these long-term agreements were 42.1 million tonnes and 48.0 million tonnes for 2010 and 2011, respectively, and will be 56.4 million tonnes, 67.4 million tonnes and 77.4 million tonnes for 2012, 2013 and 2014, respectively. Pursuant to these long-term agreements, the parties should enter into annual coal sales and purchase contracts, in which the parties will set forth the selling prices and adjust the sales volume as necessary. Certain of our sales are made by signing annual coal sales and purchase contracts under the long-term agreements. The actual sales volume of Yitai Group generated from these agreements was 23.9 million tonnes, 27.0 million tonnes and 25.9 million tonnes for 2009, 2010 and 2011, respectively. Our actual sales volume generated from the annual coal sales and purchase contracts under the long-term agreements was 15.6 million tonnes, 17.6 million tonnes and 14.9 million tonnes for 2009, 2010 and 2011, respectively, representing 56.3%, 49.2% and 38.8% of our total sales volume for 2009, 2010 and 2011, respectively.

\* Excludes Suancigou Mine and Yangwangou Mine as relevant information is not available.

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The following table sets forth the key operating data of our coal operations during the Track Record Period.

|                                                                  | Year ended December 31, |       |       |
|------------------------------------------------------------------|-------------------------|-------|-------|
|                                                                  | 2009                    | 2010  | 2011  |
| Coal sales volume (million tonnes)                               | 27.7                    | 35.7  | 38.3  |
| Average selling price (RMB/tonne)                                | 349.3                   | 374.2 | 396.8 |
| Average operating cost (RMB/tonne)                               | 67                      | 81    | 85    |
| Transportation cost per tonne of coal products sold (RMB/tonne)* | 94.1                    | 71.4  | 63.0  |

\* The transportation cost per tonne of coal products sold decreased from 2009 to 2011 primarily because the proportion of coals sold at mine gates, which bear few transportation cost, increased during the same period. For the years ended December 31, 2009, 2010 and 2011, the sales volume of coal sold at mine gates was 3.0 million tonnes, 11.9 million tonnes and 14.9 million tonnes, representing 10.8%, 33.3% and 38.9% of the total sales volume for 2009, 2010 and 2011, respectively.

The following table sets forth selected price information (exclusive of VAT), for the periods indicated, for our sales from long-term contract sales and spot market sales:

|                           | Year ended December 31, |                               |                                |                   |                               |                                |                   |                               |                                |
|---------------------------|-------------------------|-------------------------------|--------------------------------|-------------------|-------------------------------|--------------------------------|-------------------|-------------------------------|--------------------------------|
|                           | 2009                    |                               |                                | 2010              |                               |                                | 2011              |                               |                                |
|                           | Price (RMB/tonne)       | Sales volume (million tonnes) | Percentage of sales volume (%) | Price (RMB/tonne) | Sales volume (million tonnes) | Percentage of sales volume (%) | Price (RMB/tonne) | Sales volume (million tonnes) | Percentage of sales volume (%) |
| Long-term contract sales* | 328.9                   | 17.6                          | 63.5                           | 404.7             | 21.7                          | 60.8                           | 428.3             | 19.0                          | 49.6                           |
| Spot market sales         | 384.8                   | 10.1                          | 36.5                           | 325.8             | 14.0                          | 39.2                           | 365.1             | 19.3                          | 50.4                           |
| <b>Total</b>              |                         | <b>27.7</b>                   | <b>100.0</b>                   |                   | <b>35.7</b>                   | <b>100.0</b>                   |                   | <b>38.3</b>                   | <b>100.0</b>                   |

\* Long-term contracts include annual coal sales and purchase contracts under the long-term agreements and other sales contracts longer than one year.

Over the years, we have made continuous investments in railway and highway transportation system, and integrated our production, transportation and sales of coal. Through our integrated transportation network, we transport our coal products from our mines to the national ground transportation network for delivery. We obtain railway capacity on the national railway system primarily through allocations of annual planned railway capacity made by the MOR and the NDRC to Yitai Group. Yitai Group also grants us additional transportation capacity that it obtains from the MOR from time to time in addition to the annual quotas originally allocated to it, subject to the national railway system's ability to meet the additional demand. Please refer to "— Coal Operations — Coal Transportation" for details.

The following table sets forth our coal sales in China by geographic region for the periods indicated:

|                                   | Year ended December 31,       |              |                               |              |                               |              |
|-----------------------------------|-------------------------------|--------------|-------------------------------|--------------|-------------------------------|--------------|
|                                   | 2009                          |              | 2010                          |              | 2011                          |              |
|                                   | Sales volume (million tonnes) | %            | Sales volume (million tonnes) | %            | Sales volume (million tonnes) | %            |
| Eastern China <sup>(1)</sup>      | 8.0                           | 28.9         | 6.7                           | 18.8         | 6.6                           | 17.2         |
| Southern China <sup>(2)</sup>     | 3.2                           | 11.6         | 3.5                           | 9.8          | 3.2                           | 8.4          |
| Northern China <sup>(3)</sup>     | 16.3                          | 58.8         | 24.7                          | 69.2         | 27.4                          | 71.5         |
| Northeastern China <sup>(4)</sup> | 0.2                           | 0.7          | 0.8                           | 2.2          | 1.1                           | 2.9          |
| <b>Total</b>                      | <b>27.7</b>                   | <b>100.0</b> | <b>35.7</b>                   | <b>100.0</b> | <b>38.3</b>                   | <b>100.0</b> |

(1) Eastern China includes primarily Shanghai, Zhejiang, Jiangsu and Anhui.

(2) Southern China includes primarily Guangdong, Guangxi, Fujian and Jiangxi.

(3) Northern China includes primarily Hebei, Shandong, Tianjin and Inner Mongolia.

(4) Northeastern China includes primarily Liaoning.

We have high production efficiency and maintain an excellent safety record. With reference to the data in the 2011 Analytical Report on the Top 100 Chinese Coal Enterprises published by the CNCA, we ranked No. 1 in average raw coal output per worker, No. 1 in average revenue per worker, No. 1 in average profit per worker, No. 1 in return on equity and No. 1 in net profit margin among the top 20 coal enterprises in China in terms of revenue in 2010. We maintain strict cost control. The estimated average operating costs for our coal



operations increased from RMB67 per tonne in 2009 to RMB81 per tonne for 2010 and RMB85 tonne for 2011 primarily because the Inner Mongolia government required coal enterprises in Inner Mongolia to contribute to a coal price-regulation fund that it managed, and accordingly we are required to contribute RMB15 for each tonne of coal we produced, starting from 2009. We had maintained a record of zero fatalities per million tonnes of coal production during the Track Record Period. By comparison, the average fatalities per million tonnes of coal production for coal mines in China were 0.89, 0.75 and 0.56 for 2009, 2010 and 2011, respectively, according to the NBSC.

The main supplies we purchase for our coal operations include coal, mining equipment, replacement parts, steel, cement, explosives, fuel and lubricants. We also use third-party railway companies to transport our coal. The main supplies we purchase for our coal transportation operations are locomotives and other rolling stock, spare parts, fuel and power.

### Our Transportation Operations

We own and operate two local railway lines, namely Yitai Zhundong and Huzhun Railway Lines, and a local railway branch line, namely Suancigou Railway Line, with a total main line length, constructed and under construction, of approximately 398.3 kilometers. We also own a 122.0-kilometer Caoyang Tollway. The following table sets forth information on our railway lines:

| <u>Railway/Branch Line</u> | <u>Main Line Length (km)</u> | <u>Origin</u> | <u>Terminus</u> | <u>Our Ownership (%)</u> |
|----------------------------|------------------------------|---------------|-----------------|--------------------------|
| Zhundong .....             | 191.8                        | Zhoujiawan    | Zhunge'erzhao   | 100.00                   |
| Huzhun .....               | 179.7                        | Zhoujiawan    | Huhhot          | 76.46                    |
| Suancigou .....            | 26.8                         | Suancigou     | Zhoujiawan      | 52.00                    |

These transportation lines form an integrated transportation network connecting our mines to the national ground transportation system, which we believe would provide us with competitive advantages in securing allocation of coal transportation capacity in the national railway system and facilitate our coal sales to both local customers and customers in the more developed coastal regions of China. We also provide coal transportation services to third parties through our two local railway lines and trucking subsidiaries. The freight charge rates for both Yitai Zhundong Railway Line and Huzhun Railway Line were RMB0.15 per tonne per kilometer during the Track Record Period and as of the Latest Practicable Date. In addition, we collect tolls from third-party vehicles utilizing our tollway.

### Our Coal-related Chemical Operations

We are the first enterprise to successfully use indirect coal-to-oil technologies on an industrial scale in China. Yitai Group obtained an approval from the IMDRC in 2005 for developing a coal-to-oil project. We carry out this project through our subsidiary, Yitai Coal-to-oil, and have completed the construction of the demonstration phase of the project with a designed annual output of 160,000 tonnes of synthetic fuels. The project commenced its operations in July 2011, and it is in full-load operation at its designed annual capacity. For 2011, revenue derived from our coal-related chemical operations was approximately RMB677.8 million.

By leveraging our successful launch of the coal-to-oil project, we plan to expand into the second phase of our coal-related chemical operations in the next five years, which includes (i) Yitai Yili's 1.0 Mtpa coal-to-oil project; (ii) Yitai Xinjiang's 1.8 Mtpa coal-related chemical project; and (iii) Yitai Chemical's 1.2 Mtpa coal-related chemical project. Although all three projects are at preliminary stages and have not obtained the approvals from the NDRC, we have obtained confirmation from the local arms of the NDRC approving us to begin preliminary works. For details, please see "Business — Coal Related Chemical Operations — Future Plans."

We believe that we enjoy the first-mover advantage in the coal-related chemical industry in China. Our coal-related chemical operations enable us to improve our vertical integrated operations by providing high-value added downstream coal products to the market. Furthermore, by leveraging the favorable governmental policies of Inner Mongolia and Xinjiang towards the resource allocation for the coal-related chemical industry, the advantage of the development of western China and the policy support under the *Twelfth Five-year Plan on the Development of Coal Industry* in respect of orderly development of advanced and demonstrative projects of modern coal-related chemical operations, we expect to obtain new coal resources, achieve economies of scale by expanding our coal-related chemical business, and further reduce our operating costs.

## Our Other Operations

Our other operations include mainly the development, production and sale of traditional Chinese medicine through our wholly-owned subsidiary, Yitai Pharmaceutical. We incorporated Yitai Pharmaceutical in 1998 to engage in Chinese medicine operations. Yitai Pharmaceutical has obtained the medicine production license and the medicine Good Manufacture Practice certificate in the PRC. Our Directors expect that, in the foreseeable future, revenue generated from our other operations will continue to be insignificant as compared to our total revenue.

## Our Future Plans

Going forward, we intend to consolidate internal and external resources, increase our production scale and construct ancillary systems, expand and upgrade our integrated transportation network and the related infrastructure, and enhance research on, and implementation of, coal conversion projects. Our projected capital expenditures for 2012 for certain initiatives above have been included in our estimated capital expenditure for 2012, which amounted to approximately RMB3,244.9 million as of December 31, 2011 without taking into account the Proposed Acquisition. The following table sets forth the estimated capital expenditures for our business segments for 2012:

|            | Coal<br>operations | Transportation<br>operations | Coal-related<br>chemical operations | Total   |
|------------|--------------------|------------------------------|-------------------------------------|---------|
|            | (RMB million)      |                              |                                     |         |
| 2012 ..... | 1,067.8            | 1,636.5                      | 540.6                               | 3,244.9 |

The remaining initiatives are still in the preliminary planning stage with no capital committed or capital expenditure projections available as of the Latest Practicable Date. We plan to fund the above initiatives with our own capital and bank loans. As of December 31, 2011, we had capital commitments of RMB1,665.6 million.

## The Proposed Acquisition and the Target Business Group

To expand the scale of our coal business in terms of reserves and output and reduce potential competition between Yitai Group and us, we entered into an Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we will acquire from Yitai Group the Target Business Group after the completion of the Global Offering at a consideration of RMB8,446.5 million, which is arrived at after arm's length negotiation and which is equal to the aggregate fair value of the Target Business Group as of December 31, 2009 as stated in a valuation report prepared by CEA. The total payment made by our Company in connection with the Proposed Acquisition may be subject to adjustment. For more details, see "Relationship with Controlling Shareholders — Proposed Acquisition." We expect to use the net proceeds from the Global Offering to fund the amount of consideration payable to Yitai Group for the Proposed Acquisition.

The Target Business Group includes substantially all of the assets and businesses of Yitai Group that are related to coal production, sales and transportation. As of the Latest Practicable Date, the only condition precedent to the effectiveness of the Assets Transfer Agreement that had not been satisfied was the listing of our H Shares on the Hong Kong Stock Exchange. In addition, the completion of the Proposed Acquisition requires the approval by the IDLR of the transfer of relevant mining rights. Our legal advisors, Jingtian & Gongcheng Attorneys at Law, advised that there is no material legal impediment to our obtaining such approval from the IDLR provided that we submit application documents that are deemed necessary by the IDLR. Under the Assets Transfer Agreement, the Closing Date will be the last day of the calendar month immediately following the date when the necessary approval, i.e. the approval of the IDLR, is obtained. Within five months after the Closing Date or other time frame required by the applicable laws, Yitai Group shall assist us in completing the registration or recording procedures for the transfer of legal ownership of the assets and equity interests in the Target Business Group in accordance with the PRC laws and regulations (e.g. transfer of mining rights, land use right and ownership of buildings) before the Proposed Acquisition can be completed and our Company can obtain the legal ownership of the Target Business Group. Therefore, assuming that the approval from the IDLR will be received within two months from the Listing Date, our Directors believe that the Proposed Acquisition could be completed within eight months from the Listing Date. However, there is no assurance that the approval by the IDLR will be obtained in a timely manner, and the IDLR has discretion on whether or not to grant such an approval. See "Risk Factors — Risks Relating to Our Businesses — There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be completed at all."

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The Target Business Group includes the assets of, or equity interests in, the Target Mines, as well as certain other assets and businesses that are related to coal trading, storage and transportation. It is primarily engaged in the production and sale of coal and coal trading, which are substantially similar to our coal operations. The Target Business Group generates revenue primarily from sales of coal produced at the Target Mines and resale of coal purchased from third-party coal companies. Its customers are mainly large-scale industrial customers, particularly power producers. The Target Business Group does not have, and is not planning to build, its own highway, railway or automobile transportation capacity, except for local roads connecting the Target Mines to the nearby highways and loading stations.

The following table sets forth certain detailed information for each of the Target Mines:

|                                                                               | <u>Dadijing</u>     | <u>Baoshan</u> | <u>Dingjiaqu</u> | <u>Chengyi</u>               | <u>Baijialiang</u>          |
|-------------------------------------------------------------------------------|---------------------|----------------|------------------|------------------------------|-----------------------------|
| <b>Background data</b>                                                        |                     |                |                  |                              |                             |
| Location                                                                      | Dongsheng Coalfield |                |                  |                              |                             |
| Date of initial operation                                                     | Apr 1, 2008         | Jun 1, 2007    | Dec 1, 2008      | Feb 1, 2009                  | Jan 1, 2008                 |
| Mining area (square kilometers)                                               | 11.6                | 25.0           | 17.4             | 5.1                          | 6.5                         |
| <b>In-place resource data</b> (as of December 31, 2011) <sup>(1) (2)</sup>    |                     |                |                  |                              |                             |
| Measured coal resources (million tonnes)                                      | 7.5                 | 7.4            | 11.1             | 5.7                          | 0.1                         |
| Indicated coal resources (million tonnes)                                     | 63.0                | 17.9           | 13.0             | 2.4                          | 0.6                         |
| Inferred coal resources (million tonnes)                                      | —                   | —              | 0.3              | 0.4                          | —                           |
| <b>Reserve data</b> (as of December 31, 2011) <sup>(1) (2)</sup>              |                     |                |                  |                              |                             |
| Total proved and probable recoverable reserves (million tonnes)               | 54.2                | 16.0           | 17.6             | 5.1                          | 0.5                         |
| Total proved and probable marketable reserves <sup>(3)</sup> (million tonnes) | 51.8                | 14.6           | 16.3             | 4.8                          | 0.5                         |
| Number of mineable seams                                                      | 4                   | 1              | 2                | 2                            | 1                           |
| Average seam thickness (meters)                                               | 2.5                 | 3.0            | 1.9              | 1.5                          | 3.2                         |
| Mine life <sup>(4)</sup>                                                      | 21                  | 7              | 7                | 4                            | —                           |
| <b>Coal production</b> (million tonnes)                                       |                     |                |                  |                              |                             |
| 2009                                                                          | 3.3                 | 1.5            | 2.2              | 0.9                          | 1.8                         |
| 2010                                                                          | 3.8                 | 1.8            | 2.8              | 1.1                          | 2.0                         |
| 2011                                                                          | 4.5                 | 2.2            | 3.1              | 0.9                          | 2.1                         |
| <b>Average mine operating costs</b> (RMB per tonne) <sup>(5)</sup>            |                     |                |                  |                              |                             |
| 2009                                                                          | 103                 | 69             | 67               | 94                           | 67                          |
| 2010                                                                          | 102                 | 82             | 66               | 100                          | 72                          |
| 2011                                                                          | 107                 | 83             | 67               | 121                          | 73                          |
| <b>Expiry date of the mining right</b>                                        | December 2018       | December 2018  | December 2018    | December 2013 <sup>(6)</sup> | October 2013 <sup>(6)</sup> |

(1) All Target Mines have obtained mining rights.

(2) Resources and reserves are reported on a 100% ownership basis for the Target Mines. Yitai Group owns, and we will own upon completion of the Proposed Acquisition, 73% of Yitai Baoshan (Beijing Jielongda Investment Company Limited, an Independent Third Party, owns the remaining 27%), which operates Baoshan Mine, and 73% of Yitai Tongda (Ordos Huijiabao Investment Company Limited, an Independent Third Party, owns the remaining 27%), which operates Dingjiaqu Mine.

(3) Proved and probable marketable reserves equal proved and probable recoverable reserves after accounting for losses during coal preparation and processing at the coal preparation plants.

(4) Mine lives of the Target Mines are estimated from life-of-mine plans, according to the Competent Person's Report.

(5) Composite costs include a weighted average of drill and blast, and fully-mechanized output, in cases where both methods were applied.

(6) According to applicable PRC laws and regulations, a mining right permit can be renewed by filing an extension application at least 30 days prior to the expiry date. We confirm that we will renew the mining right permits for Chengyi Mine and Baijialiang Mine in line with the applicable laws and regulations.

Assuming that the Proposed Acquisition had been completed on January 1, 2011:

- our total marketable reserves as of December 31, 2011 would have increased from 1,147.1 million tonnes to 1,235.0 million tonnes, and our combined 2011 annual production volume would have increased from 35.1 million tonnes to 47.8 million tonnes;
- our total revenue for 2011 would have increased from RMB16,515.8 million to RMB27,002.9 million on a pro forma basis, representing an increase of 63.5%, and 38.8% of such total revenue would have been attributable to the Target Business Group;
- our profit for 2011 would have increased from RMB5,749.3 million to RMB8,229.1 million on a pro forma basis, representing an increase of 43.1%, and 30.1% of such total profit would have been

attributable to the Target Business Group. Our profit margin, however, would have decreased from 34.8% to 30.5% for 2011 due to the Target Business Group's lower profit margin during the period. The Target Business Group's profit margin was lower than our profit margin in 2011 primarily because, as the Target Business Group engages in coal trading to maximize its profit, a large portion of the coal sold by the Target Business Group was originally purchased from external suppliers, which has a significantly higher unit cost than that of coal produced at our mines and the Target Mines; and

- Our net assets as of December 31, 2011 would have increased from RMB18,783.4 million to RMB19,035.7 million as a result of the inclusion of (a) the net assets of the Target Business Group after eliminating balances between our Company and the Target Business Group, and (b) the estimated net proceeds from the Global Offering of approximately HK\$7,307.4 million (equivalent to approximately RMB5,933.6 million) after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming (i) that the Over-allotment Option is not exercised, and (ii) an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. The estimated net proceeds from the Global Offering are translated from HK dollars into Renminbi at the PBOC Rate prevailing on the Latest Practicable Date of RMB0.8120 to HK\$1.00. However, without considering the net proceeds from the Global Offering and the other pro forma adjustments, our pro forma net assets as of December 31, 2011 would have decreased by RMB5,865.4 million, which is the difference between the consideration of RMB8,446.5 million and the net assets of RMB2,581.1 million of the Target Business Group as of December 31, 2011.

## OUR COMPETITIVE STRENGTHS

**We are the largest Local Coal Enterprise in Inner Mongolia and one of the largest coal enterprises in China, with rapid growth during the Track Record Period and potential for rapid future growth**

We are the largest Local Coal Enterprise in Inner Mongolia, China, and one of the largest coal enterprises in China, in terms of revenue in 2010, according to the CNCA. We have grown rapidly in recent years, primarily from the successive completion of internal consolidations and technology upgrades in our coal mines. Our total revenue for 2009, 2010 and 2011 was RMB10,252.2 million, RMB13,853.8 million and RMB16,515.8 million, respectively, representing a CAGR of 26.9% from 2009 to 2011.

Our total coal production volume was 26.0 million tonnes, 36.1 million tonnes and 35.1 million tonnes, respectively, for 2009, 2010 and 2011, representing a CAGR of 16.2% from 2009 to 2011. From 2009 to 2011, the CAGR of the total coal production in China was 8.8% and the CAGR of the total coal production in the world was 6.0%, according to the BP Statistical Review 2012. In addition to the sales of self-produced coal, we also purchase a relatively small amount of coal from third-party coal companies for resale. For 2009, 2010 and 2011, we sold 27.7 million tonnes, 35.7 million tonnes and 38.3 million tonnes of coal, respectively, representing a CAGR of 17.6% from 2009 to 2011.

We believe our past operations have established a solid foundation for rapid future growth. We plan to produce 39.7 million tonnes, 44.5 million tonnes and 49.3 million tonnes of coal products in 2012, 2013 and 2014, respectively, representing a CAGR of 11.4% from 2012 to 2014. On the assumption that completion of the Proposed Acquisition had taken place on January 1, 2011, our planned total coal products in 2012, 2013 and 2014 would be 51.1 million tonnes, 55.4 million tonnes and 60.2 million tonnes, respectively, representing a CAGR of 8.5% from 2012 to 2014.

Our large-scale coal production and operations have enabled us to realize significant economies of scale in production efficiency, procurement, sales and marketing and the other main aspects of our business. We believe that large customers, such as major power companies and industrial companies, prefer to purchase coal from large coal companies like us to ensure high quality and stable supply of coal, and reduce their logistical and administrative expenses. Furthermore, as the largest Local Coal Enterprise in Inner Mongolia and one of the largest coal enterprises in China, we believe we are well positioned to take advantage of the favorable government policies at both the local and the national levels and have the potential to attain sustainable growth. See “—We have gained high recognition and policy support from the PRC government, and are ideally positioned in the consolidation of the PRC coal industry” below.

**We have an abundant and high-quality coal reserves base with favorable mining conditions and we apply advanced coal-mining technology in our mining operations**

We have a large and high quality coal reserves base, with geological and depositary conditions favorable to low-cost mining. Our total proved and probable recoverable coal reserves amounted to 1,432.9 million tonnes as of December 31, 2011. On the assumption that the Proposed Acquisition had been completed as of January 1, 2011, our total proved and probable recoverable coal reserves would have been 1,526.3 million tonnes as of December 31, 2011.

The majority of our coal reserves are deposited in the Dongsheng Coalfield, which is known for the high quality coal deposits and, combined with the adjacent Shenfu Coalfield, is listed by the State Council as one of the 14 large-scale coal production bases in China. According to the Competent Person's Report, the coal deposited in the Dongsheng coalfield is characterized by high caloric value non-caking coal with low sulphur content. Our reserves are generally located in areas with geological conditions and coal characteristics favorable to low-cost mining, such as relatively thick flat-lying coal seams located at relatively shallow depths, stable ground conditions, simple geological structures and low methane gas concentration levels, which significantly reduce difficulties and safety hazards in our mining operations. According to the Competent Person's Report, the physical mining conditions of our operational mines are generally considered among the most favorable observed by BOYD in the world coal mining industry and highly favorable to fully mechanized mining operations such as ours.

Our coal products primarily comprise high-quality thermal coal produced from our own mines with commercially attractive characteristics, including medium to high calorific value, high volatile matter content, low sulphur content, medium to low ash content and low phosphorous content. Because of these attractive characteristics, the majority of our raw coal can be sold without further processing to remove impurities. The high quality of our coal was certified by the China Coal Research Institute, and our coal products have characteristics that are compatible with the technical designs of many major domestic power plants. The high quality of our coal products helps our customers, in particular major domestic power plants, to comply with the environmental protection requirements of the PRC government.

We have carried out successive internal consolidations and technology upgrades in our coal mines, which led to significant increases in production capacity, production equipment mechanization and recovery rate. We use fully mechanized longwall mining systems supported predominantly by roadheader development units. According to the Competent Person's Report, all of our operating mines are equipped with state-of-the-art mining operations.

We believe our abundant and high-quality coal reserves base with favorable mining conditions and advanced coal-mining technology provide us with competitive advantages, which serve as an important basis for our future growth in terms of production capacity, sales and profitability.

**We have achieved high production efficiency, low operating cost and high profitability while maintaining an excellent safety record**

We believe that our production efficiency ranks at the top tier of the PRC coal industry. With reference to the data in the 2011 Analytical Report on the Top 100 Chinese Coal Enterprises published by the CNCA, we ranked No. 1 in average raw coal output per worker, No. 1 in average revenue per worker, No. 1 in average profit per worker, No. 1 in return on equity and No. 1 in net profit margin among top 20 coal enterprises in China in terms of revenue in 2010. Our high production efficiency and low operating cost are attributable to the following key factors:

- our coal mines have geological and depositary conditions favorable to low-cost mining as described above;
- we have completed internal consolidations and technology upgrades in our coal mines, which have led to significant increases in production capacity, production equipment mechanization and recovery rate;
- we have leveraged our extensive experience in coal mining operations and our management expertise;



- we have implemented an effective performance-based remuneration system and a comprehensive budget control management system that allow us to control the cost of operations effectively; and
- we have established comprehensive and innovative operational management mechanisms, such as the introduction of third-party service providers, a joint venture to centralize mining equipment repair and the creation of trucking services as a separate operation unit, which reduced our staffing and related costs.

We believe production safety is a critical factor to the success of our business and operations. During the Track Record Period, we had maintained a safety record of zero fatalities per million tonnes of coal production. By comparison, the average fatalities per million tonnes of coal production for coal mines in China were 0.89, 0.75 and 0.56 for 2009, 2010 and 2011, respectively, according to the NBSC. We did not experience incidents during the Track Record Period whereby production at any of our coal mines was suspended due to safety issues regarding our own operations. We believe our high safety standards and excellent track record enable us to minimize interruptions to our operations.

**We have strengthened our competitive advantage in coal transportation through significant investments in our railway and highway transportation network**

A significant portion of coal produced in Inner Mongolia is transported to other provinces in China through outbound railway lines that connect to the national railway system. The transportation capacity on the national railway system is allocated by the MOR by issuing annual quotas. Such allocation does not always satisfy the need for coal transportation, and Inner Mongolia in particular has experienced constant shortage of such transportation capacity in recent years. Therefore, securing national railway transportation capacity significantly facilitates our business growth, allowing us to deliver our coal products to our customers in a cost effective and efficient manner.

Over the years, we have made significant investments in our railway and highway transportation system, and integrated our production, transportation and sales of coal. Currently, we own and operate two local railway lines and a local railway branch line with a total main line length constructed and under construction of approximately 398.3 kilometers, as well as a 122.0-kilometer tollway. In addition, we own and operate strategically located coal loading stations, as well as roads connecting such centers with coal mines. We also hold minority equity interests in four joint venture companies operating railway lines. Furthermore, we have been invited by the MOR to participate in the investment and construction of the coal transportation railway channel from west Inner Mongolia to central China. The transportation railway channel will connect various coal transportation and distribution railways and form a coal express way connecting large coal production bases in the north with inland provinces locate in central and southern China. See “— Coal Operations — Coal Transportation.”

Such transportation lines and facilities form an integrated network connecting our mines to the national ground transportation system, which we believe would provide us with a competitive edge in securing allocation of transportation capacity in the national railway system, and facilitate our coal sales to our major customers in China, particularly in the more developed coastal regions. Our transportation network also enables us to reduce and control transportation costs, helps to secure the sales of our coal products and generates revenue from providing transportation services to third parties. We believe our involvement in the construction of the coal transportation railway channel from west Inner Mongolia to central China, which constitutes an essential part of the strategic transport channel of “transporting coal from northern China to southern China,” will help us to secure additional transportation capacity, significantly reduce the transportation costs, and eventually increase our competitiveness in these markets.

Leveraging on our transportation network, Yitai Group secured annual quotas of national railway system transportation capacity from the MOR, based on which Yitai Group and we used a total of 27.5 million tonnes, 29.6 million tonnes and 27.4 million tonnes of such capacity for 2009, 2010 and 2011, respectively. Furthermore, the approved quota of transportation capacity from the MOR to Yitai Group for 2012 amounted to 33.0 million tonnes, while the actual transportation capacity of the national railway system to be used by us in 2012 is subject to further adjustments based on our transportation need and the consent of the MOR. We used such quotas to satisfy all our transportation needs. Such quotas were granted free of charge by the MOR to Yitai Group and by Yitai Group to us. See “— Coal Operations — Coal Transportation — Our Transportation Network.”

Yitai Group has undertaken in the Non-competition Agreement and the Transportation Quota License Agreement that it will license transportation quota to us for use at nil consideration. See “Relationship with Controlling Shareholders — Competition — Non-competition Agreement” and the “Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transaction — 3. Transportation Quota License Agreement.”

**We have gained high recognition and policy support from the PRC government, and are ideally positioned in the consolidation of the PRC coal industry**

The PRC government has promulgated a number of policies and regulations since 1999 to encourage the integration and reform of the domestic coal industry, such as the Coal Industry Policies, the Notice regarding Further Strengthening the Work on the Elimination of Less-advanced Production Capacities and the *Twelfth Five-year Plan on the Development of Coal Industry*. These policies and regulations were implemented to resolve certain problems arising from small local mining operations, such as low resource utilization and the lack of adequate environmental protection and safety measures, and promote the consolidation of ownership of coal resources and cultivation of 14 coal production bases in China.

In addition to the national policies that support large coal enterprises, on December 15, 2003, the Inner Mongolia government issued the *Guidance Opinion on the Acceleration of Development of Key Coal Enterprises* (the “Guidance”). According to the Guidance, Yitai Group was listed as a key coal enterprise eligible to receive focused support from the Inner Mongolia government. Such support extends to, among others, resources allocation, railway transportation, electricity supply, resources exploitation, project approval and acquisition of small coal mines. The Guidance also stipulated that the Inner Mongolia government supports Yitai Group to become a coal production base with total annual coal sales exceeding 50 million tonnes. In 2010, the total annual coal sales of Yitai Group exceeded 50 million tonnes. In May 2011, the Inner Mongolia government issued the Work Plan on the Merger and Reorganization of Coal Enterprises in Inner Mongolia (the “Work Plan”), which stated that the Inner Mongolia government would strongly encourage and support the merger and reorganization of local coal enterprises. According to the Work Plan, the merger and reorganization work will be carried out from 2011 to 2013. The goals of such merger and reorganization include the reduction of the number of coal enterprises in Inner Mongolia from 551 in 2010 to between 80 and 100 in 2013, and the formation of one to two 100-million-tonne-level coal enterprises, five to six 50-million-tonne-level coal enterprises, and 15 to 16 ten-million-tonne-level coal enterprises. Coal enterprises that reaches certain scales that are formed through merger and reorganization will enjoy a series of government support under the Work Plan, including priority in the allocation of coal resources and railway transportation capacity, as well as fiscal, tax and financial support. Ordos Coal Bureau has issued the Notice Regarding the Confirmation of 100-Million-Tonne-Level Merger Principal in the Merger and Reorganization of Coal Enterprises (E-Mei-Ju-Fa [2011] No.62) in March 2011, which confirmed that Yitai Group had been tentatively confirmed as a 100-million-tonne-level coal enterprise merger and reorganization principal. The *Twelfth Five-year Plan on the Development of Coal Industry* further promotes mergers and reorganizations of coal mining enterprises and development of large-scale enterprise groups, aiming to create ten 100-million-tonne-level large coal enterprises and ten 50-million-tonne-level large coal enterprises during the period from 2011 to 2015. Currently, we are engaged in preliminary discussions with certain coal enterprises regarding potential cooperation.

As the largest Local Coal Enterprise in Inner Mongolia and a major coal enterprise operating in the Shenfu — Dongsheng Coalfield, one of the 14 large coal production bases in China, we believe we are ideally positioned to leverage the current and future favorable government policies at both the national and local levels to consolidate coal resources, elevate the profitability of such consolidated coal resources, and further expand our scale.

**We have completed the construction of the first coal-to-oil demonstration plant using the indirect method in China, which increased the added value of our coal products, extended our coal industrial chain, laid down a basis for our subsequent procurement of coal resources and brought us a new profit growth driver**

We are the first enterprise to successfully bring indirect coal-to-oil technologies to an industrial scale in China. We commenced the construction of the demonstration phase of our coal-to-oil project with a designed annual output of 160,000 tonnes of synthetic fuels in May 2006, which successfully produced the first barrel of qualified oil product in China using the indirect coal-to-oil method on March 27, 2009. After three trial runs,



the technologies have matured. All product characteristics indicators and consumption indicators have reached or surpassed designed values. In July 2010, China International Engineering Consulting Corporation organized a group of science and technology experts to conduct an on-site survey at Yitai Coal-to-oil, and reached the conclusion that the demonstration phase of the project had advanced and reliable technologies and good economic efficiency. In May 2011, we carried out the first shut-down technological transformation as previously planned, and solved a number of bottleneck issues that had been limiting the increase in production capacity. Currently, this project is in normal operation with the estimated annual production capacity of between 180,000 tonnes and 200,000 tonnes. This project commenced its operations in July 2011, and it is in full-load operation at its designed annual capacity. For 2011, revenue derived from our coal-related chemical operations were approximately RMB677.8 million.

The *Twelfth Five-year Plan on the Development of Coal Industry* has set the orderly development of advanced and demonstrative projects of modern coal-related chemical operations as one of the major tasks. Therefore, we believe that the completion of our first coal-to-oil demonstration plant is in line with China's industrial policies and development trends and gives us first-mover advantages in the coal-related chemical industries in China, which has not only increased the added value of our coal products, extended our coal industrial chain, laid down solid foundation for our expansion of coal reserves and also given us a new profit growth driver.

**With our extensive marketing and sales experience, well-recognized brand name, market-oriented business strategies and solid customer relationships, we have built strong coal marketing and sales networks**

We have extensive marketing and sales experience. Since our establishment in 1997, we have accumulated marketing and sales experience in the PRC coal industry for over 15 years. Moreover, through the Proposed Acquisition, we will be able to integrate Yitai Group's coal and coal-related marketing and sales networks, stable coal supply from third parties and valuable market experience with ours.

With our high-quality coal products, we have established a strong reputation in the domestic coal market. On June 2, 2006, the "Yitai" brand was recognized as a "Well-known Chinese Brand" by the SAIC, and was the first brand in the Chinese coal industry to receive such recognition. "Yitai processed coal" was awarded National Inspection Exemption by the PRC General Administration of Quality Supervision, Inspection and Quarantine in December 2006, according to the then existing rules, an honour given to products with high quality. The high brand recognition facilitates our marketing efforts and adds to our overall competitive advantages.

We adopt market-oriented business strategies. Through centralized management from our headquarters, we have integrated our well-established sales network with our rich marketing experience and strategically coordinated our sales operations and customer service initiatives, including pricing, quality control, transportation and inspection. We control ten large-scale coal loading stations along the primary coal-transporting railway lines, have arranged for storage yards and transit stations at Qinhuangdao Port, Jingtang Port and Caofeidian Port, as well as sales branches in Beijing, Tianjin, Shanghai, Guangzhou and Qinhuangdao, forming a complete network of coal sales. We provide lump coal, crushed coal and mixed coal products to reach specific coal characteristics to meet different clients' demand. We believe these efforts have not only improved our sales and marketing efficiency but have also created a cost-saving advantage.

We have established long-term relationships with many of our customers. Our high-quality thermal coal products are mainly sold to large-scale industrial customers, particularly power producers, which we regard as the focus of our marketing and sales efforts. Over the years, we have established long-term strategic cooperation relationships with large-scale power and energy companies such as Huaneng Power International, Inc., Datang International Power Generation Co., Ltd., China Guodian Corporation, Huadian Coal Industry Group Co., Ltd., China Resources Power Holdings Company Limited, Baoshan Iron & Steel Co., Ltd., Guangdong Yudean Group Co., Ltd., Shenzhen Energy Group Co., Ltd., Golden Concord Holdings Limited, Shenergy Company Ltd. and Shanghai Electric Power Co., Ltd. Our top five customers accounted for 29.6%, 30.1% and 26.1% of our total revenue for 2009, 2010 and 2011, respectively. Particularly, during past periods when coal price fluctuated significantly, we regarded the maintenance of long-term strategic cooperation relationships as our priority and remained committed to our contractual obligations, which we believe boosted our creditability and won the loyalty of our customers.

**We have senior management with extensive experience in the PRC coal business and highly motivated employees**

Our senior management comprises a group of highly experienced professionals in the fields of production, transportation and trading of coal, with average industry experience of over 20 years. We believe that our management team possesses in-depth knowledge critical to success in the coal industry and is capable of seizing market opportunities, formulating sound business strategies, assessing and managing risks, implementing management and production schemes and increasing our overall profit to maximize our shareholder value. In addition, we have been a listed company in the B share market in the PRC since 1997, and are broadly recognized as one of the leading reputable listed coal producers in China. We believe our management has rich experience regarding the capital market and is focused on creating shareholder value.

We believe we also have loyal, skilled and highly-motivated employees who possess extensive industry experience. Along with our business expansion and technology upgrades, we recruited industry experts to take on mid-level and senior management positions, and continuously strengthened our technical teams through bilateral and college graduates recruitment. We introduced competition mechanisms for promotions and a performance-based remuneration system. We believe that our senior management and employees demonstrate the capabilities required to ensure our sustained development and continued success.

**OUR BUSINESS STRATEGIES**

The PRC coal industry is currently undergoing a process of resource consolidation and technology upgrades, which favors to the expansion and development of large-scale coal producers. The *Twelfth Five-year Plan on the Development of Coal Industry* adopted the general layout plan of “control the east, stabilize the middle and develop the west,” and specified the development goal of forming ten 100-million-tonne-level large coal enterprises for the five-year period from 2011 to 2015. The *Twelfth Five-year Plan on the Development of Coal Industry* also emphasized the railway construction for “transporting coal from western China to eastern China and from northern China to southern China,” and clarified one of the key objectives is to develop the advanced and demonstrative projects of modern coal-related chemical operations in an orderly manner and to promote efficient and clean use of coal. We are the largest Local Coal Enterprise in Inner Mongolia and one of the largest coal enterprises in China, and we will, upon the completion of the Proposed Acquisition, own substantially all of the coal operations within Yitai Group, which has been preliminarily chosen to be a principal to carry out mergers and reorganizations to reach 100-million-tonne production level, and Yitai Group was selected as an enterprise to reach over RMB100 billion revenue for strong governmental support. Therefore, we believe we are ideally positioned to leverage the current and future favorable government policies at both the national and the local levels to achieve significant development. Moreover, with extensive operational and managerial experience in coal production, strong marketing and sales capabilities, we seek to leverage our strengths to capture future growth opportunities. In particular, we believe our reliable, sizeable and integrated transportation network would provide us with a competitive edge over our competitors. Through the construction of coal preparation plants, coal-to-oil project and coal-related chemical business, we intend to increase the added value of our coal products, extend our coal industrial chain, and achieve business growth and expansion. We plan to carry out the following strategies, subject to the obtaining of necessary approvals and licenses from the PRC government for certain projects, which we believe will enable us to further strengthen our production base, improve our market competitiveness and enhance our profitability.

**Integrate and consolidate internal and external resources, increase production scale and construction of ancillary systems, create a 100-million-tonne-level energy enterprise, and enhance our core competitiveness and market position**

We plan to:

- acquire the Target Business Group in accordance with the Assets Transfer Agreement;
- develop Talahao Mine and the ancillary coal preparation plant and special railway line. Talahao Mine is expected to become operational by the second half of 2013 with estimated annual output of 3.0 million tonnes in 2013 and 6.0 million tonnes in 2014. The total projected capital expenditure before the end of 2014 is RMB1,685.0 million, which does not include projected capital expenditure of RMB620 million for village moves that are planned to take place after 2013;

- consolidate and develop Bulamao Mine, which is expected to become operational in the first half of 2013 with an estimated annual output of 1.6 million tonnes in 2013 and 2014, respectively. The total projected capital expenditure before the end of 2014 is RMB324 million;
- carry out open pit strip mining at the room-and-pillar mines area in Nalinmiao by leveraging on the preferential policies on disaster management of room-and-pillar mines, so as to improve the ecological environment protection and management in mining area and to shift from passive management to active prevention, which we have submitted application to the NDRC and expect to achieve an output of 150 million tonnes of coal in the next eight years by increasing output by around 17 million tonnes per year; and
- acquire Yitai Group's 90% equity interest in Yitai Guanglian, which operates Hongqinghe Mine and the ancillary coal preparation plant and special railway line. Hongqinghe Mine is located in Dongsheng coalfield and has a total coal resource deposit of 3,219.4 million tonnes under the relevant PRC coal industry standards, which are different from the JORC Code. The Twelfth Five-year Plan on the Development of Coal Industry has identified Hongqinghe Mine as one of the mines to commence construction between 2011 and 2012. This project has a total estimated annual output of 15 million tonnes of coal and the estimated annual output for phase one is 5 million tonnes. Yitai Group has obtained the NDRC's consent to carry out preliminary preparation work, but has not obtained the NDRC's project approval as of the Latest Practicable Date. Therefore, there is no estimate as to the time of, or projected capital expenditure for, our acquisition of Yitai Group's 90% interests in Yitai Guanglian.

By leveraging and taking advantage of the coal enterprises merger and reorganization policies of the PRC government, the Inner Mongolia and Xinjiang government, we plan to carry out external consolidation and acquisition at the local, regional and cross-regional levels to increase output in the next five years. Specifically, we will:

- by leveraging Yitai Group's having been tentatively chosen to be a principal to carry out mergers and reorganizations and reach 100-million-tonne production level, actively seek opportunities in the merger and reorganization of Inner Mongolia coal enterprises to be carried out from 2012 to 2013 to consolidate coal mining rights, adjacent to our own and through acquisitions of assets and/or equity interests and secure empty zones as well as other planning zones in Inner Mongolia with conditions for development in order to further increase our coal reserves and create a 100-million-tonne-level energy enterprise;
- continue to seek government support in the allocation of resources in Inner Mongolia for coal production and coal-related chemical plants construction in order to increase our reserves; and
- open new front for energy development by leveraging opportunities in the development of the Xinjiang Region. Yitai Group has entered into a strategic cooperation framework agreement with the Xinjiang government regarding the development of coal production and conversion projects. We plan to implement projects involving coal and resources conversion projects in the Xinjiang region, and are currently carrying out coalfield geological exploration work and applications for mining rights.

By implementing our external growth strategy, we will evaluate opportunities based on a wide range of factors, including the geographic location of the mines, quality of the coal reserves, mining conditions and potential synergies with our existing business and operation. We plan to fund the above initiatives using our own capital and bank loans. Through these organic and acquisitive growth strategies, we expect to maintain rapid and sustainable growth in our coal production and achieve greater economies of scale.

In order to satisfy client demand for high quality coal products and to increase the added value of coal products sold by us, and in view of the lack of coal preparation plants in and around the Ordos area, we have constructed, and are constructing, coal preparation plants ("CPPs") that will be tailored to the coal characteristics of specific coal mines. Suancigou CPP at Suancigou Mine with a capacity of 12.0 Mtpa and Zhunge'erzhao CPP near Zhunge'erzhao coal loading station with a capacity of 10.0 Mtpa have commenced operations. Phase III of Suancigou CPP has completed civil construction, and we are constructing another two CPPs at Kaida Mine and Talahao Mine, respectively, each with a designed capacity of 6.0 Mtpa. We expect the above measures to enhance the quality of coal products both produced by us and purchased from third-party coal companies for resale, and increase our competitiveness and profitability.

## **Expand and upgrade our integrated transportation network and the related infrastructure and further enhance our coal transportation capacity**

We plan to increase the capacity of our railway transportation, expand the coverage of our transportation network and upgrade the related infrastructure in synchronization with the expansion of our production capacity, so as to ensure efficient and timely delivery of our coal and coal-related products. To achieve this, we plan to:

- complete the construction of a second track of Phase I of Yitai Zhundong Railway Line, which is expected to be completed in 2012 and the total capital expenditure will be RMB2,263.0 million;
- proceed with the construction of a second track of Huzhun Railway Line, which is expected to be completed in 2013 and the total capital expenditure will be RMB1,840.0 million;
- plan for the construction of a second track of Phase II of Yitai Zhundong Railway Line, of which we have submitted the application to the NDRC;
- proceed with the planning, application for approval and construction of special railway lines for the coal-to-oil project and Talahao Mine at a proper time;
- improve the existing ten coal loading stations along the railway lines, including the development of the Xinghe Dispatching Station with a total warehousing and dispatching capacity of 10 million tonnes in Inner Mongolia to transport coal to markets nearby, as well as Tianjin and Hebei province; and
- as a minority shareholder, continue to participate in the relevant railway joint ventures, in particular our involvement in the investment in and construction of the railway line from west Inner Mongolia to central China, which constitutes an essential part of the strategic transport channel of “transporting coal from northern China to southern China” under the *Twelfth Five-year Plan on the Development of Coal Industry*, and seek to secure and increase the transportation capacities of the relevant railway lines allocated to us.

Through the above strategies, Huzhun Railway Line will achieve dual-track operation between Zhoujiawan and Togtoh, and Yitai Zhundong Railway Line will achieve dual-track operation between Zhoujiawan and Hushi. These two connected railways will meet the requirements for the operation of 10,000-tonne rail train units throughout and achieve significant upgrades in transportation capacity. We estimate that the carrying capacity of Yitai Zhundong Railway Line and Huzhun Railway Line will reach 64.0 Mtpa and 39.0 Mtpa, respectively in 2012, and reach 150.0 Mtpa and 128.0 Mtpa, respectively, around 2020. With the future completion of Zhunshuo, Mengji, Xin Baoshen and south Ordos railway lines, which connect to Yitai Zhundong and Huzhun railway lines and in which we hold minority interests, our railway transportation network will connect Dazhun and Daqin Railway Lines in the east, Xin Baoshen Railway Line in the west, Jingbao Railway Line and Mengji Railway Line in the north and Zhunshuo Railway Line and South Ordos Railway Line in the south, forming a network centered on the Dongsheng and Zhunge’er Coalfields and connected in all four directions. In addition, by investing and participating in the construction of the railway line from west Inner Mongolia to central China, we will further expand our transportation network to southern China, establishing a shortcut connecting the energy industry zone of west Inner Mongolia with inland provinces located in central and southern China.

Alongside the expansion of our railway transportation network, we plan to construct highways ancillary to our coal mines, as well as increase and adjust the capacities of our existing coal loading stations and build new coal loading stations. We also plan to increase the overall efficiency of our transportation network through regular maintenance and proper upgrades. In the next five years, our overall railway transportation capacity is expected to exceed 100 million tonnes.

## **Enhance research on, and implementation of, coal-related chemical projects, increase the added value and technology component of products, and extend our coal industrial chain**

As part of our plan for expansion into downstream value chain of the coal industry in China, we will continue to leverage our abundant coal reserves and our cooperation with Synfuels China regarding the licensing of the relevant technologies and the provision of certain products to improve our coal-related chemical

operations, with a focus on the development of high value-added coal product series. Based on our success in the coal-to-oil project, we plan to expand our coal-related chemical operations into the second phase in the next five years, which includes:

- Yitai Yili's 1.0 Mtpa coal-to-oil project;
- Yitai Xinjiang's 1.8 Mtpa coal-related chemical project; and
- Yitai Chemical's 1.2 Mtpa coal-related chemical project.

Although all of the three projects are at preliminary stages and have not obtained the approvals from the NDRC, we have obtained confirmation from the local arms of the NDRC approving us to begin preliminary works. For Yitai Yili's project, we have completed the detailed geological research report of Aermale in Chabuchar County and the preliminary report of Nilekewulasitai in Chabuchar County. The in-place resource is estimated to be 2.6 billion tonnes under the relevant PRC coal industry standards, which are different from the JORC Code. For Yitai Chemical's project, the Ordos Government agreed in October 2009 to reserve 6.0 billion tonnes of coal resources under the relevant PRC coal industry standards, which are different from the JORC Code. For details, please see "Business — Coal-Related Chemical Operations — Future Plans."

We believe that these coal-related chemical projects will place us at an advantageous position to obtain new coal resources under the *Twelfth Five-year Plan on the Development of Coal Industry* and the policy of the local governments of Inner Mongolia and Xinjiang, which favors the allocation of coal resources to enterprises with large-scale and technologically advanced coal conversion projects.

We will also continue to leverage our stable supply of coal to facilitate the integration of coal production and power generation in our cooperation with power generation companies.

### **Maximize our profitability by further improving efficiency and controlling costs in our coal operations**

We view efficiency and cost control as critical elements for maximizing our profitability and maintaining our competitiveness. Over the years, we have established comprehensive cost control systems. The efficiency of our coal operations has been further improved through the consolidation of our coal mines and upgrades of our technology and equipment. In order to further improve coal operation efficiency and control costs in the future, we intend to:

- continue to utilize and develop advanced mining equipment and technology, adopt advanced mining methods based on the geologic conditions of specific coal mines and increase mechanization and recovery rate;
- further improve the coal mine budget management system and the enforcement of performance evaluation and the reward and penalty mechanism, improve our management through information technologies and control operational costs;
- strengthen the cooperation with third-party service providers and repair services providers, such as schools and hospitals, and broaden the scope of such cooperation, reduce the social functions borne by us, elevate our specialization in the mining business and ensure our efficient and low-cost operation based on precision management; and
- further increase the size of our coal mine operations through the implementation of both organic and acquisitive growth strategies to achieve greater economies of scale.

### **Enhance the effectiveness of our marketing and sales efforts, as well as our operational, financial and human resources management**

With a broad customer base and extensive marketing experience gained from years of operation, we intend to further secure stable and long-term orders from large customers and diversify our coal product portfolio to capture profitable growth opportunities. We plan to:

- balance our coal sales by pursuing both long-term supply contracts and sales in the spot market to maintain our flexibility to capture market opportunities;
- cultivate and maintain a stable and loyal customer base, build strategic partnerships with large customers;



- diversify our product mix and develop new, high value-added coal products; and
- stabilize product quality and uplift service standards, promote and strengthen our “Yitai” brand and our reputation for quality coal in the domestic market.

Through our past experience, we have devised, and accumulated extensive experience in, a set of target management methods. We set profit targets and cost control targets for each of the coal production and sales, transportation, coal-to-oil and other business segments, and link remuneration with performance. We intend to:

- build and maintain our financial strength through careful management of key financial and operational measures such as capital expenditures and cash flows;
- enhance the target management methods and the comprehensive budget management system;
- further improve the implementation of the internal control system, including the risk alert mechanism;
- ensure strict compliance with the rules and processes regarding investment decisions and increase accountability; and
- enhance performance evaluation, optimize the remuneration and incentive system for our employees.

### **Continue to improve production safety and fulfil our environmental and social responsibilities**

Production safety will remain our first priority. We will focus on prevention measures and take a comprehensive approach to ensure workers’ health and safety, including continuous investments in production safety and the construction of production safety facilities; strict implementation of safety rules; safety education among our employees to promote awareness; and strict on-site control and process management. We and certain of our subsidiaries have obtained the occupational health and safety management system certification issued by the China Academy of Safety Science And Technology.

We believe in sustainable development and regard environmental maintenance as a major responsibility. We recently obtained ISO 14001 environmental system certification, recycle and decontaminate waste materials more effectively; ensure strict implementation of concurrent environmental impact evaluation, preservation planning and environmental protection facilities construction in relation to project construction; strengthen protection of ecosystem and water resources; further increase resources utilization rate; and rehabilitate land at our mines, carry out subsidence trough reclamation and improve vegetation along our railways and highways.

Over the years, we have received wide recognition for our efforts in fulfilling our social responsibilities. We have been supporting local education, infrastructure, cultural initiatives for ethnic minorities and other charitable causes. We will remain committed to our social responsibilities and strive for mutually beneficial relationships with all our stakeholders.

The effective implementation of the above strategies will further strengthen our production base, improve our market competitiveness and enhance our profitability. The estimated capital expenditures of certain items in our strategies, including the construction of the coal preparation plants and the expansion and upgrade of our integrated transportation network and the related infrastructure, have been included in our estimated capital expenditure for 2012, for details of which see “Financial Information — Capital Expenditures.” Certain other initiatives in our business strategies, including without limitation the following, are still in the preliminary planning stage and the amount to be invested and the timing of commencement of such activities cannot be ascertained at the moment. Therefore they have not been included in our estimated capital expenditures in 2012:

- to carry out relocations of existing villages in the vicinity of Talahao Mine, which are planned to take place after 2014;
- to implement comprehensive projects in Xinjiang region and seek opportunities to consolidate adjacent coal mines;
- to construct the second phase of the coal-to-oil project and carry out coal-related chemical operations such as the production and sale of synthetic lubricating oil, synthetic wax and solvent naphtha; and
- to construct highways ancillary to our mines.



## PRINCIPAL BUSINESS ACTIVITIES

Our principal operations include:

- Coal operations, which are our core business and mainly include the production, transportation and sale of coal;
- Transportation operations, through which our company and our subsidiaries provide coal transportation service to third parties, other than coal transportation service for the sale of our own coal;
- Coal-related chemical operations which mainly include the production and sale of coal-based synthetic fuels and other coal-related chemical businesses; and
- Other operations, which mainly include the development, production and sales of traditional Chinese medicine.

Please refer to “— Overview” for the contributions by each of our operating segments in terms of revenue and as a percentage of our total revenue during the Track Record Period.

## COAL OPERATIONS

Our coal operations revenue is primarily generated from sales of self-produced coal and a relatively small percentage of our revenue is generated from resale of coal purchased from third-party coal companies. We purchase coal from third-party coal companies mainly to optimize our product mix, meet specific requirements of our customers and thereby maximize our profit. We sell all of our coal in the PRC. The following table sets forth information on the volume of coal sold in the periods indicated<sup>(1)</sup>:

|                                         | Year ended December 31, |              |                |              |                |              |
|-----------------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|
|                                         | 2009                    |              | 2010           |              | 2011           |              |
|                                         | Million tonnes          | %            | Million tonnes | %            | Million tonnes | %            |
| Self-produced coal .....                | 26.0                    | 93.9         | 35.5           | 99.4         | 33.7           | 88.0         |
| Coal purchased from third parties ..... | 1.7                     | 6.1          | 0.2            | 0.6          | 4.6            | 12.0         |
| <b>Total .....</b>                      | <b>27.7</b>             | <b>100.0</b> | <b>35.7</b>    | <b>100.0</b> | <b>38.3</b>    | <b>100.0</b> |

(1) As our inventory changes from time to time, self-produced coal (or coal purchased from third parties) sold in a particular year may not equal coal produced (or purchased) in that year.

## Our Coal Mines

We have seven operational mines and two mines under development, all of which are underground mines. These mines are located at the Dongsheng Coalfield and the Zhunge'er Coalfield in Inner Mongolia, China. As of December 31, 2011, we had total proved and probable recoverable reserves of 1,432.9 million tonnes and marketable reserves of 1,147.1 million tonnes. Our reserves generally have geological conditions and coal characteristics favorable to low-cost mining, such as relatively thick flat-lying coal seams located at relatively shallow depths, stable ground conditions, simple geological structures and low methane gas concentration levels, which significantly reduce the difficulties and safety hazards of our mining operations. According to the Competent Person's Report, the physical mining conditions of our operational mines are generally considered among the most favorable observed by BOYD in the world coal mining industry and highly favorable to fully mechanized mining operations such as ours.

As part of our efforts to improve operating efficiency and to implement the PRC government's initiatives on improving the efficiency of resources utilization, occupational health and safety, we carried out successive consolidations and technology upgrades in our coal mines from 2005 to 2008. These consolidations and technology upgrades primarily involved consolidating two or more small coal mines or production portals into a larger coal mine or production portal, expanding or otherwise restructuring production portals, changing mine layouts, adopting the fully mechanized longwall mining method, and/or upgrading the ventilation system and other equipment used in the mining process.

## BUSINESS

All of our seven operational mines, except for Suancigou Mine, underwent such consolidation and technology upgrade, which led to increased production capacity, production equipment mechanization and recovery rate. Prior to the consolidations and technology upgrades, our mines used the traditional room-and-pillar mining method. Under the room and pillar mining method, coal is removed from a mining face while pillars are left between mining areas to support the roof. Comparatively, the room-and-pillar mining method requires less investment and incurs lower average operating costs, but is less efficient and has a much lower recovery rate than the longwall mining method. After the completion of the consolidations and technology upgrades, all of our operational mines began to use the highly mechanized longwall mining method, which enabled us to extract substantially all coal of mining faces without having to leave a significant portion of coal as pillars. Suancigou Mine began using the highly mechanized longwall mining method upon completion of its construction and therefore did not need to undergo consolidation or technology upgrade. According to the Competent Person's Report, all of our operational mines are fully mechanized, technologically advanced mining operations.

From 2006 to 2011, our coal output increased from 9.7 million tonnes to 35.1 million tonnes. Accordingly, our mechanization ratios of our mines increased from under 50% to above 95%; and the overall mining-zone recovery rates increased from under 50% to around 80%. The following table sets forth the information on our coal production using different methods:

| Mine                       | 2006             |                 | 2007          |                 | 2008          |                 | 2009          |                 | 2010          |                 | 2011          |                 |
|----------------------------|------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|
|                            | Drill & Blast    | Longwall Mining | Drill & Blast | Longwall Mining | Drill & Blast | Longwall Mining | Drill & Blast | Longwall Mining | Drill & Blast | Longwall Mining | Drill & Blast | Longwall Mining |
|                            | (million tonnes) |                 |               |                 |               |                 |               |                 |               |                 |               |                 |
| Suancigou . . . . .        | —                | —               | —             | 0.58            | —             | 1.46            | —             | 6.36            | —             | 8.18            | —             | 8.38            |
| Nalinmiao No. 2 . . . . .  | 3.30             | —               | 1.77          | 4.49            | —             | 6.13            | —             | 6.90            | —             | 8.14            | —             | 8.12            |
| Hongjingta No. 1 . . . . . | 3.57             | —               | 2.81          | 1.65            | 0.75          | 5.51            | —             | 7.51            | —             | 8.19            | —             | 7.25            |
| Nalinmiao No. 1 . . . . .  | 2.05             | —               | 1.23          | —               | 0.14          | 1.75            | —             | 2.37            | —             | 5.78            | —             | 6.62            |
| Yangwangou . . . . .       | 0.06             | —               | 0.25          | —               | 0.40          | —               | —             | 0.25            | —             | 1.38            | —             | 0.97            |
| Fuhua . . . . .            | —                | —               | —             | 0.04            | —             | 0.62            | —             | 1.21            | —             | 1.33            | —             | 1.37            |
| Kaida . . . . .            | 0.75             | —               | 0.92          | —               | —             | 1.44            | —             | 1.44            | 1.17          | 1.96            | 0.68          | 1.70            |
| Subtotal . . . . .         | 9.73             | —               | 6.98          | 6.76            | 1.29          | 16.91           | —             | 26.04           | 1.17          | 34.96           | 0.68          | 34.41           |
| <b>Total . . . . .</b>     | <b>9.73</b>      |                 | <b>13.74</b>  |                 | <b>18.20</b>  |                 | <b>26.04</b>  |                 | <b>36.13</b>  |                 | <b>35.09</b>  |                 |

Please see “— Overview — Our Coal Operations” for a table setting forth certain detailed information for each of our nine mines.

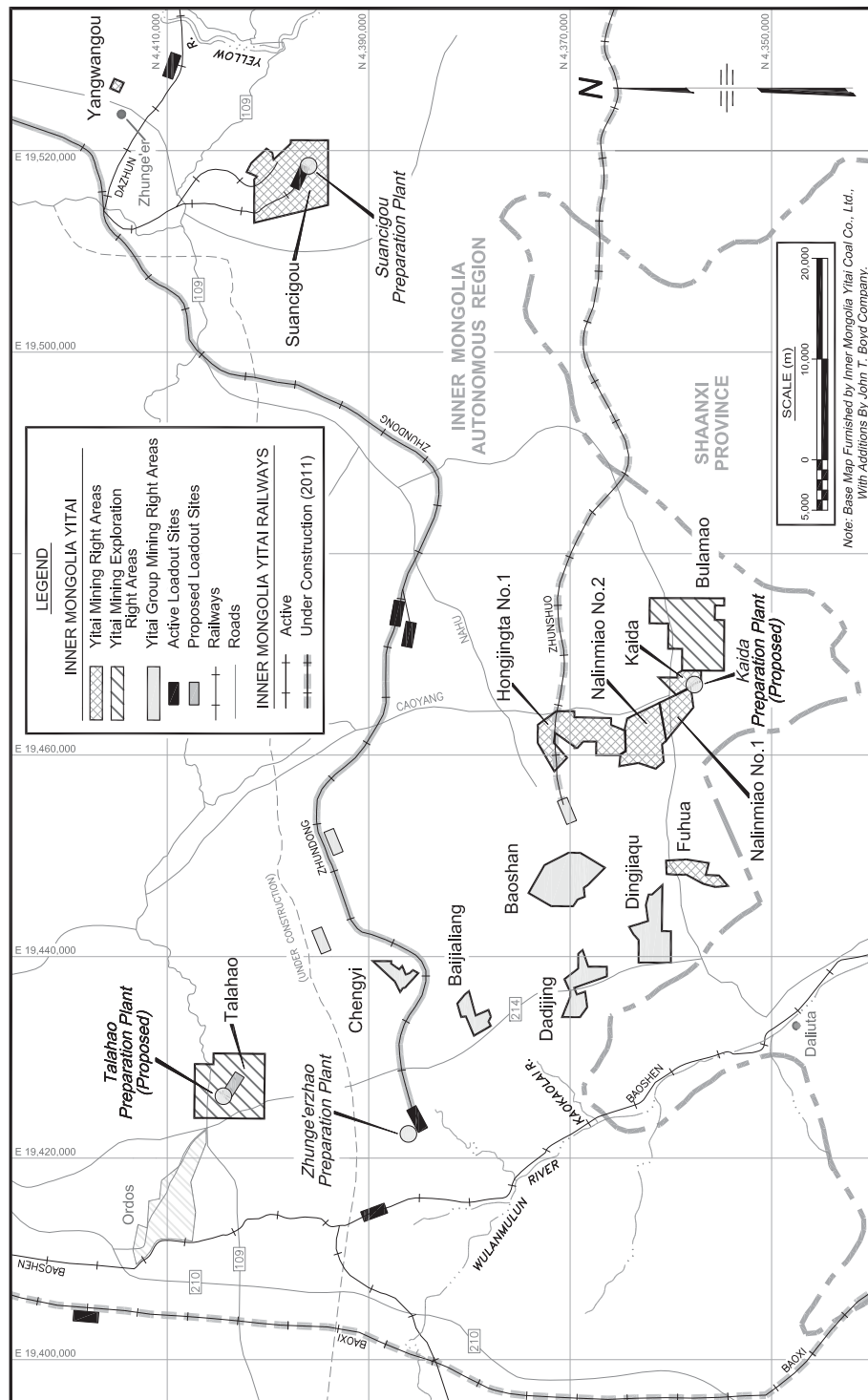
Sustaining capital based on projected raw coal output is RMB4 per tonne, which is at the lowest end of the range of likely requirements to support the projected output in the opinion of BOYD.

Our mines produce high quality thermal coal with attractive commercial characteristics, including medium to high calorific value, high volatile matter content, low sulphur content, medium to low ash content and low phosphorous content. The following table sets out their quality characteristics based on our coal test report data (as-received basis):

| Quality Characteristic                    | Suancigou | Nalinmiao No.2 | Hongjingta No.1 | Nalinmiao No.1 | Yangwangou | Fuhua | Kaida |
|-------------------------------------------|-----------|----------------|-----------------|----------------|------------|-------|-------|
| Moisture content (%) . . . . .            | 9.7       | 14.1           | 14.4            | 13.1           | 10.3       | 15.0  | 14.8  |
| Ash content (%) . . . . .                 | 28.3      | 6.9            | 7.4             | 5.7            | 27.1       | 7.3   | 4.7   |
| Sulfur content (%) . . . . .              | 0.4       | 0.2            | 0.2             | 0.1            | 0.9        | 0.4   | 0.2   |
| Volatile matter content (%) . . . . .     | 25.9      | 27.9           | 28.1            | 27.8           | 24.2       | 25.5  | 28.5  |
| Gross calorific value (Kcal/kg) . . . . . | —         | 6,050          | 5,970           | 6,220          | —          | 6,020 | 6,250 |
| Net calorific value (Kcal/kg) . . . . .   | 4,340     | 5,790          | 5,700           | 5,960          | 4,270      | 5,760 | 5,980 |

Note: Based upon coal quality test data from July to December 2011 provided by our Company, which may not reflect typical analysis.

The following map shows the location of our mines and the Target Mines:



### Suancigou Mine

Suancigou Mine, our largest operational mine by marketable reserves and production capacity, is located in the central area of the Zhunge'er Coalfield in Inner Mongolia. It had total marketable reserves of 458.8 million tonnes as of December 31, 2011 and an assessed annual production capacity of 12 million tonnes. There are four primary coal seams with a thickness of between 3.1 and 12.7 meters. We operate

Suancigou Mine through Yitai Suancigou, our 52% subsidiary, which wholly owns Suancigou Mine. Jingneng Power and Shanxi Yudean each holds a 24% equity interest in Yitai Suancigou. Construction at Suancigou Mine was completed in August 2008, when we commenced trial production.

Suancigou Mine produces thermal coal with medium to high calorific value, medium to low sulphur content, medium ash content, high hardness and high ash melting points, a characteristic particularly attractive to many power plants in China with generators designed to use only coal of high ash melting points.

We have a coal preparation plant at Suancigou Mine, which used the dense medium cyclone method to process coal. See “— Coal Preparation Plants.”

We also have a dedicated coal transportation railway line, the Suanzhou Railway Line, that directly connects the Suancigou Mine with our Yitai Zhundong Railway Line. Most of the coal produced at the Suancigou Mine will be directly loaded onto railway cars and shipped out through the Suanzhou Railway Line and further through the Yitai Zhundong Railway Line. See “— Coal Transportation.”

#### *Nalinmiao No. 2 Mine*

Nalinmiao No. 2 Mine is located in the Dongsheng Coalfield, with total marketable reserves of 63.9 million tonnes as of December 31, 2011 and an assessed annual production capacity of 5.0 million tonnes. It has three primary coal seams with a thickness of between 2.4 and 6.4 meters.

#### *Hongjingta No. 1 Mine*

Hongjingta No. 1 Mine is located in the Dongsheng Coalfield, with total marketable reserves of 35.9 million tonnes as of December 31, 2011 and an assessed annual production capacity of 6.1 million tonnes. It has two primary coal seams with a thickness of between 2.4 and 5.7 meters.

#### *Nalinmiao No. 1 Mine*

Nalinmiao No. 1 Mine is located in the Dongsheng Coalfield, with total marketable reserves of 9.3 million tonnes as of December 31, 2011 and an assessed annual production capacity of 6.4 million tonnes. It has three primary coal seams with a thickness of between 1.9 and 5.9 meters.

#### *Yangwangou Mine*

Yangwangou Mine is located in the Zhunge'er Coalfield, with total marketable reserves of 5.8 million tonnes as of December 31, 2011 and an assessed annual production capacity of 1.4 million tonnes. It has two primary coal seams with a thickness of between 2.9 and 10.8 meters.

#### *Fuhua Mine*

Fuhua Mine is located in the Dongsheng Coalfield, with total marketable reserves of 2.5 million tonnes as of December 31, 2011 and an assessed annual production capacity of 1.3 million tonnes. It has one primary coal seam with a thickness of 2.0 meters.

#### *Kaida Mine*

Kaida Mine is located in the Dongsheng Coalfield, with total marketable reserves of 4.2 million tonnes as of December 31, 2011 and an assessed annual production capacity of 1.6 million tonnes. It has two primary coal seams with a thickness between 1.7 and 2.3 meters.

In April 2006, we consolidated into Kaida Mine a mine owned by Ordos Huayuan Coke Co., Ltd. (鄂爾多斯市華源煤焦有限責任公司). As a result, Ordos Huayuan Coke Co., Ltd. acquired a 30% interest in the consolidated mine while we held the remaining 70% interest. In April 2008, we purchased from Ordos Huayuan Coke Co., Ltd. its 30% interest in the mine for RMB81.4 million.

### *Talahao Mine and Bulamao Mine*

We are developing two additional mines in the Dongsheng Coalfield, Talahao Mine and Bulamao Mine. Talahao Mine had total marketable reserves of 550.2 million tonnes as of December 31, 2011. We have obtained the confirmation letter from NDRC approving us to commence preliminary work based on an annual production capacity of 6.0 million tonnes. We have obtained all prerequisite approvals and are waiting for NDRC's approval. Currently, ground civil engineering work has begun in full scale, equipment is being delivered to the site, and preparation work has completed for the engineering and construction of the three tunnels of the mine. We expect Talahao Mine to become operational by the second half of 2013, with an annual output of 6.0 million tonnes (output in 2013 is expected to be 3.0 million tonnes).

Bulamao Mine had total marketable reserves of 16.8 million tonnes as of December 31, 2011. Subject to our obtaining necessary governmental approvals and permits, we expect Bulamao Mine to become operational in 2013, with an estimated annual output of 1.6 million tonnes in 2013.

For Talahao Mine and Bulamao Mine, we have obtained approval from the MLR for the demarcation of the mining area to formulate our production plan for the purpose of applying for the mining right permits, and we plan to apply for the mining right permits from the MLR in due course. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that there is no material legal impediment to obtaining the relevant mining rights provided that we submit application documents in compliance with applicable laws and regulations to the MLR to apply for the grant of the relevant mining rights and the issuance of the relevant mining right permits, and that we will not need to pay a mining right price as we have already paid the exploration right price in full and there has been no subsequent investment by the government in these two mines. However, we still need to pay the mining right royalty at a rate of RMB1,000 per square kilometer per annum after we have obtained the mining rights for the two mines. We cannot legally produce coal from Talahao Mine and Bulamao Mine before obtaining the relevant mining right permits and the other relevant permits and licenses.

### **Coal Preparation Plants ("CPPs")**

It is a common practice in the coal industry to wash coal to remove gangue material from raw coal to achieve specific thermal contents, as well as particular chemical and physical properties. In order to satisfy client demand for high quality coal products and to increase the added value of coal products sold by us, and in view of the lack of CPPs in and around the Ordos area, we have constructed, and are constructing, CPPs that will be tailored to the coal characteristics of specific coal mines. CPPs help us to better meet customer demand with customized products and thus improve the competitiveness of our coal products and our profit margin. As of the Latest Practicable Date, we operate two CPPs, and are constructing two more CPPs.

#### *Suancigou CPP*

Suancigou CPP is located at Suancigou Mine, with a capacity of washing 12.0 Mtpa of coal. Phase I of the plant, a jig-equipped plant with two jig circuits for processing coarse coal sizes, began operation in August 2008. Phase II of the plant, which uses dense media methods, began operation in February 2010. Phase III of the plant has completed civil construction, and will expand the dense media plant processing capacity to 16.0 Mtpa. The processing equipment for Phase III has not yet been purchased, as the expanded 16.0 Mtpa processing capacity will be needed only in 2013 and beyond with the increase in output at our Suancigou Mine. We plan to use Suancigou CPP to mainly wash coal produced at Suancigou Mine, and consider the capacity of Suancigou CPP to be sufficient for such purpose.

#### *Zhunge'erzhao CPP*

Zhunge'erzhao CPP is located at Zhunge'er Banner, Inner Mongolia, and is designed to wash 10.0 Mtpa of coal. In addition to its processing capacity, the facility has capability for coal storage and blending with multiple product silos. Zhunge'erzhao CPP is located adjacent to the Zhunge'erzhao loading station, where the coal products can be loaded onto our Zhundong Railway Line. This plant commenced trial operation in June 2010.

### Kaida CPP and Talahao CPP

We commenced the construction of Kaida CPP at Kaida Mine in August 2010, which has a designed capacity of washing 6.0 Mtpa of coal. We expect to commence trial operation of Kaida CPP in July 2012.

We also will start the main wash building construction of Talahao CPP at Talahao Mine in April 2012, which also has a designed capacity of washing 6.0 Mtpa of coal. We expect to commence trial operation of Talahao CPP in June 2013.

### Relevant Rights and Permits

Coal mining enterprises in China must obtain for each coal mine, among other things, a mining right permit, a safe production permit and a coal production permit to conduct coal mining activities. The safe production permit and the coal production permit can only be obtained after the mining right permit is granted. Registered holders of mining right permits are required to pay mining right premiums and taxes to the government.

Where residual reserves remain after the term of the mining right expires, the holders of such mining right have a pre-emptive right to apply for extensions for additional terms, according to the mineral resources regulations of the PRC and corresponding regulations. There is no minimum residual reserve requirement for the renewal of mining rights, provided that any residual reserves remain. Apart from the remaining proved and probable reserves within a mining area, there are no additional mining right premiums required or any other conditions affecting the application for extension for additional terms provided that the holder of such mining rights has fulfilled all of its obligations. If any of our mines has any residual proved and probable reserves when its mining right permit expires, we intend to submit an application to renew the mining right permit. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised us that under the current PRC laws and regulations there would be no material legal impediments in renewing our mining rights for our operational mines when any of them expire.

The following table sets forth details of our mining right permits, safe production permits and coal production permits.

| Mine                        | Mining Right Permit                          |                          |                                                  | Safe Production Permit     |                                                  | Coal Production Permit     |                                  |
|-----------------------------|----------------------------------------------|--------------------------|--------------------------------------------------|----------------------------|--------------------------------------------------|----------------------------|----------------------------------|
|                             | Holder/permit number                         | Permit date (month/year) | Validity period                                  | Permit date <sup>(2)</sup> | Validity period                                  | Permit date <sup>(3)</sup> | Validity period                  |
| Suancigou                   | Yitai Suancigou/<br>C1000002009121120050702  | December 2009            | From December 2009 to December 2033 (24 years)   | April 2012                 | From April 2012 to April 2013                    | July 2010                  | From July 2010 to June 2012      |
|                             | Yitai Suancigou /<br>C1000002009121110050703 | December 2009            | From December 2009 to April 2038 (29 years)      |                            |                                                  |                            |                                  |
| Nalinmiao No. 2             | The Company/<br>C1500002010071120074300      | July 2011                | From July 2011 to July 2015 (4 years)            | October 2008               | From October 2008 to October 2012 <sup>(4)</sup> | September 2009             | From September 2009 to July 2026 |
| Hongjingta No. 1            | The Company/ 100000610111                    | September 2006           | From September 2006 to September 2036 (30 years) | May 2011                   | From May 2011 to May 2013                        | September 2009             | From September 2009 to May 2023  |
| Nalinmiao No. 1             | The Company/<br>C1500002010121120092411      | November 2011            | From November 2011 to November 2019 (8 years)    | April 2012                 | From April 2012 to April 2013                    | April 2010                 | From June 2009 to April 2013     |
| Yangwangou                  | The Company/<br>C1000002009021120004801      | September 2009           | From September 2009 to June 2015 (6 years)       | March 2011                 | From March 2011 to March 2013                    | April 2010                 | From April 2009 to April 2016    |
| Fuhua                       | The Company/<br>C150000201011120079869       | June 2011                | From June 2011 to November 2013 (2 years)        | March 2011                 | From March 2011 to March 2013                    | April 2010                 | From April 2009 to April 2013    |
| Kaida Mine                  | The Company/<br>C1500002010121120092414      | June 2011                | From June 2011 to June 2013 (2 years)            | May 2011                   | From May 2011 to May 2013                        | April 2010                 | From June 2009 to December 2013  |
| Talahao Mine <sup>(1)</sup> | N/A                                          | To be applied            | N/A                                              | To be applied              | N/A                                              | To be applied              | N/A                              |
| Bulamao Mine <sup>(1)</sup> | N/A                                          | To be applied            | N/A                                              | To be applied              | N/A                                              | To be applied              | N/A                              |

(1) We have obtained approval from MLR for the demarcation of mining area to formulate our production plan for the purpose of applying for the mining right permits in respect of Talahao Mine and Bulamao Mine. We will apply for such mining right permits from the MLR in due course and expect to obtain them no earlier than in the second half of 2012. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that there is no material legal impediment to obtaining the relevant mining rights and that we



will not need to pay a mining right price provided that we submit application documents in compliance with applicable laws and regulations to the MLR to apply for the grant of the relevant mining rights and the issuance of the relevant mining right permits, as we have already paid the exploration right price in full and there has been no subsequent investment by the government in these two mines. However, we still need to pay the mining right royalty at a rate of RMB1,000 per km<sup>2</sup> per annum after we have obtained the mining rights for the two mines. We cannot legally produce coal from Talahao Mine and Bulamao Mine before obtaining the relevant mining right permits and the other relevant permits and licenses.

- (2) Safe production permits typically have validity periods of three years and may be renewed.
- (3) Coal production permits have various validity periods and may be renewed.
- (4) We confirm that extension of safe production permit of Nalinmiao No. 2 Mine will be completed in line with applicable laws and regulations.

We and two of our subsidiaries, Yitai Tiedong and Huhhot Yitai Coal Sales, have obtained coal trading permits issued by Inner Mongolia Coal Industry Bureau, information concerning which is set out in the following table:

| <u>Entity</u>                 | <u>Registered number</u> | <u>Allowed type of operation</u> | <u>Validity period</u>            |
|-------------------------------|--------------------------|----------------------------------|-----------------------------------|
| Company . . . . .             | 20152723010007           | Wholesale of coal                | From June 2010 to April 2013      |
| Yitai Tiedong . . . . .       | 20152723010008           | Wholesale of coal                | From June 2010 to April 2013      |
| Huhhot Yitai Coal Sales . . . | 20150104010604           | Wholesale of coal                | From August 2009 to December 2012 |

According to PRC law, coal enterprises holding coal production permits are not required to obtain coal trading permits for the sales of coal produced or processed by themselves. Therefore, we do not need to apply for coal trading permits for the Target Mines in relation to their coal production businesses.

### Over-production

PRC coal enterprises are required by PRC laws and regulations not to carry out coal production in excess of the assessed annual production capacity (the "Assessed Capacity") recorded on the safe production permits and coal production permits of the relevant coal mines. Breach of such laws and regulations may result in penalties being imposed by the relevant government authorities, which may include the suspension of production of the relevant coal mine for rectification, a fine of no more than RMB2,000,000 on the coal mine or a fine of no more than RMB150,000 on the mine manager and other administrative penalties. In accordance with our internal control system, our supervising staff receive daily production reports with daily production volume information, which enables us to closely monitor and manage our coal production volume and ensure compliance with the relevant laws and regulations. We consider our internal control system to be generally effective.

Successive internal consolidations and technology upgrades have been carried out at our coal mines and the Target Mines from 2005 to 2008, which led to significant increases in their actual production capacities. However, an application for increased Assessed Capacities can only be made after the completion of the trial production period and the preparation of a production capacity assessment report by a professional firm designated by the relevant government authority and engaged by us. To prepare such a report, the professional firm needs to conduct thorough research and schedule on-site visits, and the whole process can take up to six months. Once the application is submitted, the government authority may also arrange site visits by experts for the purpose of verification, and the approval process may again take time. The trial production of our coal mines and the Target Mines after the internal consolidation and technology upgrades, as well as their production during the application process for increased Assessed Capacities, caused a total of ten, six and nine of such mines' annual production volume in certain years to exceed the relevant Assessed Capacities in 2009, 2010 and 2011, respectively, as shown in the table below.

To resolve the over production issue as described above, Yitai Group and we started to liaise with the relevant government authorities and prepare for the compilation of the relevant production capacity assessment reports in mid 2009 regarding certain of our mines and the Target Mines in order to increase the Assessed Capacities as recorded in the coal production permits. In September 2009 and April 2010, Inner Mongolia Coal Industry Bureau issued coal production permits with increased Assessed Capacities for certain of our mines and

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the Target Mines. The following table sets forth certain information on the Assessed Capacities as recorded in the coal production permits and actual production volumes of the Twelve Mines during the periods indicated:

| Mine                | 2009                     |                              | 2010                     |                              | 2011                     |                              | 2012                      |                              |
|---------------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|---------------------------|------------------------------|
|                     | Annual production volume | Applicable Assessed Capacity | Annual production volume | Applicable Assessed Capacity | Annual production volume | Applicable Assessed Capacity | Actual production volume* | Applicable Assessed Capacity |
|                     | (Million tonnes)         |                              |                          |                              |                          |                              |                           |                              |
| Our operating mines | 26.0                     | 27.1                         | 36.1                     | 33.8                         | 35.1                     | 33.8                         | 7.6                       | 33.8                         |
| Suancigou           | 6.4                      | 12.0                         | 8.2                      | 12.0                         | 8.4                      | 12.0                         | 2.7                       | 12.0                         |
| Nalinmiao No. 2     | 6.9                      | 6.3                          | 8.1                      | 5.0                          | 8.1                      | 5.0                          | 1.7                       | 5.0                          |
| Hongjingtai No. 1   | 7.5                      | 6.1                          | 8.2                      | 6.1                          | 7.3                      | 6.1                          | 1.5                       | 6.1                          |
| Nalinmiao No. 1     | 2.4                      | 1.2                          | 5.8                      | 6.4                          | 6.6                      | 6.4                          | 0.8                       | 6.4                          |
| Yangwangou          | 0.2                      | 0.6                          | 1.4                      | 1.4                          | 1.0                      | 1.4                          | 0.2                       | 1.4                          |
| Fuhua               | 1.2                      | 0.3                          | 1.3                      | 1.3                          | 1.4                      | 1.3                          | 0.2                       | 1.3                          |
| Kaida               | 1.4                      | 0.6                          | 3.1                      | 1.6                          | 2.4                      | 1.6                          | 0.4                       | 1.6                          |
| Target Mines        | 9.6                      | 4.5                          | 11.5                     | 10.3                         | 12.7                     | 10.3                         | 2.4                       | 10.3                         |
| Dadijing            | 3.3                      | 1.2                          | 3.8                      | 3.0                          | 4.5                      | 3.0                          | 0.7                       | 3.0                          |
| Baoshan             | 1.5                      | 1.2                          | 1.8                      | 1.9                          | 2.2                      | 1.9                          | 0.6                       | 1.9                          |
| Dingjiaqu           | 2.2                      | 1.2                          | 2.8                      | 2.3                          | 3.1                      | 2.3                          | 0.9                       | 2.3                          |
| Chengyi             | 0.9                      | 0.6                          | 1.1                      | 1.2                          | 0.9                      | 1.2                          | 0.0                       | 1.2                          |
| Baijialiang         | 1.7                      | 0.3                          | 2.0                      | 1.9                          | 2.1                      | 1.9                          | 0.3                       | 1.9                          |

\* Actual production volume in 2012 refers to the actual production volume of each mine as of March 31, 2012.

During the time of the application process for increased Assessed Capacities, we continued to make technology improvements at our coal mines, and the geographical conditions for mining at certain of our coal mines improved with the progress of mining activities, which contributed to further increases in production volumes. As a result, the production volume of certain of the Twelve Mines exceeded their respective increased Assessed Capacities for 2010 or 2011. Both Yitai Group and our Group have submitted applications in March 2011 to the Ordos Coal Bureau to further increase the Assessed Capacities as recorded on the coal production permits for the Twelve Mines. However, since coal mine restructuring is under process in Inner Mongolia pursuant to the national policy, the Ordos Coal Bureau has ceased to review any new application for assessing coal production capacities and issuing coal production permits. The Inner Mongolia Coal Industry Bureau has authorized the Ordos Coal Bureau to regulate and monitor the actual production volume at mines in Ordos by issuing coal sales permits, according to which the actual production volume of a coal mine shall not exceed the limit recorded on its coal sales permit. As confirmed by the letter dated February 11, 2012 issued by the Ordos Coal Bureau, the total volume of coal that we were allowed to sell by the Ordos Coal Bureau as recorded on the coal sales permits was 26.0 million tonnes, 36.1 million tonnes and 35.1 million tonnes for 2009, 2010 and 2011, respectively, and the total volume of coal that the Target Business Group was allowed to sell by the Ordos Coal Bureau as recorded on the coal sales permits was 9.6 million tonnes, 11.5 million tonnes and 12.7 million tonnes for 2009, 2010 and 2011, respectively.

On March 16, 2012, the Inner Mongolia Coal Industry Bureau issued a confirmation letter and further confirmed that it has received Yitai Group's and our applications for increasing the Assessed Capacity of our mines through the Ordos Coal Bureau; however, since Yitai Group, our Controlling Shareholder, is undertaking its restructuring in accordance with the policies of the Inner Mongolia government to initiate the mine restructuring in Inner Mongolia, the Ordos Coal Bureau and the Inner Mongolia Coal Industry cannot review our applications and make a decision by the end of 2012, when the above-mentioned restructuring is expected to be completed; therefore, it has authorized the Ordos Coal Bureau to ratify the capacity of each of the Twelve Mines by issuing coal sales permission and approving the actual capacity of each of the Twelve Mines exceeding the current Assessed Capacities as recorded on their coal production permits. Moreover, as confirmed by the letter dated May 14, 2012 issued by the Ordos Coal Bureau, the total volume of coal that we were allowed to produce and sell by the Ordos Coal Bureau as recorded on the coal sales permits was 7.6 million tonnes for the three months ended March 31, 2012, and the total volume of coal that the Target Business Group was allowed to produce and sell by the Ordos Coal Bureau as recorded on the coal sales permits was 4.0 million tonnes for the three months ended March 31, 2012.

Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, have advised us that under PRC regulations a higher governmental authority is legally entitled to have superior rights to supervise the administrative actions made by its subordinate bodies and to rectify any illegal or inappropriate administrative actions made by such bodies. Since the Ordos Coal Bureau and the Inner Mongolia Coal Industry Bureau are the competent governmental authorities to make decisions and issue confirmation letters discussed as above according to applicable laws, such decisions are legitimate and appropriate and would not be challenged by

a higher authority. As a result, although the actual production volumes of certain of the Twelve Mines exceeded the current Assessed Capacities as recorded on their coal production permits during the Track Record Period, none of their actual production volumes exceeded the limits under their respective coal sales permits which are the actual and applicable assessed capacities authorized by the relevant governmental authorities.

Jingtian & Gongcheng Attorneys at Law have further advised us that, based on the above, because we and the Target Business Group have produced and sold coal in compliance with the coal sales permits issued by the competent authority and relevant regulatory requirements in the coal industry in China, the fact that the actual production volumes of certain of the Twelve Mines exceeded the volumes recorded on their respective coal production permits but within the limit of the volumes set forth in their respective coal sales permits is not in breach of the applicable regulations and will not cause any orders of suspension for rectification or other administrative penalties (including any monetary penalties) against us or the Target Business Group, which could materially and adversely affect our operations or the Target Business Group's operations.

Our Directors have confirmed that we will continue, and procure our Target Business Group continue to, strictly follow the volume set forth in the coal sales permits issued by the Ordos Coal Bureau during such interim period as long as the coal sales permits are effective, or the relevant increased Assessed Capacity thereafter. Going forward, we intend to strictly control our coal production by the following measures:

- We established a production committee composed of Directors (including at least one independent non-executive Director) on May 29, 2012 to (i) determine the annual planned production volumes of the relevant coal mines for the following year with reference to the Assessed Capacities and market conditions, (ii) review our actual production volumes on a quarterly basis, and (iii) consider whether we need to revise the annual planned production volumes of the relevant coal mines or to apply to increase the Assessed Capacities. The production committee currently consists of five members, namely Mr. Zhang Donghai, Mr. Ge Yaoyong, Mr. Zhang Xinrong, Mr. Lian Junhai and Mr. Xie Xianghua. Mr. Zhang Donghai is the chairman of the production committee. Please see "Directors, Supervisors, Senior Management and Employees — Board Committees — Production Committee."
- In order to assist the production committee, we plan to establish a dedicated team, upon or before the Listing, to supervise our production volume and ensure our compliance with the current PRC laws and regulations. This team will comprise senior management members and/or our Directors to monitor our production volumes regularly and report to the production committee on a quarterly basis. Currently, the production committee plans to appoint Mr. Liu Xianping, Mr. Liu Jiang, Mr. Li Feiyun, Mr. Zhang Jun, Mr. Zhang Mingliang, Mr. Qiao Yushan and Mr. Du Jie\*\* as the members of this team.
- In addition, upon the Listing, we will provide regular training programmes to our staff to promote their awareness of the importance of monitoring daily production volumes, and to ensure that the actual production volumes of the relevant coal mines do not exceed their respective planned production volumes.

In the case that the application for further increased Assessed Capacities becomes necessary, we intend to submit such application to the relevant government authority at the earliest practicable time upon the completion of the preparation of the relevant production capacity assessment report and obtain the letter of acceptance of the application from such government authority before the new Assessed Capacity is approved. We intend to continue to closely monitor the production volumes of our coal mines based on the daily production reports, which contain production volume information, and communicate with the relevant government authority in a timely manner in the event that over-production at any of our coal mines becomes reasonably foreseeable based on our monitoring of the relevant production volumes as described above. Taking into account the relevant reasons and facts as described above in connection with our coal production, our Directors believe and the Joint Sponsors agree that the enhanced internal control measures on coal production discussed above are adequate and effective to comply with applicable laws and regulations in China.

\*\* Mr. Liu Xianping, Mr. Liu Jiang, Mr. Li Feiyun, Mr. Zhang Jun and Mr. Zhang Mingliang are deputy general managers of the Production Department of our Company, Mr. Qiao Yushan is the head of the Suancangou Safety Supervision Station under the Safety Supervision Department of our Company, and Mr. Du Jie is the head of the Safety Supervision Department of our Company.

## Our Coal Products

Our coal products primarily comprise high-quality thermal coal produced from raw coal excavated at our own mines with commercially attractive characteristics, including medium to high calorific value, high volatile matter content, low sulphur content, medium to low ash content and low phosphorous content. The major criteria to classify thermal coals are ash content, sulphur content and calorific value. According to the PRC national standard for the classification of the quality of coal for power generation, low ash content refers to ash content between 10.01% and 20.00%, ultra-low sulphur content refers to sulphur content below 0.5%, and medium-to-high calorific value refers to calorific value between 24.31mj/kg and 27.20mj/kg. According to the Competent Person's Report, the average ash content of our seven operating mines is approximately 12.5%, the average sulphur content is approximately 0.3%, and the average gross calorific value\* is approximately 6,100kcal/kg (equivalent to approximately 25.55mj/kg). In addition, according to the evaluation report issued by the Beijing Research Institute of Coal Chemistry of China Coal Research Institute, our coal products are high-quality thermal coal with low ash content, low sulphur content and low phosphorous content. We also purchase a substantially smaller amount of coal from third-party coal companies. Because of these attractive characteristics, the majority of our raw coal can be sold without further processing to remove impurities. Instead, we blend different types of raw coal to adjust our products' characteristics based on our customers' needs. The China Coal Research Institute has certified that our Yitai No. 1 through Yitai No. 8 products are "high-quality thermal coal with high calorific value, low sulphur, phosphorus, ash and other hazardous content." Among these products, Yitai No. 3, No. 4 and No. 7 products constituted substantially all of our coal sold during the Track Record Period. The following table sets forth certain characteristics of these products:

| Product               | Calorific value<br>(Kcal/kg) | Sulphur<br>content (%) | Ash content<br>(%) | Moisture<br>content (%) | Ash fusion<br>point (°C) | Volatile matter<br>content (%) |
|-----------------------|------------------------------|------------------------|--------------------|-------------------------|--------------------------|--------------------------------|
| Yitai No. 3 . . . . . | ≥ 5,500                      | < 0.6%                 | ≤ 12%              | < 16%                   | 1100 – 1250              | 22 – 30%                       |
| Yitai No. 4 . . . . . | ≥ 5,000                      | < 0.7%                 | ≤ 15%              | < 16%                   | 1100 – 1250              | 22 – 30%                       |
| Yitai No. 7 . . . . . | ≥ 4,800                      | < 1.0%                 | ≤ 25%              | < 14%                   | > 1500                   | 22 – 28%                       |

## Coal Production Process

Our mining operations involve five main processes: tunnelling and underground mine layout, extracting, conveying, coal processing and reclamation.

### *Tunnelling and Underground Mine Layout*

When constructing an underground mine, we use inclines to reach the coal seams. These tunnels are created by drilling with roadheaders and blasting, either in the host rock or the coal seam, and are used for the underground access and haulage of coal. We also use tunnelling to construct new longwall mining work faces after we finish constructing the underground mine to ensure continuous mining operations.

### *Extracting*

We currently use the longwall mining method at all of our mines. Longwall mining is a fully mechanized underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area. The longwall mining method can achieve high production volumes, high recovery rates, and high levels of safety and reliability as compared to the traditional mining method.

### *Conveying*

We convey the coal we extract from our coal mines to ground storage via conveyor systems.

### *Coal Processing*

We classify and/or blend different types of coal to adjust its coal characteristics and quality to meet customer specifications. Presently, we have four CCPs under various stages of construction, design and

\* Excludes Suancigou Mine and Yangwangou Mine as relevant information is not available.

implementation to better meet customer demand with customized products and thus improve the competitiveness of our coal products and our profit margin. After processing, coal is loaded onto either trucks or railway cars for delivery.

### *Reclamation*

We are required by the PRC laws to reclaim and restore mining sites to their prior condition after completion of mining operations. Reclamation activity typically involves the removal of buildings, equipment, machinery and other physical remnants of mining, restoration of land features in mined-out areas, dumping sites and other mining areas, and contouring, covering and revegetation of waste rock piles and other disturbed areas. We believe that the operations of all of our mines are in compliance with environmental and reclamation requirements.

### **Coal Purchased Externally**

In addition to selling coal produced from our mines, we purchase coal from external suppliers and sell it to our customers. Of the coal we sold in 2009, 2010 and 2011, 1.7 million tonnes, 0.2 million tonnes and 4.6 million tonnes, respectively, were purchased from external suppliers. Cost of coal purchased from external suppliers amounted to RMB269.1 million, RMB79.0 million and RMB1,837.3 million, respectively, in 2009, 2010 and 2011, or 5.1%, 1.3% and 22.7% of our cost of sales for those periods, respectively. To increase our market share and meet our clients' demand, we started to import coal in 2011 with a total volume of 1.9 million tonnes. The amount of coal we purchase from external suppliers depends mainly on our ability to meet customer demand based on our production capacity and the coal transportation capacity we receive and prevailing market prices of coal.

### **Third-party Service Arrangements**

We engage third-party service providers to provide certain services in our coal production process. We had third-party service arrangements with six companies during the Track Record Period, which were all independent third parties. These companies are themselves coal mining companies. The services we procure from these service providers differ depending on our needs at any given mine, but generally include secondment of workers to assist us in extracting coal at our mines, renting certain production equipment to us and advising us on mining technology and coal production. The agreements that we entered into with third-party service providers typically cover the entire lifespan of the relevant coal mines. Pursuant to these agreements, we maintain the overall management of each of our mines and are responsible for the appointment of the general manager of each of our mines, mine construction, coal production, sales and transportation, production safety, maintenance and supplies, finance and accounting, formulation of production plans, geological survey, reserve management and quality control, while the service providers and their employees working at our mines provide their service under our management and report to the general managers appointed by us at our mines.

We pay the service providers service fees in consideration of their services. Such fees primarily consist of compensation for the service providers' employees working at our mines, which is subject to adjustment based on actual production output, mandatory social security and housing fund contributions for these workers, and a service fee based on the actual output at the relevant mines. These workers enter into employment contracts with the service providers and are not our employees. The aggregate fees we paid these service providers for 2009, 2010 and 2011 were RMB385.1 million, RMB572.8 million and RMB490.4 million, respectively. We have not experienced any shortage in service providers to provide services in our coal production process which materially interrupted our business operation during the Track Record Period.

We believe these third-party service arrangements provide several benefits. First, we not only reduce our operating costs as most of the workers of these service providers are experienced in coal mining and highly productive, we also get immediate access to skilled labor, which would be time consuming to train in-house. In addition, by renting certain production equipment from these service providers, we are able to reduce our capital expenditures. Moreover, we believe we will achieve cost savings because we will not need to maintain these arrangements once the economic lives of our mines run out.

## Sales and Marketing

We sell all of our coal products in China. Our coal sales are primarily carried out by our centralized sales forces at our headquarters and our branch offices in Beijing, Tianjin, Shanghai, Guangzhou and Qinhuangdao. Our sales personnel periodically visit our customers to provide after-sales services.

We conduct coal sales by means of long-term sales contracts and spot market sales. The long-term sales contracts generally have minimum terms of not less than one year, with annual price determination provisions. The spot market sales generally specify the quantities and timing of purchases planned over a period of several months or less.

We generally price our products taking into account (i) prices in the relevant local coal markets; (ii) grade and quality of the coal; and (iii) the sales volume and the length and stability of relationships with customers. Depending on the sales region and the type of customer, we are typically required to deliver our products to the purchasers, if they are accessible by road or railway, or to loading ports with the purchasers paying the water freight, if further delivery by water is necessary. Accordingly, our coal prices are typically quoted as FOB or CFR. We also sell a portion of our coal at our mines at mine gate prices. Generally, the longer the distance we need to deliver our products, the higher the prices we charge for our products.

The following table sets forth selected price information (exclusive of VAT), for the periods indicated, for our sales from long-term contract sales and spot market sales:

|                           | Year ended December 31, |                               |                                |                   |                               |                                |                   |                               |                                |
|---------------------------|-------------------------|-------------------------------|--------------------------------|-------------------|-------------------------------|--------------------------------|-------------------|-------------------------------|--------------------------------|
|                           | 2009                    |                               |                                | 2010              |                               |                                | 2011              |                               |                                |
|                           | Price (RMB/tonne)       | Sales volume (million tonnes) | Percentage of sales volume (%) | Price (RMB/tonne) | Sales volume (million tonnes) | Percentage of sales volume (%) | Price (RMB/tonne) | Sales volume (million tonnes) | Percentage of sales volume (%) |
| Long-term contract sales* | 328.9                   | 17.6                          | 63.5                           | 404.7             | 21.7                          | 60.8                           | 428.3             | 19.0                          | 49.6                           |
| Spot market sales         | 384.8                   | 10.1                          | 36.5                           | 325.8             | 14.0                          | 39.2                           | 365.1             | 19.3                          | 50.4                           |
| <b>Total</b>              |                         | <b>27.7</b>                   | <b>100.0</b>                   |                   | <b>35.7</b>                   | <b>100.0</b>                   |                   | <b>38.3</b>                   | <b>100.0</b>                   |

\* Long-term contracts include annual coal sales and purchase contracts under long-term agreements and other sales contracts longer than one year.

The following table sets forth selected price information (exclusive of VAT), for the periods indicated, for our sales by destination:

|                                                             | Year ended December 31, |                               |                                |                   |                               |                                |                   |                               |                                |
|-------------------------------------------------------------|-------------------------|-------------------------------|--------------------------------|-------------------|-------------------------------|--------------------------------|-------------------|-------------------------------|--------------------------------|
|                                                             | 2009                    |                               |                                | 2010              |                               |                                | 2011              |                               |                                |
|                                                             | Price (RMB/tonne)       | Sales volume (million tonnes) | Percentage of sales volume (%) | Price (RMB/tonne) | Sales volume (million tonnes) | Percentage of sales volume (%) | Price (RMB/tonne) | Sales volume (million tonnes) | Percentage of sales volume (%) |
| Sales to local customers                                    | 233.3                   | 10.4                          | 37.5                           | 288.6             | 20.6                          | 57.7                           | 315.4             | 22.5                          | 58.7                           |
| Sales delivered to customer by railway                      | 396.5                   | 2.6                           | 9.4                            | 480.0             | 1.4                           | 3.9                            | 492.7             | 1.6                           | 4.2                            |
| Sales delivered by railway to ports designated by customers | 422.7                   | 14.7                          | 53.1                           | 490.7             | 13.7                          | 38.4                           | 514.0             | 14.2                          | 37.1                           |
| <b>Total</b>                                                |                         | <b>27.7</b>                   | <b>100.0</b>                   |                   | <b>35.7</b>                   | <b>100.0</b>                   |                   | <b>38.3</b>                   | <b>100.0</b>                   |

The following table sets forth our coal sales in China by geographic region for the periods indicated:

|                                   | Year ended December 31,       |              |                               |              |                               |              |
|-----------------------------------|-------------------------------|--------------|-------------------------------|--------------|-------------------------------|--------------|
|                                   | 2009                          |              | 2010                          |              | 2011                          |              |
|                                   | Sales volume (million tonnes) | %            | Sales volume (million tonnes) | %            | Sales volume (million tonnes) | %            |
| Eastern China <sup>(1)</sup>      | 8.0                           | 28.9         | 6.7                           | 18.8         | 6.6                           | 17.2         |
| Southern China <sup>(2)</sup>     | 3.2                           | 11.6         | 3.5                           | 9.8          | 3.2                           | 8.4          |
| Northern China <sup>(3)</sup>     | 16.3                          | 58.8         | 24.7                          | 69.2         | 27.4                          | 71.5         |
| Northeastern China <sup>(4)</sup> | 0.2                           | 0.7          | 0.8                           | 2.2          | 1.1                           | 2.9          |
| <b>Total</b>                      | <b>27.7</b>                   | <b>100.0</b> | <b>35.7</b>                   | <b>100.0</b> | <b>38.3</b>                   | <b>100.0</b> |

(1) Eastern China includes primarily Shanghai, Zhejiang, Jiangsu and Anhui.

(2) Southern China includes primarily Guangdong, Guangxi, Fujian and Jiangxi.

(3) Northern China includes primarily Hebei, Shandong, Tianjin and Inner Mongolia.

(4) Northeastern China includes primarily Liaoning.



We determine a customer's credit terms based on factors such as our business relationship with the customer, volume of sales, the customer's current financial position and the prevailing market conditions. We extend credit (generally for periods not exceeding 30 days) to certain major customers. For new or short-term customers, we require full payment prior to delivery. All payments by our customers are made in Renminbi. In recent years, we have not experienced any default of purchase orders or any significant payment collection issues during the Track Record Period.

In 2009, 2010 and 2011, we had approximately 269, 191 and 262 customers, respectively, with which we have had business relationships ranging from one month to as long as 15 years.

Our major customers include power producers and coal distribution companies. As of the Latest Practicable Date, Yitai Group had entered into 22 long-term agreements with customers, most of which are large scale power producers. Pursuant to the confirmation letters signed by such customers with Yitai Group and us, all rights and obligations of Yitai Group under the agreements will be transferred to us on the Listing Date. These agreements have a duration of five years, with expiration dates of December 31, 2014. These long-term agreements can be extended upon mutual agreement between the parties. The agreements typically provide that the selling prices should be either set by reference to market prices or negotiated annually. These agreements are legally binding and constitute sale and purchase commitments of the parties. Any failure to honor such sale or purchase obligations may give rise to claims for contractual breach. Detailed terms of coal sales under a long-term agreement for a particular year is typically set out in an annual contract. Certain of our sales are made by signing annual coal sales and purchase contracts under these long-term agreements. Yitai Group's sale commitments under the long-term agreements for 2010 and 2011 were 42.1 million tonnes and 48.0 million tonnes, respectively, and will be 56.4 million tonnes, 67.4 million tonnes and 77.4 million tonnes for 2012, 2013 and 2014, respectively. The actual sales volume of Yitai Group generated from the long-term agreements was 23.9 million tonnes, 27.0 million tonnes and 25.9 million tonnes for 2009, 2010 and 2011, respectively. Our actual sales volume generated from the annual coal sales and purchase contracts under the long-term agreements was 15.6 million tonnes, 17.6 million tonnes and 14.9 million tonnes for 2009, 2010 and 2011, respectively, representing 56.3%, 49.2% and 38.8% of our total sales volume for 2009, 2010 and 2011, respectively. For 2009, 2010 and 2011, 7.9%, 9.0% and 8.0%, respectively, of our total revenue was generated from sales made to our largest customer; over those periods, 29.6%, 30.1% and 26.1%, respectively, of our total revenue was generated from sales made to our five largest customers. The decrease of these percentages is mainly due to the concurrent increase in our total revenue. We expect our sales to the top five customers to represent between 30% and 40% of our total revenue in the near future, subject to any unforeseeable events that are outside our control. As of the Latest Practicable Date, none of our Directors, their associates or the Controlling Shareholders was related to or owns any interest in any of our five largest customers.

## **Coal Transportation**

Over the years, we have made continuous investments in the railway and highway transportation system, and integrated our production, transportation and sales of coal. Through our integrated transportation network, we transport our coal products from our mines to the national ground transportation network for delivery. We then make use of the national railway system and other third-party railway lines to transport our coal to our customers or to port facilities, and the customers typically arrange seaborne freight themselves. We are generally required to pay freight charges to third-party railway lines in advance.

### *National Railway System*

In China, coal reserves and production are primarily concentrated in the western and northern provinces, but coal consumption is primarily concentrated in the more economically developed coastal regions in China. Therefore, a significant amount of coal needs to be transported via railway from the coal producing areas in western and northern China, including Inner Mongolia, to eastern ports for seaborne shipments to the coastal regions. See "Industry Overview — Overview of PRC Coal Industry — Rapid Growth in Coal Transportation Capacity."

Despite the PRC government's efforts to increase the transportation capacity and coverage of the national railway system in recent years, the national railway system has been unable to fully satisfy the increasing need for such eastbound coal transportation. Each year, the MOR and the NDRC allocate the transportation capacity

on the eastbound railway lines to major coal enterprises based on the orders that such enterprises have secured. We believe that the MOR and the NDRC primarily consider a company's transportation needs and how certain it is that our company will actually use all the capacity allocated to it in making transportation capacity allocations.

### *Our Transportation Network*

We obtain railway capacity on the national railway system primarily through allocations of annual planned railway capacity made by the MOR and the NDRC to Yitai Group. Yitai Group also grants us additional transportation capacity that it obtains from the MOR from time to time in addition to the annual quotas originally allocated to it, subject to the national railway system's ability to meet the additional demand. See "Regulation — Coal Production — Railway Transport" and "Risk Factors — Risks Relating to Our Businesses — We may experience shortage of transportation capacity for our coal products or a significant increase in transportation costs."

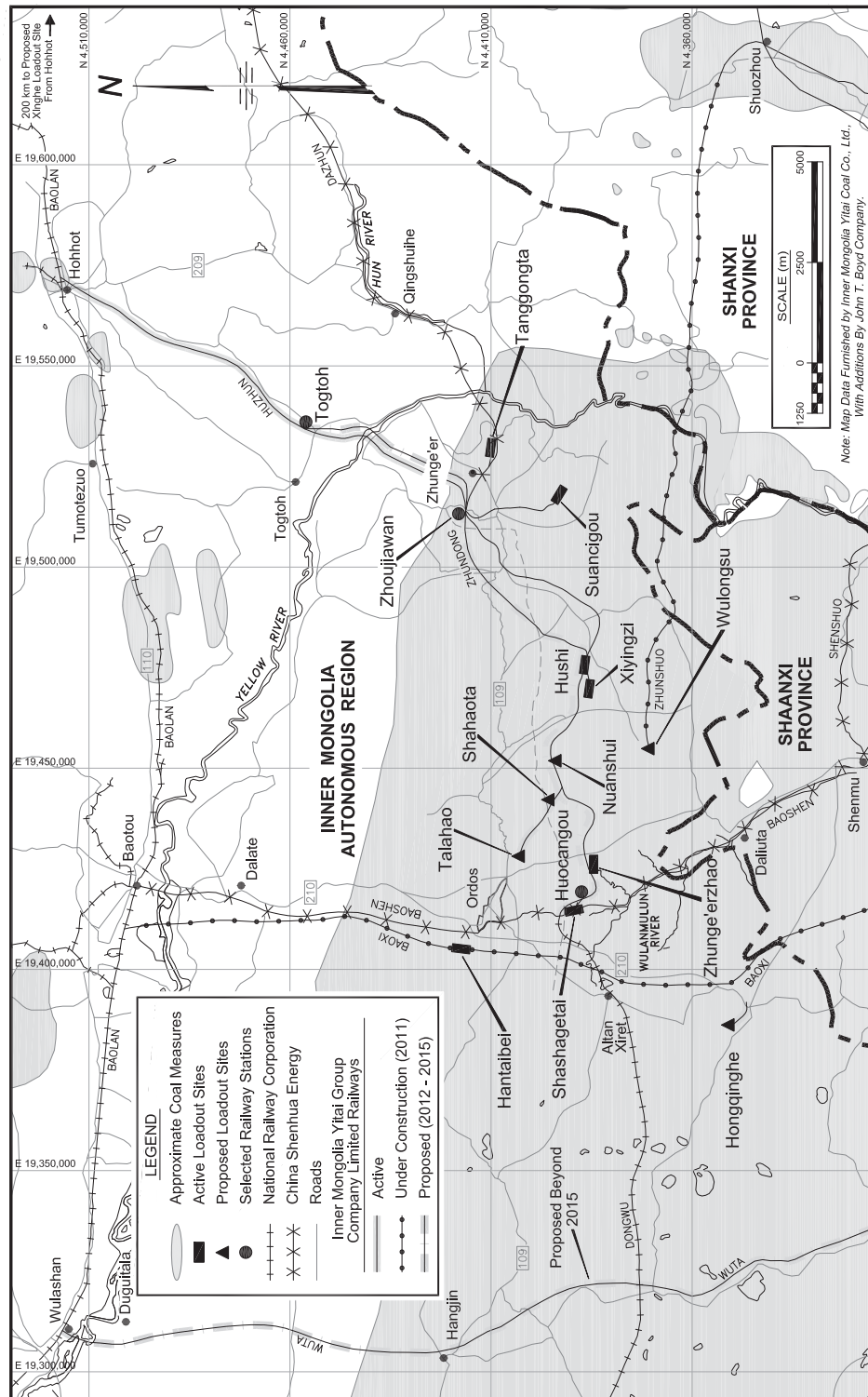
We believe our integrated transportation network provides us with a competitive edge in securing allocation of transportation capacity in the national railway system, and facilitates our coal sales to our major customers in China's developed coastal regions. Leveraging on our transportation network, Yitai Group applied for and secured annual quotas of national railway system transportation capacity from the MOR for both itself and us during the Track Record Period, based on which Yitai Group and we used a total of 27.5 million tonnes, 29.6 million tonnes and 27.4 million tonnes for 2009, 2010 and 2011, respectively. Furthermore, the approved quota of transportation capacity from the MOR to Yitai Group for 2012 amounted to 33.0 million tonnes, while the actual transportation capacity of the national railway system to be used by us in 2012 is subject to further adjustments based on our transportation needs and the consent of the MOR. We used such quotas to meet all of our transportation needs. Such quotas were granted free of charge by the MOR to Yitai Group and by Yitai Group to us. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that it was and will be legal for Yitai Group to allocate its transportation quotas to us free of charge. The following table sets forth information on the national railway system transportation capacities used by Yitai Group and us, respectively, for the periods indicated:

| Transportation<br>capacity of the national railway system | 2009             |              | 2010             |              | 2011             |              |
|-----------------------------------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                                                           | (million tonnes) | %            | (million tonnes) | %            | (million tonnes) | %            |
| Used by Yitai Group .....                                 | 10.7             | 38.9         | 14.0             | 47.3         | 14.1             | 51.5         |
| Used by us .....                                          | 16.8             | 61.1         | 15.6             | 52.7         | 13.3             | 48.5         |
| <b>Total</b> .....                                        | <b>27.5</b>      | <b>100.0</b> | <b>29.6</b>      | <b>100.0</b> | <b>27.4</b>      | <b>100.0</b> |

In China, applicants for transportation quotas are generally required to open an account at the MOR. We understand from our past experience in this regard that the MOR generally grants such approval at its discretion to enterprises with sizable railway transportation needs, taking into account the overall transportation capacity of the national railway transportation system and the contractual volumes as indicated by the applying enterprises in a particular year, and in practice usually grants such quotas to parent companies to allocate among their affiliates within the same corporate group. Upon the completion of the Proposed Acquisition, our need for railway transportation is expected to increase significantly and Yitai Group is expected to cease to use such quotas because it will transfer substantially all its coal-related businesses and assets to us. Therefore, we intend to apply to open an account at the MOR and to apply for quotas in our own name after the completion of the Proposed Acquisition. Yitai Group has undertaken in the Non-competition Agreement and the Transportation Quota License Agreement that, after the completion of the Proposed Acquisition, it will (i) license all the transportation quotas to us at nil consideration; (ii) not use the transportation quotas by itself or license any transportation quota to third parties before our request is satisfied first; and (iii) apply to the MOR to change the holder of its account to us. See "Relationship with Controlling Shareholders — Competition — Non-competition Agreement" and "Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transaction — 3. Transportation Quota License Agreement."

Our transportation network also contributes to reduction of transportation costs, helps to secure the sales of our coal products and generates revenue from providing transportation services to third parties.

The locations of our nine mines, the Target Mines and our transportation network are shown on the map below:



### Yitai Zhundong Railway Line

We operate Yitai Zhundong Railway Line through Yitai Zhundong, our wholly-owned subsidiary. Yitai Zhundong Railway Line is an electrified single track line constructed in two phases. It forms the backbone of our railway transportation network by providing a direct railway transportation route from our mines in the

Dongsheng Coalfield to Huzhun Railway Line, which further connects with the Jingbao Railway Line, and the Dazhun Railway Line, a local railway line, which further connects with the Daqin Railway Line, a major eastbound national coal transportation railway line that connects the coal production bases of northern and northwestern China with major coal loading ports and certain of our key customers in the coastal regions. Phase I of Yitai Zhundong Railway Line has an operating length of 72.6 kilometers, stretching from Hushi in the Dongsheng Coalfield eastward to Zhoujiawan Station in Zhunge'er. It began operations in 2000 and transported 29.5 million tonnes of coal in 2011.

In July 2009, we completed construction of Phase II of Yitai Zhundong Railway Line, which commenced operation in November 2011. Phase II of Yitai Zhundong Railway Line extends Yitai Zhundong Railway Line westbound from Hushi Station to Zhunge'erzhao Station. It has an operating length of 59.8 kilometers. We have been authorized to invest approximately RMB2,263 million to construct a second track between Zhoujiawan Station and Hushi Station along the existing track of Phase I of Yitai Zhundong Railway Line, with an operating length of 59.4 kilometers, to achieve dual-track operation, meet requirements for the operation of 10,000-tonne rail train units throughout, and increase its carrying capacity. Construction of this second track commenced in August 2009 and is under final testing, which is expected to be launched by the end of 2012. We expect the carrying capacity of Yitai Zhundong Railway Line to reach 64.0 Mtpa, 83.0 Mtpa and 150.0 Mtpa in 2012, 2015 and 2020, respectively.

#### Huzhun Railway Line

We operate Huzhun Railway Line through Yitai Huzhun, our 76.46% subsidiary. Huzhun Railway Line has an operating length of 124.2 kilometers, stretching from Zhoujiawan Station in Zhunge'er northbound to Huhhot, where it connects the Jingbao Railway Line, another important eastbound national coal transportation railway line and an alternative route to the Daqin Railway Line for delivery of coal to the coastal regions. Huzhun Railway Line began operations in 2006 and transported 23.4 million tonnes of coal in 2011. We are constructing a second track of the Huzhun Railway Line, which will run from Xuejiawan to Togtoh with a total expected length of 55.5km. We expect the total investment amount to be RMB1,840.0 million. The overall carrying capacity is expected to increase significantly upon the completion of such construction. We expect the carrying capacity of Huzhun Railway Line to reach 39.0 Mtpa, 88.0 Mtpa and 128.0 Mtpa in 2012, 2015 and 2020, respectively.

#### Suancigou Railway Line

Suancigou Railway Line has an operating length of 26.8 kilometers, stretching from the Suancigou Mine northbound to Zhoujiawan Station on Yitai Zhundong Railway Line. Most of the coal produced at Suancigou Mine is shipped out through Suancigou Railway Line. Suancigou Railway Line began operations in 2008 and has a designed carrying capacity of 20.0 Mtpa.

#### Caoyang Tollway

Caoyang Tollway is 122.0 kilometers long and, together with Yitai Zhundong Railway Line, connects our mines to our coal loading stations and major third parties railway lines. Part of the coal produced at our operational mines (except for Suancigou Mine) is transported by truck through Caoyang Tollway and local roads to our Xiyangzi/Hushi coal loading station and Zhunge'erzhao coal loading station.

#### Minority Shareholdings in Railway Companies

To strengthen our ability to secure critical rail transportation capacity, we have also invested in several railway companies operating railway lines in Inner Mongolia, including Zhunshuo Railway Co., Ltd., New Baoshen Railway Co., Ltd., South Ordos Railway Co., Ltd. and Mengji Railway Co., Ltd. Our interests in these companies range from 9% to just below 19%. In addition, we hold a 4% equity interest in Tangshan Caofeidian Coal Port Co., Ltd., which operates the Caofeidian Port in Hebei province, a major seaport for seaborne coal transportation in northern China. We believe these investments will help us secure additional transportation capacity.

### Loading Stations

We control ten operating coal loading stations which provide rail access to coal produced by ourselves and purchased from third parties. The following is a summary of our loading stations:

| Station                               | Year Constructed | Our Ownership (%) | Throughput Capacity (mta) | Loading Railway Connection |
|---------------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Xiyingzi/Hushi* . . . . .             | 2000             | 100/100           | 15.0/18.0                 | Zhundong                   |
| Xinghe . . . . .                      | NA**             | —**               | 15.0                      | Jining — Zhangjiakou       |
| Hantaibei . . . . .                   | NA**             | —**               | 20.0                      | Baotou — Xi'an             |
| Zhunge'erzhao . . . . .               | 2008             | 100               | 30.0                      | Zhundong                   |
| Suancigou . . . . .                   | 2008             | 52                | 15.0                      | Suancigou                  |
| Tanggongta . . . . .                  | 1993             | 51                | 3.0                       | Dazhun                     |
| Shashagetai (Bao —<br>Shen) . . . . . | 1991             | 100               | 3.0                       | Baotou — Shenmu            |
| Guanniuju . . . . .                   | 2010             | 51                | 10.0                      | Huzhun                     |
| Jialanying . . . . .                  | 2010             | 100               | 3.0                       | Huzhun                     |

\* Xiyingzi and Hushi loading facilities are situated 6 km apart.

\*\* Station is leased.

Suancigou and Zhunge'erzhao stations utilize loop tracks with batch loading capabilities. Tanggongta Station has a linear track with coal loading using an in-line batch loading arrangement. The remaining loadout stations have linear track arrangements, with end-loaders used for loading.

### Supplies and Maintenance

The main supplies we purchase for our coal operations include coal, mining equipment, replacement parts, steel, cement, explosives, fuel and lubricants. We also purchase transportation services from the MOR and use third-party railway companies to transport our coal. The main supplies we purchase for our coal transportation operations are locomotives and other rolling stock, spare parts, fuel and power. For coal purchased from external suppliers, we typically settle the purchase prices three times a month, each time for the coal purchased during the previous ten days. For imported mining equipment, we are generally required to pay the full purchase price in advance. For mining equipment manufactured in China, we generally prepay a portion of the prices and pay the remaining balances in installments, for example, upon delivery of the equipment and expiration of the warranty periods. In 2009, 2010 and 2011, we had 1,044, 1,137 and 1,206 suppliers, respectively, with which we have had business relationships ranging from one month to as long as 12 years. We generally do not enter into long-term supply agreements with our suppliers and are not dependent on any single supplier. We have not experienced any shortage of supplies during the Track Record Period. During the Track Record Period, our largest suppliers included the MOR and other third-party railway companies, third-party equipment leasing companies, mining service providers and a state-owned petroleum company. For 2009, 2010 and 2011, our purchases of supplies from our five largest suppliers amounted to RMB2,239.5 million, RMB2,265.4 million and RMB2,670.0 million, respectively, representing 64.9%, 67.1% and 54.2% of our total purchases for the relevant period. During the same periods, our purchases of supplies from our single largest supplier amounted to RMB1,517.6 million, RMB1,623.1 million and RMB1,380.1 million, respectively, representing 44.0%, 48.0% and 28.0% of our total purchases for the relevant period. As of the Latest Practicable Date, none of our Directors, their associates or the controlling shareholders is related to or owns any interest in any of our five largest suppliers. We usually make payments to our suppliers in installments and settle trade payables by check or account transfer or remittance.

We use electricity in our operations. The price of electricity is under government control. We have not experienced any material disruption in electricity supply in recent years. The water we use is obtained from surface and subsurface supplies. We also reuse water discharged during our mining operations, and we filter and reuse waste water in our coal production activities. We have not experienced any significant interruptions in either power or water supply in recent years.

We emphasise scheduled and preventative maintenance throughout our coal operations in order to ensure a high level of efficiency and to minimise interruptions caused by necessary maintenance and repair.



## BUSINESS

We also have a supplies department and an equipment administration department which coordinate the purchase, usage and maintenance of mining equipment. Each of our mines has dedicated maintenance personnel responsible for periodic inspections, maintenance and repair. We have daily and regular maintenance schedules in our mines to monitor mining conditions. We have jointly established an equipment repair company, in which we hold minority equity interests, with a large-scale domestic mining equipment production company. This ensures timely and cost-efficient repair and maintenance for our large mining equipment.

### TRANSPORTATION OPERATIONS

In addition to shipping our own coal, we provide railway and highway coal transportation services to third parties for a fee. The following table sets forth certain details regarding our transportation revenue.

| Transportation Revenue | Year ended December 31, |                    |                |               |                    |                |               |                    |                |
|------------------------|-------------------------|--------------------|----------------|---------------|--------------------|----------------|---------------|--------------------|----------------|
|                        | 2009                    |                    |                | 2010          |                    |                | 2011          |                    |                |
|                        | Inter-segment           | External customers | Sub total      | Inter-segment | External customers | Sub total      | Inter-segment | External customers | Sub total      |
|                        | (RMB million)           |                    |                |               |                    |                |               |                    |                |
| Railway                | 452.9                   | 253.0              | 705.9          | 526.6         | 372.5              | 899.1          | 521.9         | 594.8              | 1,116.7        |
| Highway                | 173.0                   | 281.5              | 454.5          | 58.9          | 62.8               | 121.7          | 14.7          | 9.6                | 24.3           |
| <b>Total</b>           | <b>625.9</b>            | <b>534.5</b>       | <b>1,160.4</b> | <b>585.5</b>  | <b>435.3</b>       | <b>1,020.8</b> | <b>536.6</b>  | <b>604.4</b>       | <b>1,141.0</b> |

For 2009, 2010 and 2011, transportation services provided to our company accounted for approximately 69.1%, 61.9% and 48.5%, respectively, of our railway freight volume, with the remainder consisting of transportation services provided to third parties. The table below sets forth the freight volumes provided by Zhundong and Huzhun railway lines to us, and such volumes as a percentage of the total freight volumes of Zhundong and Huzhun railway lines, respectively, for the periods indicated.

|                         | Year ended December 31,                |                           |                                        |                           |                                        |                           |
|-------------------------|----------------------------------------|---------------------------|----------------------------------------|---------------------------|----------------------------------------|---------------------------|
|                         | 2009                                   |                           | 2010                                   |                           | 2011                                   |                           |
|                         | Freight volume for us (million tonnes) | % of total freight volume | Freight volume for us (million tonnes) | % of total freight volume | Freight volume for us (million tonnes) | % of total freight volume |
| Zhundong <sup>(1)</sup> | 16.7                                   | 51.8                      | 16.8                                   | 48.3                      | 20.8                                   | 57.8                      |
| Huzhun <sup>(2)</sup>   | 7.7                                    | 62.8                      | 11.0                                   | 52.0                      | 8.1                                    | 34.4                      |

(1) We hold 100% equity interest in Yitai Zhundong.

(2) We hold 76.46% equity interest in Yitai Huzhun, Inner Mongolia Mengtai Buliangou Coal Co., Ltd (內蒙古蒙泰不連溝煤炭有限公司) and Huhhot Railway Bureau (呼和浩特鐵路局), Independent Third Parties, hold 21.56% and 1.98% respectively.

We impose railway freight charges on our third-party customers, which may not exceed the applicable maximum rate per tonne per kilometre approved by the IMDRC. The maximum rates reflect the costs and expenses of each railway line and a reasonable return on investment. See “Regulation — Coal Production — Railway Transport — Freight charge.” The freight charge rates for both Yitai Zhundong Railway Line and Huzhun Railway Line were RMB0.15 per tonne per kilometer during the Track Record Period and as of the Latest Practicable Date. We require our customers to pay the full freight charge in advance. Revenue from external customers of our transportation operations was RMB534.5 million, RMB435.3 million and RMB604.4 million for 2009, 2010 and 2011, respectively, representing 5.2%, 3.2% and 3.7% of our total revenue in the same periods, respectively.

We set our freight rates for trucking services primarily based on prevailing market prices and our costs. We receive payments after delivering the coal. As of December 31, 2009, we owned 421 vehicles. To reduce costs, we began disposing of these vehicles and outsourcing transportation services to third-party transportation companies. As of December 31, 2011, we did not own any vehicles.



## COAL-RELATED CHEMICAL OPERATIONS

### Yitai Coal-to-oil

Yitai Group obtained an approval from the IMDRC in 2005 for developing a coal-to-oil project. We carry out this project through our 80%-owned subsidiary, Yitai Coal-to-oil, in which Yitai Group holds the remaining 20% equity interest. We commenced the construction of the demonstration phase of the project with a designed annual output of 160,000 tonnes of synthetic fuels in May 2006, which successfully produced the first barrel of qualified oil product in China using the indirect coal-to-oil method on March 27, 2009. After three trial runs, the technologies have matured. All product characteristics indicators and consumption indicators have reached or surpassed designed values. As a result, we became the first enterprise to successfully use indirect coal-to-oil technologies on an industrial scale in China. In July 2010, China International Engineering Consulting Corporation organized a group of science and technology experts to conduct an on-site survey at Yitai Coal-to-oil, and reached the conclusion that the demonstration phase of the project has advanced and reliable technologies and good economic efficiency. In May 2011, we carried out the first shut-down technological transformation as previously planned, and solved a number of bottleneck issues that had been limiting the increase in production capacity. Currently, the project is in normal operation with estimated annual production capacity of 180,000 tonnes to 200,000 tonnes. This project commenced its operations in July 2011, and it is in full-load operation at its designed annual capacity.

We use the indirect conversion of coal to liquids process, where coal is first gasified to make syngas (a purified mixture of carbon monoxide and hydrogen gas). Next, catalysts are used to convert the syngas into light hydrocarbons (like ethane) which are further processed into diesel. We use technologies developed by the Institute of Coal Chemistry under the Chinese Academy of Sciences and owned by Synfuels China, a Chinese company established in 2006 based on the Institute of Coal Chemistry in which Yitai Group holds a 40.4% equity interest and is the largest Shareholder, while other shareholders include the Institute of Coal Chemistry and a group of coal enterprises. We entered into an agreement with Synfuels China in 2007 and agreed to purchase the relevant catalyst from Synfuels China. During the Track Record Period, we bought 35.2 tonnes, 99.4 tonnes and 174.4 tonnes, respectively, of catalyst from Synfuels China in 2009, 2010 and 2011 at considerations of RMB3.5 million, RMB9.9 million and RMB18.3 million, respectively. The core technologies include the high temperature slurry bed Fischer-Tropsch synthesis catalyst technology and slurry bed synthesis reactor and process technology set. The research for such technologies was enlisted by the PRC government as a high-tech / new technology project, and our coal-to-oil project became the first indirect coal-to-oil project exclusively based on Chinese-developed and -owned technologies.

### Yitai Chemical

Yitai Chemical is a wholly-owned subsidiary of our Company incorporated in October 2009. We intend to carry out coal-related chemical operations such as the production and sale of synthetic lubricating oil, synthetic wax and solvent naphtha through Yitai Chemical, either by itself or through a joint venture. We are in the process of applying for the allocation of coal resources, as well as relevant government approvals. We intend to further extend our coal-related business through this project.

### Yitai Xinjiang

Yitai Xinjiang is a 90%-owned subsidiary of our Company incorporated in February 2012. It is primarily engaged in the production and sale of coal-related chemicals and coal technology consultation services. We intend to carry out a coal-related chemical project and further extend our coal-related business through this project.

For risks associated with our coal-related chemical operations, see “Risk Factors — Risks Relating to Our Businesses — We cannot guarantee that we will be able to obtain the relevant government approvals in time for, or will be successful when developing coal-related chemical operations.”

## Future Plans

By leveraging our successful launch of the coal-to-oil project, we plan to expand into the second phase of our coal-related chemical operations in the next five years, which includes:

- Yitai Yili's coal-to-oil project. Yitai Yili obtained the enterprise investment project registration and filing certificate from the XJDRC in November 2010. The main products will include diesel oil, naphtha and liquefied petroleum gas. We have completed the detailed geological research report of Aermale in Chabuchar County and the preliminary report of Nilekewulasitai in Chabuchar County. The in-place resource is estimated to be 2.6 billion tonnes under the relevant PRC coal industry standards, which are different from the JORC Code. It is still at a preliminary stage focusing on research and design. We expect to establish a 1.0 Mtpa coal-to-oil project in the next five years with an estimated capital expenditure of about RMB15.0 billion and expand the capacity up to 5.4 Mtpa eventually. However, since the overall project design is still subject to relevant governmental approvals, such as approvals from the NDRC and its local arms, detailed information regarding the project, such as the total expected capital expenditures for the whole project plan and amount committed, is not available as of the Latest Practicable Date.
- Yitai Xinjiang's coal-related chemical project. Yitai Xinjiang obtained the confirmation letter for a coal-related chemical project from the Urumqi Development and Reform Commission in February 2012. The main products will include diesel oil, naphtha and liquefied petroleum gas. Yitai Xinjiang's project is at a preliminary stage focusing on research and design. We expect to establish a 1.8 Mtpa coal-related chemical project in the next five years with an estimated capital expenditure of about RMB27.0 billion and expand the capacity up to 5.4 Mtpa eventually. However, since the overall project design is still subject to relevant governmental approvals, such as approvals from the NDRC and its local arms, detailed information regarding the project, such as the total expected capital expenditures for the whole project plan and amount committed, is not available as of the Latest Practicable Date.
- Yitai Chemicals' coal-related chemical project. Yitai Chemicals obtained the confirmation from the IMDRC in January 2011 for the preliminary work of a 1.2 Mtpa refined chemical project with an estimated capital expenditure of about RMB18.0 billion. The main products will include synthetic lubricating oil, synthetic wax and solvent naphtha. The Ordos Government agreed in October 2009 to reserve 6.0 billion tonnes of coal resources under the relevant PRC coal industry standards, which are different from the JORC Code, to this project. This project is still subject to relevant governmental approvals, such as approvals from the NDRC and its local arms.

On the whole, all of the three projects which constitute the second phase of our coal-related chemical operations are at preliminary stages and have not obtained approvals from the NDRC. As we had not obtained the necessary governmental approvals, we had not incurred material capital expenditures for our coal-related chemical projects as of the Latest Practicable Date. Once we have obtained the approvals from the NDRC, 30% of the estimated capital expenditures of about RMB60.0 billion (including RMB15.0 billion for Yitai Yili's coal-to-oil project, RMB27.0 billion for Yitai Xinjiang's coal-related chemical project and RMB18.0 billion for Yitai Chemicals' coal related chemical project) for these projects will be funded by cash generated from our operations and the rest by borrowings.

We believe that we enjoy the first-mover advantage in the coal-related chemical industry in China. Our coal-related chemical operations enable us to improve our vertical integrated operations by providing high-value added downstream coal products to the market. Furthermore, under the guidance of the *Twelfth Five-year plan on the Development of Coal Industry* relating to orderly development of advanced and demonstrative projects of modern coal-related chemical operations and by leveraging the favorable governmental policies of Inner Mongolia and Xinjiang towards the coal-related chemical industry and the advantage of the development of western China, we expect to obtain new coal resources, achieve economies of scale by expanding our coal-related chemical business, and further reduce operating costs.

## OTHER OPERATIONS

Our other operations include mainly the development, production and sale of traditional Chinese medicine through our wholly-owned subsidiary, Yitai Pharmaceutical. We incorporated Yitai Pharmaceutical

in 1998 to engage in Chinese medicine operations. Yitai Pharmaceutical has obtained the medicine production license and the medicine Good Manufacture Practice certificate in the PRC. As of December 31, 2011, Yitai Pharmaceutical had 359 employees, a granules production line with an annual production capacity of 30 million bags and a dripping pill production line with an annual production capacity of 600 million dripping pills, and mainly produced eight types of Chinese medicine granules and the Musk Tongxin Dripping Pill. Aggregate revenue from these operations amounted to RMB41.7 million, RMB58.4 million and RMB36.3 million for 2009, 2010 and 2011, respectively, representing 0.4%, 0.4% and 0.2% of our total revenue over the same periods, respectively.

## QUALITY CONTROL

To ensure the high quality of our coal products, we have compiled a detailed quality control manual and implemented a comprehensive quality control system in accordance with applicable PRC national and industrial standards and ISO 9001. We also have a quality control department staffed with over 100 quality control personnel to implement our quality control system, which include one senior engineer, four engineers, four assistant engineers and technicians. Among these personnel, 23 are responsible for quality management and ISO9001 quality management system, and 79 are responsible for the inspection and testing of the quality of our coal products. Our centralized testing lab has been certified by Inner Mongolia Technologies Supervision Bureau, and all of the 79 personnel hold inspector certificates issued by Ordos Technologies Supervision Bureau. Substantially all of our quality control department personnel have at least seven years of experience working on coal quality control. Our quality control department performs on-site inspections and monitors internal production procedures and coal quality throughout the production, storage and transportation process. In recognition of the high quality of our coal products, the PRC General Administration of Quality Supervision, Inspection and Quarantine awarded our “Yitai processed coal” the National Inspection Exemption status in 2006.

We are subject to, among other PRC laws and regulations, the Product Quality Law of the PRC (中華人民共和國產品質量法), the Regulations on Quality Responsibility for Industrial Products (工業產品質量責任條例) and the Several Provisions of the Ministry of Coal Industry on Clarifying Quality Responsibility for Coal Products and Improving the Control of Quality of Coal Products (煤炭工業部關於明確煤炭產品質量責任和嚴格煤質管理的若干規定). Since establishment, we have not been penalized for any material violation of laws or regulations regarding product quality. We have also been in compliance with all relevant regulations.

## COMPETITION

A number of factors affect the markets in which we sell our coal products. Coal prices depend primarily on the coal consumption patterns of the electric power and metallurgical industries in China, the availability, location and cost of transportation and price of coal and competing energy resources. Coal consumption patterns are affected primarily by the demand for electricity, environmental and other governmental regulations and technological developments.

We principally compete in China’s domestic coal market, which is characterized by competition among a very large number of coal suppliers with no individually dominant nationwide supplier. The five and ten largest local coal producers in China accounted for only 25.1% and 35.8%, respectively, of the country’s total coal production in 2010. The domestic coal market is segmented principally by location, given the significant costs associated with coal transport, and also by coal characteristics, such as calorific value, sulphur content, ash content, moisture content and volatile matter content. We compete on the basis of reliable and timely delivery, customer service, coal quality and price.

Our principal domestic competitors are a number of large coal producers located in the major coal producing provinces and regions, including Shanxi and Shaanxi Provinces and Inner Mongolia. Certain of these competitors have substantial reserves and benefit from good mining conditions, which allow for coal mining at relatively low operating costs. In addition, we compete to a certain degree with smaller coal producers located in proximity to our customers. See “Industry Overview — Overview of PRC Coal Industry — A Market-driven Pricing Mechanism and Competition” and “Risk Factors — Risks Relating to China’s Coal Industry — Competition in the PRC coal industry may increase and we may not be able to compete effectively.”

## ENVIRONMENTAL MATTERS

We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and endeavor to mitigate the adverse impact of our operations on the environment. Our operations are currently subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. We have not had any material breaches of any environmental laws or regulations applicable to us. Our environmental protection systems and facilities comply with applicable PRC national and local environmental protection laws and regulations. We have not been subject to any penalties for breach of environmental laws or regulations. Ordos City Environment Protection Bureau and the Inner Mongolia Autonomous Region Environmental Protection Bureau also issued a confirmation on February 28, 2012 and March 23, 2012, respectively, confirming that we and our subsidiaries, since our respective incorporation, have complied with national and local laws and regulations in relation to environmental protection, have not caused environmental contamination accidents, and have no environmental protection issues that should subject us to penalties. We have not been presented with any specific demand or requirements by our customers in complying with relevant environmental protection rules in the areas in which they operate.

We have adopted a number of environmentally responsible practices in our operations to minimize the damage of our operations to the environment. Our environmental protection department develops our environmental protection plans and policies, supervises the execution of these environmental protection plans and policies by our production departments and monitors the operation of our environmental protection facilities. Our environmental department has 15 personnel, including a senior economist, an engineer, an assistant engineer and a qualified water environment supervising engineer, among which 14 personnel are qualified ISO14001 environmental management system internal inspectors. In addition to regular inspections by the relevant government authorities, we undertake routine and periodic inspections of all of our coal mines with respect to environmental protection.

The primary pollutant generated in our operations is waste water at our mines and coal dust. We generally reuse and recycle the waste water generated in our coal production process. To reduce coal dust, we use exclusively coal storage bunkers to store coal at all of our mines except for the Fuhua Mine and the Yangwangou Mine, which have relatively small marketable reserves and short remaining economic lives compared with our other mines. We store coal at the Fuhua Mine and Yangwangou Mine at stock yards and have installed windbreak nets and water spraying systems to spray recycled and treated waste water at these stock yards to reduce dust. We also use windbreak nets and water spraying systems at our coal loading stations. We will continue to explore opportunities to further increase optimization and efficiency.

We have implemented both recommendations made by BOYD in the Competent Person's Report, which include the enhancement of water spray and dust suppression at Fuhua Mine and the re-vegetation of the industrial site at Dingjiaqu Mine.

Our environmental protection expenditures have been primarily associated with installation of environmental protection facilities to comply with environmental protection laws and regulations and to upgrade our environmental protection systems. Such expenditures amounted to an aggregate of RMB607 million during the Track Record Period. Our environmental protection expenditures are expected to be approximately RMB260 million in 2012.

## OCCUPATIONAL HEALTH AND SAFETY

The PRC government places significant regulatory requirements on coal mines with respect to employee safety. We regard occupational health and safety as one of our most important responsibilities and have implemented a number of measures to ensure compliance with the stringent regulatory requirements to which we are subject. We and certain of our subsidiaries have obtained the occupational health and safety management system certification issued by the China Academy of Safety Science And Technology. We have a safe production committee that is headed by the president of our board of directors. Under the safe production committee, we have seven field inspection units that conduct periodic inspections of our mines to ensure that our entire coal mining operations are in compliance with existing laws and regulations. Staff of these field inspection units report directly to the safe production committee and have broad authority with respect to occupational health and safety matters, including the authority to take corrective measures, impose fines and other disciplinary actions for violations and suspend noncompliant operations, and propose that any

general manager responsible for violations be removed. The field inspection units provide daily reports to the safe production committee regarding occupational health and safety issues and provide follow-up reports the next day on remedial measures and results.

As we believe that safe practices are the best way to ensure employee safety, we organize and conduct regular training sessions for employees on accident prevention and management. We also regularly engage research and professional training institutions to provide specialized training for our senior management, engineers and key employees responsible for workplace safety. To ensure mine safety, we have installed advanced safety monitoring systems at our mines to monitor methane gas concentration levels, fire and other hazards and communication systems to ensure effective means of communication in case of accidents. In addition, we have also established an accident recording system. Once an accident happens, the relevant information, including the nature and the cause of the accident, the responsible party and remedial measures, is recorded in the accident recording system according to the results of our investigation. We have passed all periodic and other safety inspections by the relevant authorities, and none of our mines has been shut down by the government, during the Track Record Period. In addition, according to the letter dated March 16, 2012 issued by Inner Mongolia Coal Mine Safety Supervisory Bureau from the respective commencement of operation of the Twelve Mines to the date of the letter, the Twelve Mines have carried out construction, production and operation in accordance with the relevant laws, regulations and policies of the State and Inner Mongolia, there had been no recorded safety accidents, or incidents of various types including project construction, production and operation activities, and safety management that would give rise to penalties by the coal industry regulatory authorities. To the date of the letter, there had been no incidents that had led to, or might lead to, the closure or suspension of, or penalties regarding, the Twelve Mines.

Our coal mines did not have any fatalities during the Track Record Period. By comparison, the average fatalities per million tonnes of coal production for coal mines in China were 0.89, 0.75 and 0.56 for 2009, 2010 and 2011, respectively, according to the NBSC. However, our coal mining operations involve significant risks and hazards that are inherent in such activities and may not be completely eliminated by the safety measures that we have in place. These risks and hazards could result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible legal liability. Although we did not experience any accident that would materially and adversely affect our operations during the Track Record Period, we had minor accidents during the Track Record Period. For example, on April 8, 2009, a semi oil storage tank of our coal-related chemical operations caught fire, which caused damage amounting to approximately RMB4.8 million, although there was no personal injury or damage to production equipment. We cannot provide any guarantee that this kind of minor accident will not happen in the future, which may disrupt our operations and divert our management's attention. Other minor accidents were insignificant. See "Risk Factors — Risks Relating to Our Businesses — Our operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance" and "Risk Factors — Risks Relating to Our Businesses — Safety accidents may occur at our mines or neighboring coal mines."

## **INTELLECTUAL PROPERTY**

We have entered into a trademark license agreement with Yitai Group, pursuant to which Yitai Group has agreed to grant to us the right to use certain trademarks at a nominal consideration of RMB1.0 per year until the relevant trademark registration expires.

As of the Latest Practicable Date, we held 15 patents and two patent application rights. All these patents and patent application rights are owned by Yitai Pharmaceutical in relation to our pharmaceutical business.

## **PROPERTIES**

### **Owned or Occupied Properties**

As of March 31, 2012, we owned or occupied (i) 62 parcels of land with a total site area of approximately 23.8 million square meters, of which we have obtained land use right certificates for 57 parcels of land; and (ii) 607 buildings and units with a total gross floor area of approximately 434.8 thousand square meters, of which we have obtained building ownership certificates for approximately 349.3 thousand square meters. All of such land, buildings and units are located in the PRC.



A summary of material properties prepared by CBRE HK, an independent property valuer, is set out in “Appendix X — Statutory and General Information — Material Properties” included in this Prospectus.

### *Land*

The land we owned or occupied may be categorized as follows:

- (i) 46 parcels of granted land with a total site area of 7,594,495 square meters for which we have obtained granted land use right certificates;
- (ii) 11 parcels of allocated land with a total site area of 5,030,652 square meters for which we have obtained allocated land use right certificates; and
- (iii) Five parcels of land with a total site area of 11,139,024 square meters for which we have not obtained land use right certificates.

### *Buildings*

The buildings and units we owned or occupied may be categorized as follows:

- (i) 440 buildings and units with a total gross floor area of 349,309 square meters for which we have obtained building ownership certificates and the related land use right certificates;
- (ii) 167 buildings and units with a total gross floor area of 85,477 square meters for which we have not obtained the building ownership certificates.

We are applying for the relevant allocated or granted land use right certificates in respect of the five parcels of land for which we have not obtained land use right certificates. Of such land, we have obtained approvals from the relevant government authorities regarding the grant of land use rights with respect to one parcel of land with a site area of 89,334 square meters, representing 0.4% of the total site area of the land we operate our business through. We are in the process of entering into a land use rights grant agreement with the relevant government authorities. This parcel of land is the site of our solar power demonstration project. Five buildings and units with a total floor area of 871 square meters for which we have not obtained building ownership certificates are located on this parcel of land. All of these buildings and units are used as ancillary facilities. We intend to apply for ownership certificates for these buildings and units after we obtain the land use rights with respect to the underlying land.

Of the remaining four parcels of land for which we are applying for land use right certificates, two parcels with a total site area of 9,788,007 square meters are used by our Huzhun Railway Line and Yitai Zhundong Railway Line, together representing 41.2% of the total site area of the land we operate our business through. 97 buildings and units with a total floor area of 29,218 square meters for which we have not obtained building ownership certificates are located on these two parcels of land. Of these 97 buildings and units, 72 are used as ancillary facilities with a total floor area of 9,207 square meters and 25 are used as offices with a total floor area of 20,011 square meters. According to a reply issued by the MLR on January 17, 2011, the State Council had approved the parcel of land used by Yitai Zhundong Railway Line with a site area of 4,873,743 square meters to be converted into land for construction, while according to a reply issued by the MLR on December 27, 2011, the State Council had approved the parcel of land used by Huzhun Railway Line with a site area of 4,914,264 square meters to be converted into land for construction, and Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised us that there are no material legal impediments to our obtaining the relevant land use right certificate.

The remaining two parcels of land for which we are applying for land use right certificates with a total site area of 1,261,683 square meters, representing 5.3% of the total site area of the land we operate our business through, are used by Kaida Mine, our Zhunge'erzhao CCP and our gas station at Zhunge'erzhao for production and ancillary purposes. 23 buildings and units with a total floor area of 15,381 square meters for which we have not obtained building ownership certificates are located on these two parcels of land. Of these 23 buildings and units, five are used for production with a total floor area of 507 square meters, three are used as offices with a total floor area of 3,081 square meters, three are used as staff quarters with a total floor area of 7,840 square meters and 12 are used as ancillary facilities with a total floor area of 3,953 square



meters. We are currently applying to the relevant government authorities for land use rights certificates for these two parcels of land. We have received a letter from the IDLR dated March 19, 2012, confirming that (i) we will not be penalized again for using such construction land without approval or be ordered to return such land or restore such land to its original status, and buildings and other facilities on such land will not be subject to confiscation or compulsory removal; (ii) as of the date of this letter, the IDLR had not received any third-party claim challenging our right to use such land, it will not accept any application filed by any third-party other than us with respect to such land.

Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that there are no material legal impediments for us to obtain the relevant title certificates of the three parcels of land used by solar power demonstration project, Huzhun Railway Line and Yitai Zhundong Railway Line abovementioned and as to the remaining two parcels of land as mentioned above representing 5.3% of the total site area of land on which we operate our business, the competent governmental authority has confirmed that we would not be penalized in any way for using such land. Therefore, the risk of us being requested to relocate is remote. We are expected to obtain valid titles for the above five parcels of land by the end of 2012. According to our Directors' best estimate, if we are unable to obtain the title certificates of the remaining two parcels of land and are requested to relocate, the total relocation cost would be approximately RMB107.0 million.

The Directors are of the view that the five parcels of land and 167 buildings and units for which we do not have title certificates, or the defective properties, are not crucial to our business and operations for the following reason. We have entered into a land grant agreement or obtained approvals from the relevant government authorities regarding the grant of land use rights or confirmation from Ordos Bureau of Land and Resources regarding our legal use of the land for all the above five parcels of land. Moreover, the buildings with respect to which we have not obtained building ownership certificates or confirmation from Ordos Bureau of Land and Resources regarding our legal use of the buildings represent approximately 9.2% of the total gross floor area of the buildings we operate our business through.

### **Leased Properties**

In addition, we leased two units with a total gross floor area of approximately 1,901 square meters in PRC for office and staff quarters. The lessors of the leased units have obtained the building ownership certificate or the written consent of the owner of the unit. Jingtian & Gongcheng Attorneys at Law are of the view that the lease contracts are legal, binding and enforceable.

Pursuant to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, which exempted the prospectus from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all the Group's interests in land or buildings, a summary of our material properties is disclosed in "Appendix X — Statutory and General Information — Material Properties." Save as disclosed in "Appendix X — Statutory and General Information — Material Properties" in this Prospectus, our Directors confirm that none of our property interests is individually material to us in terms of income contribution or rental expense. The carrying amount of the single most valuable property interest owned by our Company is less than 15% of our total assets and no property interest owned by our Company is held by us for property activities.

### **INSURANCE**

We carry property insurance for our coal-to-oil operations and transportation operations, as well as occupational injury, medical pension and unemployment insurance for our employees, in compliance with applicable regulations. In accordance with what we believe is customary practice for other companies that conduct the same business that we do, we do not currently maintain fire, liability or other property insurance covering our property, equipment or inventory relating to our coal operations.

Based on the assessment of the risk exposure of our operations, the Directors are of the view that our insurance coverage is adequate. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice in line with our needs and with industry practice with respect to insurance in China. See "Risk Factors — Risks Relating to Our Businesses — Our operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance."

## REGULATORY COMPLIANCE

Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, are of the view that we have been in compliance with applicable laws and regulations in all material aspects by considering the relevance of various matters to our principal business activities and whether there has been, or is likely to be, any material adverse impact on our business, results of operations and financial position. Furthermore, Jingtian & Gongcheng Attorneys at Law are of the opinion that we have obtained all necessary licenses, approvals and permits that are material for our business operations in the PRC.

## LEGAL PROCEEDINGS

We are not currently involved in and have not been recently involved in any material legal or arbitration proceedings. We are not aware of any legal claims or proceedings that may have a material influence on our rights to explore or mine.

In addition, Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have confirmed that, to the best of their knowledge after due inquiry, we have not been subject to any material fines or penalties, or ordered to suspend any of our operations during the Track Record Period.

## THE PROPOSED ACQUISITION AND THE TARGET BUSINESS GROUP

### The Proposed Acquisition

To expand the scale of our coal business in terms of reserves and output and reduce potential competition between Yitai Group and us, we entered into an Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we will acquire from Yitai Group the Target Business Group after the completion of the Global Offering at a consideration of RMB8,446.5 million, which is arrived at after arm's length negotiation and which is equal to the aggregate fair value of the Target Business Group as of December 31, 2009 as stated in a valuation report prepared by CEA. We expect to apply the net proceeds from the Global Offering to the consideration payable to Yitai Group for the Proposed Acquisition.

The Target Business Group includes substantially all of the assets and businesses of Yitai Group related to coal production, sales and transportation. The completion of the Proposed Acquisition is subject to the listing of our H Shares on the Hong Kong Stock Exchange, and the approval by the IDLR of the transfer of the relevant mining rights. Under the Assets Transfer Agreement, the Closing Date will be the last day of the calendar month immediately following the date when the necessary approval, i.e. the approval of the IDLR, is obtained. Within five months after the Closing Date or other time frame required by applicable laws, Yitai Group shall assist us in completing registration or recording procedures for the transfer of legal ownership of the assets and equity interests in the Target Business Group in accordance with PRC laws and regulations (e.g. transfer of mining rights, land use right and ownership of buildings) before the Proposed Acquisition can be completed and our Company can obtain the legal ownership of the Target Business Group. Therefore, assuming that the necessary approval was to be received within two months from the Listing Date, our Directors believe that the Proposed Acquisition could be completed within eight months from the Listing Date.

For more details on the Proposed Acquisition, the valuation report by CEA and the terms of the Assets Transfer Agreement, please see "Relationship with Controlling Shareholders — Competition — Proposed Acquisition."

### The Target Business Group

The Target Business Group includes the following businesses that are currently owned by Yitai Group:

- the 73% equity interest in Yitai Baoshan, which operates Baoshan Mine and the 73% equity interest in Yitai Tongda, which operates Dingjiaqu Mine;
- each of Chengyi Mine, Dadijing Mine and Baijialiang Mine, including but not limited to the current assets, fixed assets, intangible assets and other assets; and
- other coal-related assets, including but not limited to the current assets, fixed assets, intangible assets and other assets of Dongxing Collection and Transportation Center, Xiyingsi coal loading

station, Baoshen line coal loading station, Jingtang Port transfer and transportation center, Baotou sales branch, Baotou payment center, Beijing payment center, Tanggongta payment center, Qinhuangdao office, Datong office, Tianjin office, Caofeidian office, storage and transportation assets and other assets related to coal trading, storage and transportation.

There will be transfers of management and employees of the Target Business Group to us pursuant to the Assets Transfer Agreement. For 2009, 2010 and 2011, the aggregate sales volume of coal produced at the Target Mines was 10.5 million tonnes, 10.5 million tonnes and 14.1 million tonnes, respectively, and the aggregate sales volume of coal purchased from third-party coal companies by the Target Business Group was 3.1 million tonnes, 12.0 million tonnes and 13.2 million tonnes, respectively. In addition to selling coal produced at its mines, the Target Business Group also includes coal trading business of Yitai Group by purchasing coal from third-party coal companies and reselling it through these coal loading stations and its sales network. After acquiring the Target Business Group, we intend to continue such coal trading business.

As of December 31, 2009, 2010 and 2011, the Target Business Group had net assets of RMB1,787.0 million, RMB2,263.5 million and RMB2,581.1 million, respectively. For 2009, 2010 and 2011, the Target Business Group had revenue of RMB5,274.6 million, RMB9,268.3 million and RMB10,848.9 million, respectively, and profit of RMB1,020.5 million, RMB1,965.4 million and RMB2,295.6 million, respectively. Audited financial statements of the Target Business Group for 2009, 2010 and 2011 are attached to this Prospectus as Appendix IB.

## BUSINESS OF TARGET BUSINESS GROUP

The Target Business Group is primarily engaged in coal production and sales, which is substantially similar to our coal operations. It generates revenue primarily from sales of coal produced at the Target Mines and resales of coal purchased from third-party coal companies. The following table sets forth information on the volume of coal sold by the Target Business Group during the periods indicated:

|                                         | Year ended December 31, |              |                |              |                |              |
|-----------------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|
|                                         | 2009                    |              | 2010           |              | 2011           |              |
|                                         | Million tonnes          | %            | Million tonnes | %            | Million tonnes | %            |
| Self-produced coal .....                | 10.5                    | 77.2         | 10.5           | 46.7         | 14.1           | 51.6         |
| Coal purchased from third parties ..... | 3.1                     | 22.8         | 12.0           | 53.3         | 13.2           | 48.4         |
| <b>Total</b> .....                      | <b>13.6</b>             | <b>100.0</b> | <b>22.5</b>    | <b>100.0</b> | <b>27.3</b>    | <b>100.0</b> |

The coal products sold at coal mines at mine gate prices represented 7.5%, 31.7% and 35.8%, respectively, of coal sold by the Target Business Group in 2009, 2010 and 2011. The remaining portion of coal is transported through public highway to nearby coal loading stations mainly by our transportation subsidiaries. From the loading stations, some coal products are sold and other coal products are loaded onto railway trains to be transported to customers based on the needs of customers. The Target Business Group does not have, and is not planning to build, its own highway, railway or automobile transportation capacity, except for local roads connecting the Target Mines to the nearby highways and loading stations. The customers of the Target Business Group are mainly large-scale industrial customers, particularly power producers. Certain sales of the Target Business Group are made by signing annual coal sales and purchase agreements under long-term agreements entered into between Yitai Group and major customers, and the rights and obligations of Yitai Group under these annual coal sales and purchase agreements and the long-term agreements will be transferred to our Company upon the Listing Date. Similar to us, the main supplies the Target Business Group purchases for its coal operations include coal, mining equipment, replacement parts, steel, cement, explosives, fuel and lubricants. It also purchases transportation services from third-party railway companies and trucking companies and us to transport its coal, and purchases coal-washing services from us to process its coal.

## The Target Mines

The Target Mines are located in the Dongsheng Coalfield and had aggregate marketable reserves of 87.9 million tonnes as of December 31, 2011, representing approximately 7.1% of our total marketable reserves on

the assumption that the Proposed Acquisition had been completed on January 1, 2011. Please see “— Overview — The Proposed Acquisition and the Target Business Group” for a table setting forth certain detailed information for each of the Target Mines.

The Target Mines produce high quality thermal coal with attractive commercial characteristics, including medium to high calorific value, high volatile matter content, low sulphur content, medium to low ash content and low phosphorous content. The following table sets out their quality characteristics. Coal quality by mine based on coal test report data provided by Yitai Group is as follows:

| <u>Quality Characteristic</u>             | <u>Dadijing</u> | <u>Baoshan</u> | <u>Dingjiaqu</u> | <u>Chengyi</u> | <u>Baijialiang</u> |
|-------------------------------------------|-----------------|----------------|------------------|----------------|--------------------|
| Moisture content (%) . . . . .            | 17.2            | 15.4           | 16.0             | 18.4           | 19.6               |
| Ash content (%) . . . . .                 | 9.3             | 6.4            | 12.1             | 5.8            | 4.3                |
| Sulfur content (%) . . . . .              | 0.6             | 0.2            | 0.2              | 0.6            | 0.4                |
| Volatile matter content (%) . . . . .     | 27.3            | 27.8           | 27.5             | 26.5           | 29.3               |
| Gross calorific value (Kcal/kg) . . . . . | 5,570           | 6,070          | 5,500            | 5,760          | 5,810              |
| Net calorific value (Kcal/kg) . . . . .   | 5,300           | 5,800          | 5,230            | 5,500          | 5,520              |

Note: Average based on coal quality test data for July-December 2011 provided by Yitai Group, which may not reflect typical analysis.

Sustaining capital based on projected raw coal output is RMB6.6 per tonne, which is at the low end of the range of likely requirements to support the projected output level in the opinion of BOYD.

#### *Dadijing Mine*

Dadijing Mine is owned by Yitai Group, and we will purchase the business in relation to Dadijing Mine. It is located in the Dongsheng Coalfield, with marketable reserves of 51.8 million tonnes as of December 31, 2011 and an assessed annual production capacity of 3.0 million tonnes. It has four primary coal seams with a thickness of between 1.5 and 3.4 meters.

#### *Baoshan Mine*

Baoshan Mine is currently owned by Yitai Baoshan. Yitai Group and Beijing Jielongda Investment Company Limited (北京傑隆達投資有限責任公司), an Independent Third Party, own 73% and 27% of Yitai Baoshan's registered capital, respectively. We will acquire from Yitai Group its 73% interest in Yitai Baoshan, and have obtained the consent of Beijing Jielongda Investment Company Limited to this transaction.

Baoshan Mine is located in the Dongsheng Coalfield, with marketable reserves of 14.6 million tonnes as of December 31, 2011 and an assessed annual production capacity of 1.9 million tonnes. It has one primary coal seam with a thickness of 3.0 meters.

#### *Dingjiaqu Mine*

Dingjiaqu Mine is currently owned by Yitai Tongda. Yitai Group and Ordos Huijiabao Investment Company Limited (鄂爾多斯市匯家寶投資有限責任公司), an Independent Third Party, own 73% and 27% of Yitai Tongda's registered capital, respectively. We will acquire from Yitai Group its 73% interest in Yitai Tongda and have obtained the consent of Ordos Huijiabao Investment Company Limited to this transaction.

Dingjiaqu Mine is located in the Dongsheng Coalfield, with total marketable reserves of 16.3 million tonnes as of December 31, 2011 and an assessed annual production capacity of 2.3 million tonnes. It has two primary coal seams with a thickness of between 1.3 and 2.5 meters.

#### *Chengyi Mine*

Chengyi Mine is owned by Yitai Group, and we will purchase the business in relation to Chengyi Mine. It is located in the Dongsheng Coalfield, with marketable reserves of 4.8 million tonnes as of December 31, 2011 and an assessed annual production capacity of 1.2 million tonnes. It has two primary coal seams with a thickness of between 1.2 and 1.7 meters.

### *Baijialiang Mine*

Baijialiang Mine is owned by Yitai Group, and we will purchase the business in relation to Baijialiang Mine. It is located in the Dongsheng Coalfield, with marketable reserves of 0.5 million tonnes as of December 31, 2011 and an assessed annual production capacity of 1.9 million tonnes. It has one primary coal seam with a thickness of 3.2 meters.

The following table sets forth details of the mining right permits, safe production permits and coal production permits of the Target Mines.

| Mine        | Registered mining right permit holder/permit number | Mining right permit date (month/year) | Mining right validity period              | Safe production permit date <sup>(1)</sup> | Safe production permit validity period | Coal production permit date <sup>(2)</sup> | Coal production permit validity period |
|-------------|-----------------------------------------------------|---------------------------------------|-------------------------------------------|--------------------------------------------|----------------------------------------|--------------------------------------------|----------------------------------------|
| Dadijing    | Yitai Group/<br>C1500002011061120115049             | June 2011                             | From June 2011 to December 2018 (8 years) | May 2011                                   | From May 2011 to May 2013              | April 2010                                 | From June 2009 to December 2023        |
| Baoshan     | Yitai Baoshan/<br>C1500002011071120115196           | July 2011                             | From July 2011 to December 2018 (8 years) | May 2011                                   | From May 2011 to May 2013              | April 2010                                 | From June 2009 to December 2025        |
| Dingjiaqu   | Yitai Tongda/<br>C1500002011061120115051            | June 2011                             | From June 2011 to December 2018 (8 years) | May 2011                                   | From May 2011 to May 2013              | April 2010                                 | From October 2009 to December 2023     |
| Chengyi     | Yitai Group/<br>C1500002011061120115048             | June 2011                             | From June 2011 to December 2013 (2 years) | September 2009                             | From September 2009 to September 2013  | April 2010                                 | From October 2009 to April 2019        |
| Baijialiang | Yitai Group/<br>C1500002011061120115050             | June 2011                             | From June 2011 to October 2013 (2 years)  | May 2011                                   | From May 2011 to May 2013              | April 2010                                 | From June 2009 to April 2017           |

(1) Safe production permits typically have validity periods of three years and may be renewed.

(2) Coal production permits have various validity periods and may be renewed.

We intend to apply for these permits in our own name in connection with the Proposed Acquisition for the Target Mines. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised us that under the current PRC laws and regulations there would be no material legal impediments to our obtaining these permits.

During the Track Record Period, the annual production volumes of certain Target Mines in certain years exceeded the relevant Assessed Capacities, for details of which see “— Coal Operations — Relevant Rights and Permits.”

### *Target Business Group's other coal-related assets*

The Target Business Group also includes other coal-related assets, including but not limited to the current assets, fixed assets, intangible assets and other assets of Dongxing Collection and Transportation Center, Xiyingsi coal loading station, Baoshen line coal loading station, Jingtang Port transfer and transportation center, Baotou sales branch, Baotou payment center, Beijing payment center, Tanggongta payment center, Qinhuangdao office, Datong office, Tianjin office, Caofeidian office, storage and transportation assets and other assets related to coal trading, storage and transportation. In addition, there will be transfer of management and employees of the Target Business Group to our Group pursuant to the Assets Transfer Agreement. The Target Business Group does not have, and is not planning to build, any coal preparation plant.

### **Quality Control of the Target Business Group**

As the business operations of the Target Business Group are substantially similar to our coal operations, they are subject to substantially the same PRC laws and regulations regarding product quality as we are. To the

best knowledge of our Directors, the Target Business Group has not been penalized for any material violation of laws or regulations regarding product quality during the Track Record Period. We intend to further review and assess the quality control mechanism of the Target Business Group and integrate the Target Business Group into our quality control system after the completion of the Proposed Acquisition.

### **Competition of the Target Business Group**

As the Target Business Group also sells coal products produced in the Ordos region to domestic customers, we are of the view that the Target Business Group is in a similar position in terms of competition as we are. See “— Competition.”

### **Environmental Matters of the Target Business Group**

The operations of the Target Business Group are currently subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. To the best knowledge of our Directors, the Target Business Group has not breached any applicable environmental laws or regulations that would have a material adverse impact, and its environmental protection systems and facilities comply with applicable PRC national and local environmental protection laws and regulations. To the best knowledge of our Directors, the Target Business Group has not been presented with any specific demand or requirements by its customers in complying with relevant environmental protection rules in the areas in which it operates.

### **Occupational Health and Safety of the Target Business Group**

The PRC government places significant regulatory requirements on coal mines with respect to employee safety, which apply to both us and the Target Business Group. To the best knowledge of our Directors, the Target Business Group has passed all periodic and other safety inspections by the relevant authorities, and none of the Target Mines has been shut down by the government, during the Track Record Period. In addition, according to the letter dated March 16, 2012 issued by the Inner Mongolia Coal Mine Safety Supervisory Bureau from the respective commencement of operation of the Twelve Mines to the date of the letter, the Twelve Mines have carried out construction, production and operation in accordance with the relevant laws, regulations and policies of the State and Inner Mongolia, there had been no safety accidents, or incidents of certain types, including project construction, production and operation activities and safety management that would give rise to penalties by the coal industry regulatory authorities. To the date of the letter, there had been no incidents that had led to, or might lead to, the closure or suspension of, or penalties regarding, the Twelve Mines. The Target Mines did not have any accidents that caused any fatalities during the Track Record Period.

### **Intellectual Property of the Target Business Group**

The Target Business Group uses certain trademarks, which it will be able to continue to use after the completion of the Proposed Acquisition under the trademark license agreement that we have entered into with Yitai Group. The Target Business Group does not have any patent or patent application right.

### **Properties of the Target Mines**

As of December 31, 2011, the Target Mines operated their businesses through (i) nine parcels of land with a total site area of approximately 760,112 square meters, of which all the land use right certificates have been obtained; and (ii) 108 buildings and units with a total gross floor area of approximately 47,497 square meters, of which building ownership certificates for approximately 47,459 square meters had been obtained. All of such land, buildings and units are located in the PRC. The Target Mines did not lease land or buildings as of December 31, 2011.

#### *Land*

The land the Target Mines operated its business through include nine parcels of granted land and allocated land with a total site area of approximately 760,112 square meters, for all of which granted or allocated land use right certificates have been obtained.



### *Buildings*

The buildings and units the Target Mines operated our business through may be categorized as follows:

- (i) 107 buildings and units with a total gross floor area of approximately 47,459 square meters for which building ownership certificates and the related land use right certificates have been obtained; and
- (ii) One building with a total gross floor area of approximately 37.6 square meters, for which Yitai Group is applying for a building ownership certificate. Such building is used for ancillary purposes by the Target Mines. Such applications have been accepted by the relevant government authorities and Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised that there are no material legal impediments for us to obtain the relevant building ownership certificates.

### **Insurance by the Target Business Group**

The Target Business Group carries out occupational injury, medical pension and unemployment insurance for its employees in compliance with applicable regulations. In accordance with what we believe is customary practice for other companies that conduct the same business as the Target Business Group, the Target Business Group does not currently maintain fire, liability or other property insurance covering its property, equipment or inventory relating to its operations.

We intend to further review and assess the risk exposure of the Target Business Group and its employees and make necessary and appropriate adjustments to its and our insurance practices after the completion of the Proposed Acquisition in line with our needs and with industry practice.

### **Regulatory Compliance of the Target Business Group**

Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, are of the view that the Target Business Group has been in compliance with applicable laws and regulations in all material aspects by considering the relevance of various matters to its principal business activities and whether there has been, or is likely to be, any material adverse impact on its business, results of operations and financial position. Furthermore, Jingtian & Gongcheng Attorneys at Law are of the opinion that the Target Business Group has obtained all necessary licenses, approvals and permits that are material for its business operations in the PRC.

### **Legal Proceedings Involving the Target Business Group**

To the best knowledge of the Directors, the Target Business Group is not currently involved in and has not been recently involved in any legal or arbitration proceedings that may cause a material adverse impact on the business and financial performance of the Target Business Group. To the best knowledge of the Directors, we are not aware of any legal claims or proceedings that may have a material adverse influence on the Target Business Group's exploration rights or mining rights.

In addition, Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have confirmed that, to the best of their knowledge after due inquiry, the Target Business Group has not been subject to any material fines or penalties, or ordered to suspend its operations during the Track Record Period.

### **PRICE SENSITIVE INFORMATION**

We will release price sensitive information in Hong Kong and China simultaneously after the Listing under the Listing Rules.

## OVERVIEW

We were established as a joint stock limited company on September 23, 1997 by way of injection of assets, liabilities and equity interests by Yimei Group and subscription of new B Shares by public investors. Immediately after our establishment, Yimei Group and public shareholders of B Shares, owned 54.64% and 45.36% of our company respectively. Yimei Group has undertaken a series of reorganization steps after our establishment, and in 2001, our controlling shareholder was renamed Yitai Group. As of the Latest Practicable Date, Yitai Group owned, directly and indirectly, approximately 54.64% and 6.69% of our total issued share capital, respectively, or beneficially owned an aggregate of approximately 61.33% of our total issued share capital. Immediately after the Global Offering, Yitai Group will own directly and indirectly, approximately 49.18% and 6.02% of the total issued share capital, respectively, or will beneficially own approximately 55.20% of our total issued share capital (or approximately 54.38% if the Over-allotment Option is exercised in full) and will continue to be one of our Controlling Shareholders.

## BACKGROUND OF YITAI GROUP AND YITAI INVESTMENT

As of the Latest Practicable Date, Yitai Group was 99.54% owned by Yitai Investment with the remaining 0.46% owned by other four independent third parties. As Yitai Investment will continue to own 99.54% of the interest of Yitai Group immediately after the Global Offering, Yitai Investment, together with Yitai Group, will continue to be our Controlling Shareholders.

Upon the establishment of Yitai Investment in December 2005, its equity interests were held by 31 individuals on behalf of a group of employees (the “**Employees Group**”) of Yitai Group, including themselves. As the PRC Company Law provides that companies with limited liability incorporated in the PRC cannot have more than 50 shareholders, and given that at the time of establishment of Yitai Investment the Employees Group was comprised of more than two thousand individuals, in order to comply with the limitations on the shareholders’ number under the PRC Company Law, the Employees Group entrusted a group of 31 individuals, comprising the senior management and key technicians of Yitai Group at that time, to hold the equity interest of Yitai Investment. The percentage of entrusted shareholding of each of the 31 individuals was determined based on a series of standards including the positions they held in Yitai Group, the time they had worked in Yitai Group and their contribution to the business of Yitai Group. Mr. Zhang Shuangwang’s entrusted shareholding was substantially higher than those of the other 30 individuals because he was the chairman of Yitai Group at the time of the establishment of Yitai Investment. The table below sets out the names, entrusted capital contribution and entrusted shareholding percentage of the 31 individuals as of the Latest Practicable Date:

|    | Shareholder                                        | Entrusted Capital Contribution<br>(RMB million) | Entrusted Shareholding<br>Percentage | Position<br>with<br>our Group                                                                                                                                                                                      |
|----|----------------------------------------------------|-------------------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Zhang Shuangwang<br>(張雙旺) <sup>(1)</sup> . . . . . | 108.074272                                      | 15.00%                               | none                                                                                                                                                                                                               |
| 2. | Hao Jianzhong<br>(郝建忠) . . . . .                   | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                               |
| 3. | Zhang Donghai<br>(張東海) . . . . .                   | 20.437872                                       | 2.84%                                | Chairman and<br>executive Director;<br>Director of Xinjiang Zhundong,<br>Yitai Share (HK), Yitai Huzhun,<br>Yitai Coal-to-oil and Avic Liming<br>Jinhuaji Petrochemical<br>Equipment (Inner Mongolia) Co.,<br>Ltd. |
| 4. | Qi Wenbin<br>(祁文彬)                                 | 20.428                                          | 2.84%                                | Director of Yitai Coal-to-oil,<br>Yitai Suancigou and Yitai Huzhun                                                                                                                                                 |
| 5. | Li Chengcai<br>(李成才)                               | 20.428                                          | 2.84%                                | Director of Yitai Zhundong<br>and Yitai Huzhun                                                                                                                                                                     |
| 6. | Zhang Jianguo<br>(張建國) . . . . .                   | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                               |

**RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

|     | Shareholder                  | Entrusted Capital Contribution<br>(RMB million) | Entrusted Shareholding<br>Percentage | Position<br>with<br>our Group                                                                                                                                                                                                                                   |
|-----|------------------------------|-------------------------------------------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.  | Tang Rugang<br>(唐如鋼) .....   | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 8.  | Bai Guohua<br>(白國華) .....    | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 9.  | Liu Zhike<br>(劉志科) .....     | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 10. | Tian Shangwan<br>(田尚萬) ..... | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 11. | Su Zhongyou<br>(蘇中友) .....   | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 12. | Zhu Aiguo<br>(朱愛國) .....     | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 13. | Wang Zhipeng<br>(王志鵬) .....  | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 14. | Ren Lixin<br>(任立新) .....     | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 15. | Liu Chunlin<br>(劉春林) .....   | 20.428                                          | 2.84%                                | Executive Director;<br>Director of Yitai<br>Share (HK),<br>Yitai Suancigou<br>Yitai Coal-to-oil<br>none                                                                                                                                                         |
| 16. | Cui Wenyi<br>(崔文藝) .....     | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 17. | Ji Yongqiang<br>(姬永強) .....  | 20.428                                          | 2.84%                                | Vice President                                                                                                                                                                                                                                                  |
| 18. | Ge Yaoyong<br>(葛耀勇) .....    | 20.428                                          | 2.84%                                | President and<br>executive Director;<br>Director of Yitai<br>Coal-to-oil and<br>Xinjiang<br>Zhungdong<br>none                                                                                                                                                   |
| 19. | Zhang Zhenjin<br>(張振金) ..... | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 20. | Bai Jingquan<br>(白井泉) .....  | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 21. | Li Wenshan<br>(李文山) .....    | 20.428                                          | 2.84%                                | Chairman of the<br>Supervisory Board;<br>Chairman of the<br>Supervisory Board<br>of Yitai Coal-to-oil<br>none                                                                                                                                                   |
| 22. | Zhang Ying<br>(張英) .....     | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 23. | Zhao Shirong<br>(趙世榮) .....  | 20.428                                          | 2.84%                                | none                                                                                                                                                                                                                                                            |
| 24. | Kang Zhi<br>(康治) .....       | 20.428                                          | 2.84%                                | Vice President and<br>executive Director;<br>Director of<br>Huhhot Yitai Coal<br>Sales; Chairman<br>of Yitai Transport<br>and Yitai Tiedong<br>Director<br>of Yitai<br>Coal-to-oil;<br>Director of Yitai<br>Xinjiang and<br>executive Director<br>of Yitai Yili |
| 25. | Hao Xizhu<br>(郝喜柱) .....     | 20.428                                          | 2.84%                                | Director<br>of Yitai<br>Coal-to-oil;<br>Director of Yitai<br>Xinjiang and<br>executive Director<br>of Yitai Yili                                                                                                                                                |

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

|     | Shareholder                       | Entrusted Capital Contribution<br>(RMB million) | Entrusted Shareholding<br>Percentage | Position<br>with<br>our Group                                                                                                                                |
|-----|-----------------------------------|-------------------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 26. | Li Zengrun<br>(李增潤) .....         | 20.428                                          | 2.84%                                | none                                                                                                                                                         |
| 27. | Zhang Xinrong<br>(張新榮) .....      | 20.428                                          | 2.84%                                | Executive Director and<br>Vice President;<br>Supervisor of Beijing<br>Yitai Biotechnology<br>Co., Ltd. and Director<br>of Yitai Suancigou                    |
| 28. | Bai Weixiang<br>(白維祥) .....       | 20.428                                          | 2.84%                                | none                                                                                                                                                         |
| 29. | Hao Rui<br>(郝瑞) .....             | 20.428                                          | 2.84%                                | none                                                                                                                                                         |
| 30. | Zhang<br>Dongsheng<br>(張東升) ..... | 20.428                                          | 2.84%                                | Executive Director;<br>Chairman and<br>President of Yitai<br>Zhundong; Chairman<br>of Zhundong<br>Jintai and<br>chairman and<br>president of Yitai<br>Huzhun |
| 31. | Zhai Deyuan<br>(翟德元) .....        | 19.999                                          | 2.78%                                | none                                                                                                                                                         |
|     | Total .....                       | 720.495144                                      | 100.00%                              |                                                                                                                                                              |

(1) Mr. Zhang Shuangwang and his spouse are beneficially interested in 15.01% of the equity interests of Yitai Investment as members of the Employee Group. Although Mr. Zhang Shuangwang and his associates are the single largest group of shareholders of Yitai Investment, they are not able to exercise significant influence over Yitai Group. Yitai Group is operated by its shareholder meeting and the board of directors.

Pursuant to the trust agreement, the 31 individuals were entrusted, on a free basis, to hold the equity interests of Yitai Investment for the Employees Group (including the 31 individuals). As of the Latest Practicable Date, the Employees Group comprised approximately 2,300 individuals. The Employees Group represent all the employees of Yitai Group and its subsidiaries that meet the criteria determined by Yitai Group and Yitai Investment and as modified from time to time. These criteria mainly include educational backgrounds, professional qualifications, positions the employees then held and the time period they have worked in Yitai Group and its subsidiaries. Among the Employees Group, the equity interests of Yitai Investment were beneficially owned up to 15.01% by Mr. Zhang Shuangwang and his associates (among which Mr. Zhang Shuangwang himself is beneficially interested at 15.00% and his spouse, in aggregate, is beneficially interested at 0.01%), and 84.99% by the other members of the Employees Group. Under the PRC Law, the equity interest of Yitai Investment can be pledged as security in favour of any person. However, none of the equity interest of Yitai Investment is pledged as of the Latest Practicable Date. The members of the Employees Group may transfer their beneficial interest among the employees of our Company but not to any other third party in principle. Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, have advised that the trust arrangement is legal, valid and enforceable under PRC laws. Our Company confirms that other than the aforesaid trust agreement, there is no other agreement among the 31 individuals.

## COMPETITION

### Overview

To expand our coal business and minimize any potential competition between Yitai Group and us, we intend to apply the proceeds raised from the Global Offering to acquire the Target Business Group, which includes substantially all of Yitai Group's coal production, sales and transportation businesses (except for the Retained Businesses). Please see "Future Plans and Use of Proceeds" for details and please refer to the paragraph headed "Proposed Acquisition" below in this section for more details of the Proposed Acquisition.

After the Proposed Acquisition, we believe that our coal production, sales and transportation businesses will be expanded by acquiring the Target Business Group, and the potential competition between Yitai Group and us will also be minimized.

In relation to the Retained Businesses, we have taken certain measures to ensure that they do not constitute direct or indirect competition with our core businesses. Such measures include our entering into the Non-competition Agreement with our Controlling Shareholders, pursuant to which we are granted options and pre-emptive rights to acquire any interest in the Retained Businesses we consider appropriate. Further, it is also provided in the Non-competition Agreement that (i) we are appointed as the exclusive sales agent for all the coal products produced by Sujiahao Mine from our Listing Date until we acquire Sujiahao Mine and (ii) all the coal produced by Hongqinghe Mine will be exclusively supplied to us for re-sale from the Listing Date until we acquire Hongqinghe Mine, and (iii) all the coal products extracted from the Target Mines will be exclusively supplied to us as the purchaser for re-sale for the period from the Listing Date until the Closing Date. Please refer to the “Non-competition Agreement” below for details.

Upon completion of the Proposed Acquisition, save for the Retained Businesses, there will be no business of the Controlling Shareholders that will, or is likely to, compete, directly or indirectly with us.

In connection with the Global Offering and the Proposed Acquisition, we have entered into a number of transactions with Yitai Investment, Yitai Group and other connected persons (as defined under the Listing Rules). For details please refer to “Connected Transactions.”

## **Our Businesses**

Our core businesses include coal production, sales, transportation and coal-to-oil business. Apart from our core businesses, we also engage in the production and sale of traditional Chinese medicine through our subsidiary Yitai Pharmaceutical.

## **Controlling Shareholders’ Businesses**

Yitai Investment is an investment holding company and its core business is the holding of equity interests in Yitai Group. Apart from the equity interests in Yitai Group, Yitai Investment does not hold, engage or conduct activities in any other business which is, or is likely to, compete, directly or indirectly with our core businesses.

Yitai Group’s core businesses include coal production and sales, technology development in relation to coal-based chemical products, and real estate development.

To achieve our strategy of expanding our coal business and minimizing the potential competition between Yitai Group and us, we entered into the Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we agreed to acquire, and Yitai Group agreed to transfer the Target Business Group, which includes substantially all of Yitai Group’s coal production, sales and transportation businesses. Please refer to the “Proposed Acquisition” below for details. Further, we have also entered into the Non-competition Agreement with our Controlling Shareholders, pursuant to which, among other things, Yitai Group has undertaken to us that after the Listing Date, it will not engage in the coal trading business, including the purchase of coal from third parties. Please refer to the “Non-competition Agreement” below for details.

Saved as disclosed below, there is no other business of our Controlling Shareholders that will, or is likely to, compete, directly or indirectly with us.

## **Proposed Acquisition**

The purpose of the Proposed Acquisition is to expand our coal reserves and outputs, while minimizing potential competition between Yitai Group and us in relation to our core business.

We and Yitai Group entered into the Assets Transfer Agreement on May 29, 2012, pursuant to which we agreed to acquire, and Yitai Group agreed to transfer, the Target Business Group, which includes substantially all assets and businesses of Yitai Group that are related to coal production, sales and transportation, subject to the satisfaction of certain conditions precedent. As of the Latest Practicable Date, the only condition precedent that had not been satisfied was the listing of our H Shares on the Hong Kong Stock Exchange.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Brief details of the principal terms of the Assets Transfer Agreement are set out below:

### *Businesses to be acquired*

Equity interests, assets and businesses to be transferred under the Assets Transfer Agreement include:

- The 73% equity interest in Yitai Baoshan, which operates Baoshan Mine and the 73% equity interest in Yitai Tongda, which operates Dingjiaqu Mine.
- Each of Chengyi Mine, Dadijing Mine and Baijialiang Mine, including but not limited to the current assets, fixed assets, intangible assets and other assets.
- Other coal-related assets, including but not limited to the current assets, fixed assets, intangible assets and other assets of Dongxing collection and transportation center, Xiyngzi coal loading station, Baoshen line coal loading station, Jingtang Port transfer and transportation center, Baotou sales branch, Baotou payment center, Beijing payment center, Tanggongta payment center, Qinhuangdao office, Datong office, Tianjin office, Caofeidian office, storage and transportation assets and other assets related to coal trading, storage and transportation.

There will be transfer of management and employees of the Target Business Group to our Group pursuant to the Assets Transfer Agreement.

For details of the Target Business Group, please refer to “Business — The Proposed Acquisition and The Target Business Group — The Target Business Group.”

### *Consideration*

The consideration under the Assets Transfer Agreement will be RMB8,446.5 million, which was equal to the aggregate fair value of the Target Business Group as of December 31, 2009 (“**Valuation Date**”) as contained in the valuation report, dated April 23, 2010, by CEA, an independent valuer. CEA adopted the DCF method in preparing the valuation report dated April 23, 2010 and the valuation result was based on the estimated level of profit contribution from the Target Business Group in the future.

The total payment by the Company in connection with the Proposed Acquisition may be subject to a possible change depending on the net asset value of the Target Business Group after the Valuation Date as follows:

- If the net asset value of the Target Business Group increases during the period from the Valuation Date to the last day of the calendar month immediately prior to the Listing Date, the increased net asset value belongs to Yitai Group. The net asset value will be determined based on a special audit to be conducted within three months after the Listing, and our Company will pay the increment, if any, to Yitai Group in cash with our internal funds within 60 days after the special audit report is issued. If the net asset value of the Target Business decreases during the same period, Yitai Group shall make up the shortfall to our Company in cash within 60 days after the special audit report is issued; and
- If the net asset value of the Target Business Group increases during the period from the last day of the calendar month immediately prior to the Listing Date to the Closing Date, the increased net asset value belongs to our Company. If the net asset value of the Target Business Group decreases during the same period, Yitai Group shall make up the shortfall to our Company in cash. The changes of the net asset value, if any, of the Target Business Group shall be determined based on a special audit to be conducted within three months after the Closing Date. Yitai Group shall make up the shortfall, if any, in the net asset value of the Target Business Group to our Company in cash within 60 days after the special audit report is issued.

### *Payment and Closing Date*

The consideration shall be paid by the following methods:

- If the proceeds from the Global Offering have been settled and remitted into the onshore RMB account designated by our Company (the “**Settlement and Remittance Procedure**”) within the



calendar month immediately following the date that the Assets Transfer Agreement has come into effect and the transfer of intangible assets of the Target Mines has been approved by relevant authorities (the “**Approval Date**”), our Company shall pay the consideration in full on the last day of the calendar month immediately following the Approval Date; and

- If the Settlement and Remittance Procedure has not completed within the calendar month immediately following the Approval Date, our Company shall pay more than 50% of the consideration on the last day of the calendar month immediately following the Approval Date. The remaining consideration shall be paid by our Company no later than the last day of the calendar month during which the Settlement and Remittance Procedure is completed.

The payment obligation of our Company is deemed to be duly fulfilled when our Company has paid the consideration to the bank account designated by Yitai Group. The last day of the calendar month immediately following the Approval Date will be the Closing Date.

#### *Effective Date*

The Assets Transfer Agreement will become effective on the date (the “Effective Date”) when all the following conditions precedent are fulfilled:

1. The board of directors and the shareholders’ meeting of Yitai Group have reached resolutions and approved the Proposed Acquisition.
2. The employee union of Yitai Group has reached a resolution and approved the Proposed Acquisition.
3. Yitai Group has obtained the consents from relevant third parties in respect of the Proposed Acquisition.
4. The board of Directors and the shareholders’ meeting of our Company have reached resolutions and approved the Proposed Acquisition.
5. The shareholders’ meeting of each of the target companies (Yitai Tongda and Yitai Baoshan) have reached resolutions and approved the Proposed Acquisition.
6. Other shareholders of each of the target companies have issued written confirmation, giving up the right of first refusal regarding the shareholding to be transferred.
7. The CSRC has approved the Global Offering and the Listing.
8. The Hong Kong Stock Exchange has approved our Company’s application for the Global Offering and the Listing.
9. The H Shares of our Company have been successfully listed and traded on the Hong Kong Stock Exchange.
10. Other conditions agreed by our Company and Yitai Group in writing.

As of the Latest Practicable Date, conditions to 1 to 8 above have already been satisfied and given that there are no other additional conditions agreed by our Company and Yitai Group in writing, the only condition precedent to the effectiveness of the Assets Transfer Agreement that had not been satisfied is the listing of our H Shares on the Hong Kong Stock Exchange. In addition, the completion of the Proposed Acquisition requires the approval of the transfer of the mining rights by the IDLR. The Directors confirm that other than the approval by the IDLR, there is no other approval required for the Proposed Acquisition. Based on the best estimate of our Directors, our Company expects to obtain the aforementioned approval of the IDLR within two months from the Listing Date. Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, have advised that there is no material legal impediment to our obtaining the approval from the IDLR provided that we submit application documents that are deemed necessary by the IDLR. However, there is no assurance that the approval by the IDLR will be obtained in a timely manner, and the IDLR has discretion on whether or not to grant such an approval. Please refer to “Risk Factors — Risks Relating to Our Businesses — There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be

completed at all.” Assuming that the necessary approval were to be received within two months from the Listing Date, our Directors are of the view that the Proposed Acquisition could be completed within eight months from the Listing Date on the following basis:

- (a) Under the Assets Transfer Agreement, the Closing Date will be the last day of the calendar month immediately following the date when the necessary approval, i.e. the approval of the IDLR, is obtained.
- (b) Under the Assets Transfer Agreement, within five months after the Closing Date or other time frame required by applicable laws, Yitai Group shall assist us in completing registration or recording procedures for the transfer of legal ownership of the assets and equity interests in the Target Business Group in accordance with PRC laws and regulations (e.g. transfer of mining rights, land use right and ownership of buildings) before the Proposed Acquisition can be completed and our Company can obtain the legal ownership of the Target Business Group.

Therefore, the Directors estimate that the Proposed Acquisition could be completed no more than approximately eight months after the Listing Date. Please refer to “Risk Factors — Risks Relating to Our Business — There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be completed at all.” We will publish an announcement after the completion of the Proposed Acquisition and comply with relevant requirements under the Listing Rules.

## **The Retained Businesses**

### *Yitai Group’s interests in coal production*

Yitai Group will, after the Global Offering and the Proposed Acquisition, continue to own and have the right to operate the Retained Mines, namely, Sujiahao Mine, Taifeng Mine, Anjiapo Mine and Hongqinghe Mine. Our Directors believe that, although the Retained Businesses include coal production business, the Retained Mines as of the Latest Practicable Date either are under preliminary preparation work before construction, or currently have ceased their operations due to resource exhaustion, or have legal compliance defects. Therefore, it may be not in our best interest and those of our Shareholders as a whole to include the Retained Mines in our Group. In addition, we have entered into the Non-competition Agreement with the Controlling Shareholders to minimize competition between the Controlling Shareholders and us, pursuant to which we are granted options and pre-emptive rights to acquire any interests in the Retained Businesses. It is further provided in the Non-competition Agreement that for the period from the Listing Date until the relevant Retained Businesses being acquired by us, we will be appointed as the exclusive sales agent for all coal produced by the Sujiahao Mine and all the coal products extracted from the Hongqinghe Mine (if any) will be exclusively supplied to us as the purchaser for re-sale. Please refer to the “Non-competition Agreement” below for details.

### *Sujiahao Mine*

Yitai Group holds 60% of the equity interests in Shenmu County Sujiahao Mine, which operates Sujiahao Mine. Sujiahao Mine was established in April 2002 and engages in coal production business. The designed annual production volume of coal by Sujiahao Mine is about 0.45 million tonnes.

The senior management of Sujiahao Mine currently comprises of Mr. Su Hongxin and Mr. Zi Wenxiang, all of whom were appointed by Yitai Group. None of the other senior management of Sujiahao Mine holds any of our management positions and there is no overlap of senior management between Sujiahao Mine and us.

For 2009, 2010 and 2011, Sujiahao Mine recorded a revenue of approximately RMB252.0 million, RMB354.2 million and RMB354.4 million, respectively, and net profit of RMB120.9 million, RMB113.6 million and RMB127.6 million, respectively.

Sujiahao Mine is located in Yulin City, Shaanxi Province and currently undergoing an upgrading project. The construction of the upgrading project requires the approval from the NDRC or Shaanxi Provincial Development and Reform Commission (if authorized by the NDRC). The upgrading project of Sujiahao Mine has not obtained the aforementioned approval. As such, the construction of the upgrading project of Sujiahao

Mine is at risk of being suspended by relevant authorities. As such, our Directors are of the view that it would not be in the best interest of us and our Shareholders as a whole to include Sujiahao Mine in our Group at this stage.

Pursuant to the Non-competition Agreement, Yitai Group has granted us the option to acquire Sujiahao Mine in accordance with the terms of the Non-competition Agreement at our discretion. We intend to acquire Sujiahao Mine when all compliance defects have been resolved. Our Board, including the independent non-executive Directors, will consider, from time to time, whether we should acquire Sujiahao Mine and the terms of such acquisition. The decision to acquire Sujiahao Mine and the terms of the acquisition shall be made and determined by our independent non-executive Directors. Please refer to “Non-competition Agreement” for details of the options. We will comply with all applicable requirements under the Listing Rules when we acquire Sujiahao Mine.

In the meantime, as a transitional arrangement to reduce any possible competition resulting from Yitai Group’s operation of Sujiahao Mine before it is acquired by us, Yitai Group has agreed that we will be the exclusive sales agent for all the coal products extracted from Sujiahao Mine. For further details please see “Non-competition Agreement” below and the “Connected Transactions — Continuing Connected Transaction — Non-exempt Continuing Connected Transactions — 7 Mutual provision of materials, equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group.”

#### *Taifeng Mine*

Yitai Group holds 100% of the assets in Taifeng Mine. As of the Latest Practicable Date, Taifeng Mine was depleted and had ceased its operation. However, as of the Latest Practicable Date, Taifeng Mine was undergoing an extinguishment project, which was aimed at removing the remaining flammable coal. Taifeng Mine will cancel its registration after the extinguishment project.

#### *Anjiapo Mine*

Yitai Group holds 51% of the interests in Yitai West Coal, which operated Anjiapo Mine. Anjiapo Mine was established and engaged in coal production business in August 2006. It was depleted and had ceased operation as of the Latest Practicable Date. However, as of the Latest Practicable Date, Anjiapo Mine was undergoing an extinguishment project, which was aimed at remove the remaining flammable coal. Anjiapo Mine will cancel its registration after the extinguishment project.

#### *Hongqinghe Mine*

Yitai Group holds 90% of the equity interests in Yitai Guanglian, which operates Hongqinghe Mine. As of the Latest Practicable Date, Hongqinghe Mine is in its preliminary preparation stage. The NDRC has approved the overall planning of Hongqinghe Mine with an annual output by design of 15 million tonnes.

The board of directors of Yitai Guanglian is currently comprised of Mr. Cao Jun, Mr. Zhang Donghai, Mr. Liu Chunlin, Mr. Ge Yaoyong, Mr. Zhai Deyuan, Mr. Zhang Zhicheng and Mr. Mo Ruoping, all of whom were appointed by Yitai Group and other shareholders. Among the directors of Yitai Guanglian, Mr. Zhang Donghai simultaneously serves as the chairman of our Company. Mr. Ge Yaoyong serves as the executive Director and president of our Company. And Mr. Liu Chunlin simultaneously serves as the executive Director of our Company. Apart from that, none of the directors of Hongqinghe Mine holds any of our management positions and there is no overlap of directors and senior management between Yitai Guanglian and us.

Given that Hongqinghe Mine is undergoing the preliminary preparation work and has not obtained the project approval from the NDRC as of the Latest Practicable Date, though the preliminary preparation work has been approved by the NDRC, our Directors are of the view that it would not be in the best interest of us and our Shareholders as a whole to include Yitai Guanglian in our Group.

Pursuant to the Non-competition Agreement, Yitai Group has granted us the option to acquire Yitai Guanglian in accordance with the terms of the Non-competition Agreement at our discretion. We intend to acquire Yitai Guanglian when the mining certificate of Hongqinghe Mine has been obtained and Hongqinghe

Mine is ready for operation. Our Board, including the independent non-executive Directors, will consider, from time to time, whether we should acquire the equity interest and the terms of such acquisition. The decision to acquire the equity interest and the terms of the acquisition shall be made and determined by our independent non-executive Directors. Please refer to “Non-competition Agreement” for details of the options. We will comply with all applicable requirements under the Listing Rules when we acquire Yitai Guanglian.

In the meantime, as a transitional arrangement to reduce any possible competition resulting from Yitai Group’s operation of Yitai Guanglian, Yitai Group has undertaken to us that all products extracted from Hongqinghe Mine after it becomes operational in the future will be supplied exclusively to us as the purchaser for our re-sale. For details of the arrangements please see the “Non-competition Agreement” below and the “Connected Transactions — Continuing Connected Transaction — Non-exempt Continuing Connected Transactions — 7 Mutual provision of materials equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group.”

### **Directors’ Competing Interests**

Other than certain directorships and/or positions held by some of our Directors in our Controlling Shareholders set out below, the Directors have confirmed that they do not have any interests in any business which directly or indirectly competes or is likely to compete, directly or indirectly, with our core businesses as of the date of this Prospectus.

### **Non-competition Agreement**

We entered into a non-competition agreement (the “**Non-competition Agreement**”) with the Controlling Shareholders, on May 29, 2012, pursuant to which the Controlling Shareholders have undertaken not to compete with us in our core businesses and granted us options and pre-emptive rights to acquire the Retained Businesses and any new business opportunities.

The Controlling Shareholders have undertaken in the Non-competition Agreement that:

1. All the coal products extracted from Hongqinghe Mine from the Listing Date until Hongqinghe Mine is acquired by our Company, will be exclusively supplied to us as the purchaser for re-sale.
2. Our Company will be the exclusive sales agent for all the coal products extracted from Sujiahao Mine from the Listing Date until Sujiahao Mine is acquired by our Company.
3. All the coal products extracted from the Target Mines for the period commencing from the Listing Date to the Closing Date, will be exclusively supplied to us as the purchaser for re-sale.
4. Save for the Retained Businesses and the Target Business Group, (1) as of the date of the Non-competition Agreement the Controlling Shareholders themselves and their subsidiaries (excluding our Group), are not engaged in, and the Controlling Shareholders will procure their associates themselves, and their subsidiaries to not engage in our core businesses; (2) during the term of the Non-competition Agreement, the Controlling Shareholders and their subsidiaries (excluding our Group) will not, and will procure their respective associates not to, engage in any activities in any form that will directly or indirectly compete with our core business, whether on its own or jointly with other entities, or hold any interests or rights in such competing business through a third party.
5. The Controlling Shareholders will not, in their respective shareholder capacities or by taking advantage of their relationships with the shareholders of our Company, engage in or participate in any activities that may harm the legal interests of our Company or the Shareholders of our Company.
6. After the completion of the Proposed Acquisition, (i) all the transportation quotas granted by the MOR to Yitai Group will be provided to us for use at nil consideration; (ii) Yitai Group will not use the transportation quotas or license any transportation quota to third parties before our request is satisfied first; and (iii) Yitai Group will apply to the MOR to change the holder of its account to us. Please refer to “Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions — 3. Transportation Quota License Agreement” for details.
7. Yitai Group has further undertaken that from the Listing Date, it will not sell any aforementioned coal products to any third parties and it will not engage in coal trading business, including but not

limited to, purchasing coal products from third parties. Further details about this arrangement are set out in “Connected Transactions — Continuing Connected Transaction — Non-exempt Continuing Connected Transactions — 7 Mutual provision of materials, equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group.”

### *Options for New Business Opportunities*

The Controlling Shareholders have undertaken in the Non-competition Agreement that:

1. If the Controlling Shareholders or their subsidiaries become aware of a business opportunity, which directly or indirectly competes, or may lead to competition, directly or indirectly with our core business, they will notify us in writing with all relevant information immediately upon becoming aware of such business opportunity (“**Offer Notice**”). They are also obliged to use their best efforts to procure that such opportunity is first offered to us on terms and conditions that are fair and reasonable. We can decide whether or not to accept such business opportunity within 60 days from receiving the Offer Notice. Should we decide to accept such business opportunity, we shall notify the Controlling Shareholders in writing. Upon receiving our written notification of acceptance, the Controlling Shareholders are obliged to transfer the business opportunity to us upon terms that are fair and reasonable. Our independent non-executive Directors will decide whether to accept the new business opportunities. Our independent non-executive Directors may retain independent financial advisors to provide advice on our Company’s expenses. When considering whether or not to pursue the business opportunities, the independent non-executive Directors will consider, among others, the following factors: the valuation of the relevant business, the performance of the relevant business, the compatibility of the strategy of the relevant business with that of our Company, the prevailing market conditions, the available resources of our Company and other options available to our Company to pursue similar businesses from third parties or establish similar businesses. The Directors believe that the timeframe of 60 days is sufficient to conduct the aforesaid procedures, taking into account that (i) the Controlling Shareholder will notify us in writing with all relevant information immediately upon becoming aware of such business opportunity; and (ii) we usually need to make prompt decision when there are business opportunities to ensure that we can receive the most favorable terms and conditions.
2. The Controlling Shareholders shall procure any of its subsidiaries and associates (other than us) to first offer to us any business opportunity that competes, or may lead to competition, directly or indirectly with our core businesses.
3. If our Company or its subsidiaries decide not to accept the new business opportunities for any reason, it shall notify the Controlling Shareholders in written form within 60 days. If our Company does not reply to the Controlling Shareholders to accept the new business opportunities or does not send to the Controlling Shareholders the written confirmation to turn down the new business opportunities within the stipulated time period, the Controlling Shareholders are entitled to operate the new business opportunities by themselves on terms no more favorable than the terms offered to our Company and its subsidiaries, but the Controlling Shareholders cannot transfer the new business opportunities to any independent third parties.

### *Options for Acquisitions*

In relation to:

1. the Retained Businesses; and/or
2. any new business opportunity the Controlling Shareholders or their subsidiaries and associates may obtain that competes, or may compete, directly or indirectly with our core businesses,

the Controlling Shareholders have undertaken to grant us the option, pursuant to relevant laws and regulations, to acquire any equity interest, assets or other interests, which form part of the Retained Businesses or new businesses as described above. As the Non-competition Agreement will become effective on the Listing Date, we will have the option to acquire the Retained Businesses at our sole discretion upon the Listing Date. Therefore we have control over the timing of the acquisition of the Retained Businesses because we will

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

obtain the option upon the Listing Date. Our independent non-executive Directors will decide whether to exercise the option. Our independent non-executive Directors may retain independent financial advisors to provide advice on our Company's expenses.

### *Right of First Refusal*

The Controlling Shareholders have undertaken that, if they intend to transfer, sell, lease or license any of the following interests to a third party:

1. the Retained Businesses; and/or
2. any new business of the Controlling Shareholders or their subsidiaries or associates, which has been taken up by the Controlling Shareholders or any of their subsidiaries according to this Non-competition Agreement that competes, or may lead to competition, directly or indirectly with our core businesses,

the Controlling Shareholders shall notify us by written notice ("**Selling Notice**") with detailed terms in advance with all relevant information. We can decide whether to exercise the right of first refusal within 30 days in writing after receiving the Selling Notice. Our Controlling Shareholders have undertaken that until they receive the reply from us, they shall not notify any third party of the intention to transfer, sell, lease or license the business. If we do not exercise the right of first refusal or do not reply to the Controlling Shareholders within the agreed time period, our Controlling Shareholders are entitled to transfer, sell, lease or license the business to a third party with terms and conditions, which is equal to or above the terms and conditions stipulated in the Selling Notice. Our independent non-executive Directors will decide whether to exercise the right of first refusal with respect to the Retained Business. Our independent non-executive Directors may retain independent financial advisors to provide advice on our Company's expenses.

The Controlling Shareholders have further undertaken that subject to the request of our independent non-executive Directors, they will provide all information necessary for our independent non-executive Directors to review their compliance with and enforcement of the Non-competition Agreement. We will disclose the review by our independent non-executive Directors on the compliance, and enforcement of, the Non-competition Agreement in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules. In the event any business opportunities presented by or otherwise arising in connection with any of the Controlling Shareholders are turned down by us according to the Non-competition Agreement, we will disclose the decision, as well as the basis for such decision in our annual report or interim report. The Controlling Shareholders have undertaken and declared that they will make an annual declaration on compliance with the Non-competition Agreement and other connected transaction agreements in our annual report.

The Non-competition Agreement will remain in full force and be terminated upon the earlier of:

1. The Controlling Shareholders and their subsidiaries beneficially holding less than 30% of our issued share capital and no longer holding controlling power over our Company, or the Controlling Shareholders are no longer our controlling shareholders as stipulated under Rule 1.01 of the Listing Rules; and
2. Our H shares no longer being listed on the Hong Kong Stock Exchange.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we are satisfied that we can conduct our business independently from our Controlling Shareholders and their respective associates after the Global Offering.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### Independence of Board and Management

#### *Composition of the Board and the senior management*

Our Board comprises eleven Directors. Apart from the two Directors who are associated with the Target Business Group, which will become part of our Group after the Proposed Acquisition, only four of our Directors are associated with the Controlling Shareholders. Of these eleven Directors, four are independent non-executive Directors and seven are executive Directors. Set out below is a table summarizing the positions held by the Directors at our Company and the Controlling Shareholders.

| <u>No</u>                 | <u>Name</u>                    | <u>Position with our Company</u>             | <u>Position with Yitai Group (other than the Target Business Group and the Retained Businesses)</u> | <u>Position with the Target Business Group</u> | <u>Position with the Retained Businesses</u> | <u>Position with Yitai Investment</u> |
|---------------------------|--------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------|---------------------------------------|
| <i>Board of Directors</i> |                                |                                              |                                                                                                     |                                                |                                              |                                       |
| 1.                        | Zhang Donghai <sup>(1)</sup>   | Chairman, Executive Director                 | Director and President                                                                              | None                                           | Director of Yitai Guanglian                  | Director                              |
| 2.                        | Liu Chunlin                    | Executive Director                           | Director and Chief Accountant                                                                       | None                                           | Director of Yitai Guanglian                  | Director                              |
| 3.                        | Ge Yaoyong                     | Executive Director and President             | Director                                                                                            | None                                           | Director of Yitai Guanglian                  | None                                  |
| 4.                        | Zhang Dongsheng <sup>(2)</sup> | Executive Director                           | Director                                                                                            | None                                           | None                                         | None                                  |
| 5.                        | Kang Zhi                       | Executive Director and Vice President        | None                                                                                                | None                                           | None                                         | None                                  |
| 6.                        | Zhang Xinrong                  | Executive Director and Vice President        | None                                                                                                | Directors of Yitai Baoshan and Yitai Tongda    | None                                         | None                                  |
| 7.                        | Lv Guiliang                    | Executive Director and Chief Finance Officer | None                                                                                                | Supervisors of Yitai Baoshan and Yitai Tongda  | None                                         | None                                  |
| 8.                        | Xie Xianghua                   | Independent Non-executive Director           | None                                                                                                | None                                           | None                                         | None                                  |
| 9.                        | Lian Junhai                    | Independent Non-executive Director           | None                                                                                                | None                                           | None                                         | None                                  |
| 10.                       | Song Jianzhong                 | Independent Non-executive Director           | None                                                                                                | None                                           | None                                         | None                                  |
| 11.                       | Tam Kwok Ming, Banny           | Independent Non-executive Director           | None                                                                                                | None                                           | None                                         | None                                  |

(1) Mr. Zhang Donghai is a son of Mr. Zhang Shuangwang. Mr. Zhang Shuangwang and his spouse are beneficially interested in 15.01% of the equity interests of Yitai Investment as members of the Employees Group.

(2) Mr. Zhang Dongsheng is a nephew of Mr. Zhang Shuangwang.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Six of the eleven members of our Board, namely Mr. Zhang Donghai, Mr. Liu Chunlin, Mr. Ge Yaoyong and Mr. Zhang Dongsheng, also hold offices as directors with Yitai Group. The details of each of our overlapping Directors are set out below:

- Mr. Zhang Donghai is an executive Director and the chairman of our Company, who is primarily responsible for the overall corporate strategy, planning and business development of our Group. Mr. Zhang Donghai is also a director and the president of Yitai Group, primarily responsible for the day-to-day management and operation of Yitai Group.
- Mr. Liu Chunlin is an executive Director of our Company and he also serves as a director and the chief accountant of Yitai Group, who is primarily responsible for the financial management of Yitai Group.
- Mr. Ge Yaoyong is an executive Director and the President of our Company, who is primarily responsible for the day-to-day management and operation of our Group, as well as our mine operation. Mr. Ge is also a director of Yitai Group, but has no executive functions within Yitai Group.
- Mr. Zhang Dongsheng is an executive Director of our Company, who is primarily responsible for the construction and operation of our Group's railway business. He is also a director of Yitai Group, but has no executive functions with Yitai Group.
- Mr. Zhang Xinrong is an executive Director and a vice president of our Company. He is primarily assisting our President on our Group's day-to-day business and operations with a focus on the coal production business of our Company. Mr. Zhang Xinrong also serves as a director of Yitai Baoshan and Yitai Tongda, respectively, primarily being responsible for the day-to-day management and operation of the aforesaid two companies.
- Mr. Lv Guiliang is an executive Director and the chief finance officer of our Company. He is primarily responsible for the financial management of our Group. Mr. Lv Guiliang also serves as a supervisor of Yitai Baoshan and Yitai Tongda, respectively, primarily being responsible for the examination of the financial accounts and the performance of the directors and senior management of their duties in the aforesaid two companies.

Although Mr. Zhang Donghai and Mr. Liu Chunlin have executive functions, and have involvement in the day-to-day management of Yitai Group, they both spend the majority of their time and attention on our Company's operations and management as Yitai Group's business is relatively smaller in size compared to ours. And as the Proposed Acquisition will be carried out after the Listing, which will transfer substantially all Yitai Group's coal operation, transportation and trading business to our Company, Mr. Zhang Donghai and Mr. Liu Chunlin expect to spend more time on our Company thereafter. Mr. Ge Yaoyong and Mr. Zhang Dongsheng do not have any executive functions within, and do not have any involvement in the day-to-day management of Yitai Group, and as a result, they spend substantially all of their time on the management of our Company. Although Mr. Zhang Xinrong and Mr. Lv Guiliang also hold positions with Yitai Baoshan and Yitai Tongda, the business of Yitai Baoshan and Yitai Tongda is much smaller in size compared to our business. As a result, each of Mr. Zhang Xinrong and Mr. Lv Guiliang confirmed that they currently devote and will continue to devote the majority of their time and work-related resources to our Group's business and development. In addition, after Yitai Baoshan and Yitai Tongda are transferred to our Company upon the Proposed Acquisition, there will be no overlapping directors and senior management between our Company and Yitai Baoshan and Yitai Tongda. In the event that the Proposed Acquisition cannot be completed within eight months from the Listing Date, to further enhance the independence of our board of Directors, Mr. Zhang Xinrong and Mr. Lv Guiliang have undertaken that they will resign from their respective positions in the Target Business Group. As such, the Directors are of the view that Mr. Zhang Xinrong and Mr. Lv Guiliang's current positions with Yitai Baoshan and Yitai Tongda will not materially affect their discharge of duties as our Directors and senior management.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Apart from those of our Directors set out above with concurrent positions with our Controlling Shareholders, only two of six of our senior management hold positions within the Target Business Group, which will become part of our Group upon the completion of the Proposed Acquisition. All such senior management members are full-time employees of our Company as shown in the table below:

| <u>No</u>                | <u>Name</u>   | <u>Position with our Company</u>                                                                           | <u>Position with Yitai Group (other than the Target Business Group and the Retained Businesses)</u> | <u>Position with the Target Business Group</u> | <u>Position with the Retained Businesses</u> | <u>Position with Yitai Investment</u> |
|--------------------------|---------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------|---------------------------------------|
| <i>Senior Management</i> |               |                                                                                                            |                                                                                                     |                                                |                                              |                                       |
| 1.                       | Ge Yaoyong    | Executive Director and President                                                                           | Director                                                                                            | None                                           | Director of Yitai Guanglian                  | None                                  |
| 2.                       | Kang Zhi      | Executive Director, Vice President and Department Head of the Transportation and Sales Business Department | None                                                                                                | None                                           | None                                         | None                                  |
| 3.                       | Zhang Xinrong | Executive Director, Vice President and Department Head of the Coal Production Business Department          | None                                                                                                | Directors of Yitai Baoshan and Yitai Tongda    | None                                         | None                                  |
| 4.                       | Ji Yongqiang  | Vice President                                                                                             | None                                                                                                | None                                           | None                                         | None                                  |
| 5.                       | Lv Guiliang   | Executive Director and Chief Finance Officer                                                               | None                                                                                                | Supervisors of Yitai Baoshan and Yitai Tongda  | None                                         | None                                  |
| 6.                       | Liu Jiming    | Chief Engineer and President of the Labor's Union                                                          | None                                                                                                | None                                           | None                                         | None                                  |
| 7.                       | Jian Qing'e   | Board Secretary and Joint Company Secretary                                                                | None                                                                                                | None                                           | None                                         | None                                  |

Our Directors believe that our Directors and senior management are able to perform their roles in our Company independently and we are able to operate our businesses independently of the Controlling Shareholders after the Listing for the following reasons:

- Each of our Directors is aware of his or her fiduciary duties as a Director which requires, among others, that he or she acts for the benefit and in the best interests of us and does not allow any conflict between his or her duties as a Director and his or her personal interest.
- The majority — seven out of eleven members of our Board — have no overlapping position with Yitai Group after the Proposed Acquisition. In addition, our Board, as a whole, makes the decisions for our Company pursuant to the Articles of Association.

- The decision-making process of the Board set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of a conflict of interest, such as consideration of resolutions in relation to transactions with the Controlling Shareholders, the relevant Director(s) who is/are connected with the Controlling Shareholders shall be excused from the meeting in respect of such resolution, abstain from voting and not be counted in the quorum. Such resolution shall only be passed by the affirmative votes of at least half of the total number of Directors not associated with the Controlling Shareholders. However, such Director(s) shall not be precluded from attending the rest of the meeting, being counted in the quorum and voting for other matters which such Director(s) is/are not interested. Further, when considering connected transactions, only the independent non-executive Directors will review the relevant transactions.
- The day-to-day operation of our Company is managed by our senior management, most of whom are independent of Yitai Group and Yitai Investment and are our full-time employees; and two of our overlapping Directors and overlapping senior management who hold positions in the Target Business Group will cease to be overlapping Directors and overlapping senior management upon the completion of the Proposed Acquisition.
- We have appointed four independent non-executive Directors, comprising more than one-third of our Board, to provide a better balance of the number of interested and independent Directors with a view to promoting our interests and those of our Shareholders as a whole. Our independent non-executive Directors have diversified skills and expertise and our Board will benefit from their independent advice from various areas.

Based on the above, we are satisfied that we are capable of maintaining independence from the Controlling Shareholders.

### **Independence of business operations**

We are in possession of all production and operating facilities and technology relating to our businesses. Currently, we engage in our core businesses independently, with the independent right to make operational decisions and implement such decisions. The principal raw materials and equipment we use are generally widely available and we are not dependent on the Controlling Shareholders for our supplies. We also have direct and close contact with our customers without dependence on the Controlling Shareholders for market access. We have sufficient capital, equipment and employees to operate our businesses independently from the Controlling Shareholders.

The Controlling Shareholders have undertaken in the Non-competition Agreement and the Transportation Quota License Agreement (as defined in “Connected Transactions”) that Yitai Group will license the transportation quota granted to Yitai Group by the MOR to us for use at nil consideration. For further details, please see the paragraph headed “Non-competition Agreement” and the “Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions — 3. Transportation Quota License Agreement.”

Pursuant to the Trademarks License Agreement (as defined in “Connected Transactions”), Yitai Group has granted us a license to use various trademarks owned by Yitai Group for the term of each of the licensed trademarks and subject to renewal. Further details of the Trademarks License Agreement are set out in “Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions — 1. Trademarks License Agreement.” Yitai Group will use the trademarks mainly for its real estate and the Retained Business. Our Company currently has no plan to develop our own trademark.

During the Track Record Period, the size of the connected transactions between our Group and Yitai Group which will continue after the Listing was relatively low compared to our Group’s total costs and total revenue, respectively. For 2009, 2010 and 2011, the aggregate value of the connected transactions which will continue after the Listing paid by our Group to Yitai Group was approximately RMB123.8 million, RMB123.4 million and RMB151.7 million, respectively, accounting for approximately 2.4%, 2.1% and 1.9% of our Group’s total costs, respectively. For the same period, the aggregate value of the connected transactions which will continue after the Listing paid by Yitai Group to our Group was approximately RMB232.5 million, RMB137.0 million and RMB187.7 million, accounting for approximately 2.3%, 1.0% and 1.1% of our Group’s total revenue, respectively.

After the Listing, the connected transactions in relation to the Target Business Group will cease once the Proposed Acquisition is completed and the connected transactions in relation to the Retained Businesses will cease once the Retained Businesses are acquired by our Group. Please see “Relationship with Controlling Shareholders — Competition — Non-competition Agreement” for details. In addition, except for the coal chemical technology provided by Yitai Group to our Group, there are alternative products and service providers readily available in the market for similar prices and quality services. Therefore, our Directors are of the view that the continuing connected transactions with Yitai Group are not crucial to our Group. Although the coal chemical technology provided by Synfuels China (a subsidiary of Yitai Group) to Yitai Coal-to-oil (a subsidiary of our Group) is crucial for the coal-to-oil production of Yitai Coal-to-oil, given that Yitai Group holds 20% of the equity interests in Yitai Coal-to-oil and is the largest shareholder of Synfuels China, after the Listing the Directors believe that Synfuels China will continue to provide coal chemical technology to Yitai Coal-to-oil as it is in the interest of both Synfuels China and Yitai Group.

As of the Latest Practicable Date our Group has no plan to acquire the 20% equity interest in Yitai Coal-to-oil from Yitai Group as the Directors believe that our Group benefits from the diversification of the shareholding structure of Yitai Coal-to-oil for the following reasons:

- The Directors confirm that as of the date of establishment of Yitai Coal-to-oil, Yitai Group was introduced as a minority shareholder with a 20% shareholding to minimize the risk in investing in the coal chemical industry.
- Given the vast amount of capital expenditure required for the future development of Yitai Coal-to-oil, part of the investment fund will be shared by Yitai Group under the current shareholding structure of Yitai Coal-to-oil.

We have our own organizational structure with independent departments and businesses and administrative units, each with specific areas of responsibility. In addition to maintaining a set of comprehensive internal control procedures to facilitate the effective operation of our businesses, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of our Shareholders as a whole. We have also adopted protective measures to ensure the enforceability of the Non-competition Agreement between us and the Controlling Shareholders. For further details of the enforceability of such protective measures, see “Relationship with Controlling Shareholders — Competition — Non-competition Agreement.” We have also adopted a set of corporate governance measures, such as rules of the Shareholders meeting, rules of the Board meeting, Rules on the conduct of connected transactions, which are modeled based on the PRC laws and regulations.

### **The organisational structure of Yitai Investment**

The organisational structure of Yitai Investment comprises shareholders’ meeting, board of directors and board of supervisors, and the shareholders’ meeting is the organ of authority. The shareholders’ meeting exercises its duties and rights pursuant to the PRC Company Law and the Articles of Association of Yitai Investment.

The board of directors currently comprises seven directors, namely Mr. Zhang Shuangwang (chairman), Mr. Zhang Donghai, Mr. Liu Chunlin, Mr. Qi Wenbin, Mr. Li Chengcai, Mr. Su Zhongyou and Mr. Liu Zhike. Among the seven directors, Mr. Zhang Shuangwang currently also serves as the chairman of Yitai Group. He founded Ikochao League Township Enterprise Company in 1988 and successively held various positions in Yitai Investment, Yitai Group and our Company, respectively. Mr. Zhang Donghai is an executive Director and the chairman of our Company. Mr. Liu Chunlin is an executive Director of our Company. For details of the biographies of Mr. Zhang Donghai and Mr. Liu Chunlin, please refer to “Directors, Supervisors, Senior Management and Employees — Directors.” Mr. Qi Wenbin and Mr. Li Chengcai currently both serve as directors and vice presidents of Yitai Group. They joined the predecessors of Yitai Group in 1990 and 1988, respectively. Mr. Su Zhongyou currently does not hold directorship or senior management positions in Yitai Group and our Company. He joined the predecessor of Yitai Group in 1995. Mr. Liu Zhike currently only serves as an assistant to the chairman of Yitai Group. He joined the predecessor of Yitai Group in 1994. The board of directors is responsible to the shareholders and exercises the management function of our company in accordance with the PRC Company Law and the Articles of Association. The directors are elected by the shareholders during the shareholders’ general meeting every three years and may be re-elected upon expiry of the term.

The board of supervisors currently comprises seven supervisors, namely Mr. Li Wenshan (chairman), Mr. Zhang Guibin, Mr. Liu Wenhong, Mr. Wang Zhipeng, Mr. Zhao Youcun, Mr. Dang Kun and Mr. Yang Deqing. All of the supervisors currently serve as a supervisor of Yitai Group and our Company. The board of supervisors exercises the duties and responsibility in accordance with the PRC Company Law and the articles of association. Each supervisor has a term of three years and may be re-elected upon expiry of the term.

Based on the above, the Directors are of the view that we operate independently from the Controlling Shareholders and their subsidiaries (excluding our Group).

### **Financial independence**

We have our own finance department responsible for discharging the treasury, accounting, reporting, group credit and internal control functions independent from the Controlling Shareholders and their subsidiaries (excluding our Company). We have sufficient capital to operate our businesses independently, and have adequate internal resources and a strong credit profile to support our daily operations. See “Financial Information — Working capital confirmation.”

We have settled all amounts due to the Controlling Shareholders of a non-trade nature and released all guarantees provided for us by the Controlling Shareholders and their subsidiaries (excluding our Company) prior to the Listing, except for the guarantee provided by Yitai Group to Yitai Coal-to-oil in proportion to its beneficial shareholding in Yitai Coal-to-oil. See “Connected Transactions — Continuing Connected Transaction — Exempt continuing connected transaction — 4 Guarantee provided by us for loan facilities granted to Yitai Coal-to-oil.”

The Directors are of the view that we are capable of obtaining financing from third parties without relying on any guarantee or security provided by the Controlling Shareholders and the PRC lenders are independent third parties. Therefore, we operate independently from the Controlling Shareholders from a financial prospective.

### **Corporate governance**

Our Board will consist of not less than four independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We will ensure that our independent non-executive Directors are of sufficient calibre, knowledge and experience, have no connection or relationship with us or our connected persons and will carry weight in our decision-making process.

We have adopted the following decision-making procedures for matters or transactions of potential conflicts of interest between us and Yitai Group:

- Any of our overlapping Directors in Yitai Group will not vote or be counted in the quorum on any resolutions of our Board relating to our transactions (including to exercise or not to exercise the options to acquire the Retained Businesses under the Non-competition Agreement) with Yitai Group.
- Any of our Directors who cannot vote or be counted in the quorum shall not attend the relevant part of the Board meeting or participate in the discussions on the relevant resolution, unless his attendance and participation are specifically invited by our disinterested Directors. The Director will still be subject to the aforementioned restrictions on voting and being counted in the quorum on the relevant resolution.
- Any new business opportunities under the Non-competition Agreement (including to exercise or not to exercise any option under the Non-competition Agreement) and all other matters determined by our Board as having a potential conflict of interest with Yitai Group will be referred to our independent non-executive Directors for discussion and decision. When necessary, they will engage an independent financial advisor to advise them on these matters. If our independent non-executive Directors decide to exercise or not to exercise any option under the Non-competition Agreement, we will inform our Shareholders of the views of our independent non-executive Directors by means of an announcement or in our annual report, if required by applicable laws and the Listing Rules.



|                                                   |
|---------------------------------------------------|
| <b>RELATIONSHIP WITH CONTROLLING SHAREHOLDERS</b> |
|---------------------------------------------------|

- Our annual report will include the views and decisions, with bases, of our independent non-executive Directors on whether to take up any new opportunities under the Non-competition Agreement (including to exercise or not to exercise any option under the Non-competition Agreement) or other matters having a potential conflict of interest with Yitai Group that have been referred to the independent non-executive Directors.
- Our independent non-executive Directors will review the compliance of the Non-competition Agreement of Yitai Group on an annual basis and disclose the results of the review in our annual reports. Yitai Group has undertaken to provide and use reasonable endeavours to procure the provision to our Company of such other information as may be necessary for us to properly consider whether to exercise the option under the Non-competition Agreement.
- All new activities and opportunities between us and any of the Retained Businesses (including the exercise or non-exercise of the options), and any on-going connected transactions, will comply with the applicable requirements under the Listing Rules.

Based on the above, our Board is satisfied that there are sufficient and effective preventive measures to manage conflicts of interest and our Board is able to operate independently of Yitai Group.

## OVERVIEW

In order to minimize any potential competition between our business and the businesses that the Controlling Shareholders will continue to be interested in after the Listing, our Company has entered into the Assets Transfer Agreement with Yitai Group and the Non-competition Agreement with the Controlling Shareholders to regulate the business relationship between the parties. Further details of these agreements are set out in the section headed “Relationship with Controlling Shareholders.”

In addition, we have entered into agreements with other connected persons (as defined under the Listing Rules) and these transactions will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules. Further details of connected persons and such continuing connected transactions are set out below.

The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard 24, “Related Party Disclosures,” and its interpretations by the IASB. Accordingly, the connected transactions set out in this section, which are described and disclosed in accordance with Chapter 14A of the Listing Rules, differ from the related party transactions set out in Note 38 to Appendix IA — “Accountant’s Report of our Company.”

Further, as our B Shares are listed on the SHSE, some of the transactions described below will, in addition to being subject to and regulated by the Listing Rules, continue to be subject to and regulated by the SHSE Listing Rules and other applicable laws and regulations in the PRC as long as our B Shares remain listed on the SHSE. However, the requirements of the Hong Kong Stock Exchange in relation to connected transactions differ from those of the SHSE. In particular, the definition of connected persons pursuant to the Listing Rules is different from the definition of related parties pursuant to the SHSE Listing Rules. Therefore, a connected transaction pursuant to the Listing Rules may not constitute a related party transaction pursuant to the SHSE Listing Rules, and vice versa.

According to the Articles of Association, the continuing connected transaction agreements described in this section and the transactions thereof should be approved by the current Shareholders (including both the shareholders of B Shares and Domestic Shares) by way of ordinary resolution before the Listing. The approvals have been obtained in accordance with the Articles of Association as of the Latest Practicable Date.

## CONNECTED PERSONS

We have entered into agreements or transactions with entities which will become connected persons (as defined under the Listing Rules) of our Company upon Listing, and such agreements or transactions will constitute connected transactions or continuing connected transactions of our Company under the Listing Rules. These entities include:

- **Yitai Group:** Immediately following completion of the Global Offering, Yitai Group will own approximately 55.20%, directly and indirectly, of our Company’s then issued share capital if the Over-allotment Option is not exercised. Yitai Group will therefore be the controlling shareholder, and hence a connected person, of our Company under Rule 14A.11 (1) of the Listing Rules.
- **Yitai Investment:** Yitai Investment owns 99.54% of Yitai Group. Therefore, Yitai Investment is a connected person of our Company under Rule 14A.11(4) of the Listing Rules.
- **Synfuels China:** Synfuels China is 40.4% owned by Yitai Group. Therefore, Synfuels China is a connected person of our Company under Rule 14A.11(4) of the Listing Rules.
- **Yitai Coal-to-oil:** Yitai Coal-to-oil is 80% owned by our Company and 20% owned by Yitai Group. Therefore, Yitai Coal-to-oil is a connected person of our Company under Rule 14A.11(5) of the Listing Rules.
- **Jingneng Power:** Jingneng Power is a 24% shareholder of Yitai Suancigou which is 52% owned by our Company. Therefore, Jingneng Power is a connected persons of our Company under Rule 14A.11(1) of the Listing Rules.
- **Jingtai Power:** Jingtai Power is 51% owned by Jingneng Power. Therefore, Jingtai Power is a connected persons of our Company under Rule 14A.11(4) of the Listing Rules.

## CONNECTED TRANSACTIONS

- Guangdong Power Industry Fuel Co., Ltd. (“Guangdong Power Company”) (廣東省電力工業燃料有限公司): Guangdong Power Company is a subsidiary of Guangdong Yudean Group Co., Ltd. (廣東省粵電集團有限公司), which is the controlling shareholder of Shanxi Yudean. Shanxi Yudean is a substantial shareholder of Yitai Suancigou which is 52% owned by our Company. Therefore, Guangdong Power Company is a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

## CONTINUING CONNECTED TRANSACTION

### Summary Table of the Continuing Connected Transactions

| Transaction                                                                  | Our Group Member                          | Connected Persons                                                             | Nature of Relationship                                                                                                                    | Waiver Sought            | Historical Amounts (if applicable)                                                                                                                     | Annual Caps (if applicable)                                                                                                       |
|------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Exempt continuing connected transaction</b>                               |                                           |                                                                               |                                                                                                                                           |                          |                                                                                                                                                        |                                                                                                                                   |
| 1 Trademarks License Agreement                                               | Our Company                               | Yitai Group <sup>(1)</sup>                                                    | One of our Controlling Shareholders                                                                                                       | Exempted                 | N/A                                                                                                                                                    | N/A                                                                                                                               |
| 2 Master Lease Agreement                                                     | Our Company                               | Yitai Investment <sup>(2)</sup> and Yitai Group                               | Both of our Controlling Shareholders                                                                                                      | Exempted                 | N/A                                                                                                                                                    | N/A                                                                                                                               |
| 3 Transportation Quota License Agreement                                     | Our Company                               | Yitai Group                                                                   | One of our Controlling Shareholders                                                                                                       | Exempted                 | N/A                                                                                                                                                    | N/A                                                                                                                               |
| 4 Guarantees provided by us for loan facilities granted to Yitai Coal-to-oil | Our Company                               | Yitai Coal-to-oil <sup>(3)</sup>                                              | Our non-wholly-owned subsidiary with 20% voting rights held by Yitai Group                                                                | Exempted                 | N/A                                                                                                                                                    | N/A                                                                                                                               |
| <b>Non-exempt continuing connected transactions</b>                          |                                           |                                                                               |                                                                                                                                           |                          |                                                                                                                                                        |                                                                                                                                   |
| 5 Provision of coal by us to Yitai Coal-to-oil                               | Our Company                               | Yitai Coal-to-oil                                                             | Our non-wholly-owned subsidiary with 20% voting rights held by Yitai Group                                                                | Announcement requirement | For 2009, 2010 and 2011, the total revenue we received amounted to approximately RMB56.6 million, RMB113.7 million and RMB298.5 million, respectively. | For 2012, 2013 and 2014, the annual caps are approximately RMB359.1 million per year.                                             |
| 6 Provision of coal by us to Jingneng Power (Including Jingtai Power)        | Yitai Suancigou, our 52% owned subsidiary | Jingneng Power <sup>(4)</sup> and Jingtai Power, subsidiary of Jingneng Power | Jingneng Power is a substantial shareholder of Yitai Suancigou, our 52% owned subsidiary. Jingtai Power is a subsidiary of Jingneng Power | Announcement requirement | For 2009, 2010 and 2011, the total revenue we received amounted to approximately RMB3.7 million, RMB191.3 million and RMB239.8 million, respectively.  | For 2012, 2013 and 2014, the annual caps are approximately RMB471.0 million, RMB487.5 million and RMB515.0 million, respectively. |

## CONNECTED TRANSACTIONS

| Transaction                                                                                                                                                   | Our Group Member                                  | Connected Persons                                           | Nature of Relationship                                                                                                                                                                     | Waiver Sought                                                    | Historical Amounts (if applicable)                                                                                                                                                                                                                                                                        | Annual Caps (if applicable)                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7 Mutual provision of materials, equipment and services between us and Yitai Group, in respect of the Retained Businesses and other businesses of Yitai Group | Our Company and Yitai Coal-to-oil, our subsidiary | Yitai Group and Synfuels China, a subsidiary of Yitai Group | Yitai Group is one of our Controlling Shareholders, Synfuels China is a subsidiary of Yitai Group.                                                                                         | Announcement requirement                                         | For 2009, 2010 and 2011, the total revenue we received amounted to approximately RMB19.9 million, RMB21.9 million and RMB36.8 million, respectively, and for the same periods, the total cost we paid amounted to approximately RMB3.5 million, RMB9.9 million and RMB18.3 million, respectively.         | For 2012, 2013 and 2014, the annual caps for the revenue that we expect to receive are approximately RMB54.8 million, RMB62.7 million and RMB71.9 million, respectively. For the same periods, the annual caps for the fees that we expect to pay are approximately RMB40.0 million per year. |
| 8 Provision of coal by us to Guangdong Power Company                                                                                                          | Our Company                                       | Guangdong Power Company <sup>(5)</sup>                      | A subsidiary of Guangdong Yudean Group Co., Ltd., the controlling shareholder of Shanxi Yudean and Shanxi Yudean is a substantial shareholder of Yitai Suancigou, our 52% owned subsidiary | Announcement and independent shareholders' approval requirements | For 2009, 2010 and 2011, the total revenue we received amounted to approximately RMB670.4 million, RMB919.1 million and RMB1,000.9 million, respectively.                                                                                                                                                 | For 2012, 2013 and 2014, the annual caps are approximately RMB1,692.5 million, RMB2,046.8 million and RMB2,449.0 million, respectively.                                                                                                                                                       |
| 9 Mutual provision of products and service between Yitai Group and us, in respect of the Target Business Group                                                | Our Company                                       | Yitai Group                                                 | Yitai Group is one of our Controlling Shareholders                                                                                                                                         | Announcement and independent shareholders' approval requirements | For 2009, 2010 and 2011, the total cost we paid amounted to approximately RMB120.3 million, RMB113.5 million and RMB133.4 million, respectively, and for the same periods, the total revenue we received amounted to approximately RMB212.6 million, RMB115.1 million and RMB150.9 million, respectively. | For 2012 and 2013, the annual caps we expect to pay are approximately RMB4,553.2 million and RMB4,982.2 million. For 2012 and 2013, the annual cap we expect to receive are approximately RMB180.0 million and RMB202.5 million, respectively.                                                |

- (1) The primary businesses of Yitai Group include coal production and sales, technology development in relation to coal-based chemical products and real estate development.
- (2) The primary business of Yitai Investment is the holding of equity interests in Yitai Group.
- (3) The primary businesses of Yitai Coal-to-oil include the production and sale of coal chemical products.
- (4) The primary business of Jingneng Power is coal power generation.
- (5) The primary business of Guangdong Power Company is the procurement of coal for Guangdong Yudean Group Co., Ltd.

### Exempt continuing connected transaction

We have entered into certain agreements and transactions which will, upon the Listing, constitute exempt continuing connected transactions by virtue of Rule 14A.33. These transactions are exempt from the

reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## 1 Trademarks License Agreement

We entered into a trademarks license agreement (the "Trademarks License Agreement") with Yitai Group on May 29, 2012, pursuant to which, Yitai Group agreed to grant to us, our subsidiaries and associates the right to use certain Yitai Group's trademarks at a nominal consideration of RMB1.0 per year. A list of the material trademarks granted by Yitai Group was set out in "Appendix X — Statutory and General Information — Further Information About Our Business — (B) Our intellectual property rights."

The Trademarks License Agreement is for a term commencing on the Listing Date and ending on December 31, 2014 and may be renewed for a period of three years upon mutual agreement, subject to compliance with the requirements of relevant laws and the Listing Rules.

Pursuant to the Trademarks License Agreement, except for the use of the licensed trademarks by our related parties, we undertake not to sub-license the licensed trademarks to, or allow the use of the licensed trademarks by, any third parties without the written consent of Yitai Group. Yitai Group undertakes not to transfer the licensed trademarks under the Trademarks License Agreement to any third parties without our written consent. However, Yitai Group is entitled to transfer the licensed trademarks to its related parties. We are also granted the right of first refusal when Yitai Group transfers the licensed trademarks to any third parties.

## 2 Master Lease Agreement

Each of Yitai Investment and Yitai Group has been leasing from us some premises in Yitai Building situated in Dongsheng District, Ordos, Inner Mongolia with a gross floor area of approximately 1,276 sq.m (in aggregate 2,552 sq.m) for offices and general business uses throughout the Track Record Period. These transactions will continue after the Listing. In this connection, we and Yitai Investment, Yitai Group entered into a properties lease agreement (the "Master Lease Agreement") on May 29, 2012, pursuant to which we agreed to continue to lease to each of Yitai Investment and Yitai Group the aforementioned premises for use as offices and general business premises at an annual rent of RMB995,280 (in aggregate RMB1,990,560). Such rental payment is determined by reference to prevailing market rates and our property valuer, CBRE HK, has confirmed that the rent under the Master Lease Agreement is fair and reasonable.

The Master Lease Agreement is for a term commencing on the Listing Date and ending on December 31, 2014 and may be renewed for a period of three years upon mutual agreement subject to compliance with the requirements of relevant laws and the Listing Rules. Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Listing Rules are complied with. Yitai Investment and Yitai Group may terminate the Master Lease Agreement upon giving us three months' written notice in advance.

Yitai Investment and Yitai Group shall have the right of first refusal to purchase any of the leased properties on equal terms offered by a third party. Yitai Investment and Yitai Group may sub-lease any of the properties subject to our consent.

## 3 Transportation Quota License Agreement

During the Track Record Period, Yitai Group applied for transportation quotas to the MOR annually for both itself and our Group. The transportation quotas were granted by the MOR based on the total coal production volume of Yitai Group and our Group. Yitai Group then licensed us to use the allocated transportation quotas at nil consideration for transporting Yitai Group's and our coal products. For details of the transportation quotas licensed by Yitai Group to our Group during the Track Record Period, please refer to "Risk Factors — Risks Relating to Our Business — We may experience shortage of transportation capacity for our coal products or a significant increase in transportation costs" and "Business — Coal Operations — Coal Transportation — Our Transportation Network." Yitai Group will remain to be the applicant for transportation quotas for itself and us, and it will continue to license us to use the transportation quotas on a no-charge basis after the Listing. To regulate our relationship in this connection, we and Yitai Group entered into a transportation quota license agreement (the "Quota Licence Agreement") on May 29, 2012.

Pursuant to the Quota License Agreement, Yitai Group agreed to license the transportation quotas to our Group and associates at nil consideration. Yitai Group has undertaken not to use the transportation quotas by itself for coal trading. We have the right to decide the amount of transportation quotas that are necessary for our operation for the next year and inform Yitai Group of the amount no later than December 15 of each year. Yitai Group is obliged to satisfy our request first before it can provide transportation quotas to any third party. Yitai Group has further undertaken that if our Company is qualified to independently apply for transportation quotas to the MOR, it will terminate its application and make every effort to procure for us to obtain the transportation quotas.

The Quota License Agreement is for a term of one year commencing on January 1, 2012 and ending on December 31, 2012. It may be renewed automatically for one year upon expiration, subject to compliance with the requirements of relevant laws and the Listing Rules. Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Listing Rules are complied with.

#### **4 Guarantees provided by us for loan facilities granted to Yitai Coal-to-oil**

We have entered into two guarantees dated August 17, 2010 as guarantor in favour of China Development Bank, Inner Mongolia Branch with respect to two project loan facilities in an aggregate amount of up to RMB2.0 billion provided by China Development Bank to Yitai Coal-to-oil, our 80% owned subsidiary.

Under the two guarantees, we are liable as the guarantor for 80% of both of the debts of Yitai Coal-to-oil under the project loan facilities. The guarantees continue while both of the debts remain outstanding under the project loan facilities, which have terms expiring on July 22, 2020 and November 12, 2021, respectively.

The guarantees were granted by us in our capacity as a shareholder of, and in the proportion of our beneficial shareholding in Yitai Coal-to-oil. The guarantees were entered into in the ordinary course of business for the purpose of facilitating the grant of the project loan facilities to Yitai Coal-to-oil. The other shareholder of Yitai Coal-to-oil, Yitai Group, has also procured 20% guarantee in proportion to its beneficial shareholding. It is a common practice in the PRC that the lending banks require the provision of corporate guarantees or other forms of security from a borrower's shareholders.

The guarantees will continue after the Listing and will constitute financial assistance. We have not charged any fees in relation to the provision of the guarantees and will continue to provide the guarantees at no charge after the Listing.

After taking into account the common banking practice in the PRC and the guarantees provided by Yitai Group to Yitai Coal-to-oil in proportion to its beneficial ownership, the Directors are of the view that such arrangements are fair and reasonable, on normal commercial terms and in our and our Shareholders' interest, as a whole.

The continuation of the guarantees after the Listing is exempt from compliance with the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(3) of the Listing Rules.

#### **Non-exempt Continuing Connected Transactions**

We have also entered into certain other agreements and transactions which will constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

#### **Continuing connected transactions exempt from independent shareholders' approval requirements**

The following transactions are made on normal commercial terms where each of the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors currently expect, exceed 0.1% or exceed 1% at the subsidiary level but not be more than 5% on an annual basis. By virtue of Rule 14A.34 of the Listing Rules, these transactions will constitute continuing connected transactions exempt from the independent shareholders' approval requirement, but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.



## 5 Provision of coal by us to Yitai Coal-to-oil

During the Track Record Period, we supplied coal to Yitai Coal-to-oil and the transaction will continue after the Listing. As Yitai Coal-to-oil is our non-wholly-owned subsidiary, and Yitai Group holds 20% of the equity interest in Yitai Coal-to-oil, Yitai Coal-to-oil is a connected person of our Company under Rule 14A.11 and the provision of coal after the Listing constitutes a continuing connected transaction under the Listing Rules.

To regulate the business relationship in this regard, we entered into a coal supply framework agreement (the "Coal-to-oil Coal Supply Agreement") with Yitai Coal-to-oil on May 29, 2012.

The Coal-to-oil Coal Supply Agreement is for a term commencing from the Listing Date and ending on December 31, 2014 and may be renewed for a period of three years upon mutual agreement, subject to compliance with the requirements of relevant laws and the Listing Rules. Pursuant to the Coal-to-oil Coal Supply Agreement, Yitai Coal-to-oil has undertaken that it shall purchase coal from our Company, unless the terms and conditions of third parties are more favorable.

Our Company and Yitai Coal-to-oil will enter into separate agreements from time to time which set out specific terms and conditions of providing coal according to the principles laid down by the Coal-to-oil Coal Supply Agreement. Yitai Coal-to-oil shall, no later than December 15 of each calendar year, inform us of the estimated amount of coal it will purchase for the next year.

The coal to be provided under the Coal-to-oil Coal Supply Agreement will be priced based on the following pricing policies: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the market price; or (d) where none of the above is applicable or where it is not practical to apply the above pricing policies, the price agreed between the relevant parties.

The total volume of coal provided by us to Yitai Coal-to-oil for 2009, 2010 and 2011 amounted to approximately 232.1 thousand tonnes, 517.0 thousand tonnes and 923.6 thousand tonnes, representing sales of approximately RMB56.6 million, RMB113.7 million and RMB298.5 million, respectively.

For 2012, 2013 and 2014, we estimate the annual amounts payable by Yitai Coal-to-oil to us will not exceed RMB359.1 million for each of the three years and the estimation is based on the following considerations: (1) Yitai Coal-to-oil reached a production capacity of 160.0 thousand tonnes per year in July 2011 and completed an upgrading project by the end of 2011, as a result of which, the production output of Yitai Coal-to-oil in 2012, 2013 and 2014 is expected to be 200.0 thousand tonnes per year; (2) as Yitai Coal-to-oil has undertaken to procure coal from us, unless the terms and conditions of third parties are more favorable, we expect that it will procure coal from us for the production of oil products and the total volume of coal procured from us will not exceed 1.26 million tonnes per year for 2012, 2013 and 2014; and (3) the unit price of coal is expected to be RMB285.0 per tonne, based on the market price of the same type of coal used in the coal-to-oil production.

Based on the above-mentioned considerations, we estimate that the total annual amount payable by Yitai Coal-to-oil to us in respect of 2012, 2013 and 2014 will not exceed RMB359.1 million per year.

A breakdown of the historical figures and the annual caps between us and Yitai Coal-to-oil is set out below:

|                                                        | Historical amount               |       |       | Annual cap                       |       |       |
|--------------------------------------------------------|---------------------------------|-------|-------|----------------------------------|-------|-------|
|                                                        | For the year ended December 31, |       |       | For the year ending December 31, |       |       |
|                                                        | 2009                            | 2010  | 2011  | 2012                             | 2013  | 2014  |
|                                                        | RMB millions                    |       |       |                                  |       |       |
| Provision of coal by us to Yitai Coal-to-oil . . . . . | 56.6                            | 113.7 | 298.5 | 359.1                            | 359.1 | 359.1 |

The provision of coal by us to Yitai Coal-to-oil under the Coal-to-oil Coal Supply Agreement will be subject to the announcement requirement under the Listing Rules.

## 6 Provision of coal by us to Jingneng Power (including Jingtai Power)

During the Track Record Period, Yitai Suancigou, our 52% owned subsidiary, supplied coal to Jingtai Power, a subsidiary of Jingneng Power. From 2011, our Company began to provide coal to Jingneng Power. All these transactions will continue after the Listing.

To the best knowledge of our Directors, Yitai Group started to provide coal to Jingneng Power from 2010. As all the coal of Yitai Group, except for Sujiahao Mine (whose coal will be sold through our sales channel), will be exclusively purchased by us as the purchaser for re-sale after the Listing, we will replace Yitai group in providing coal to Jingneng Power after the Listing.

Jingtai Power is a subsidiary of Jingneng Power, which is a substantial shareholder of Yitai Suancigou. Therefore, both Jingneng Power and Jingtai Power are connected persons of our Company under Rule 14A.11 of the Listing Rules and the provision of coal after the Listing constitutes connected transactions under the Listing Rules.

To regulate the above business relationships after the Listing, we entered into a coal supply framework agreement ("Jingneng Coal Supply Agreement") with Jingneng Power (for itself and on behalf of its subsidiaries and associates, including Jingtai Power) on May 29, 2012.

The Jingneng Coal Supply Agreement is for a term commencing from the Listing Date and ending on December 31, 2014 and may be renewed for a period of three years upon mutual agreement, subject to compliance with the requirements of relevant laws and the Listing Rules. Pursuant to the Jingneng Coal Supply Agreement, we will supply coal to Jingneng Power and its subsidiaries, and Jingneng Power and its subsidiaries will purchase coal from us. Each party is entitled to enter into transactions with any third party, provided that each party's obligations under the Jingneng Coal Supply Agreement are duly fulfilled.

Our Company and Jingneng Power will enter into separate agreements from time to time which shall set out the specific terms and conditions of providing coal according to the principles laid down in the Jingneng Coal Supply Agreement. Jingneng Power shall inform us no later than December 15 of each year the estimated amount of coal it will purchase for the next year.

The coal to be provided under this agreement will be priced based on the following pricing policy: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the market price; or (d) where none of the above is applicable or where it is not practical to apply the above pricing policies, the price agreed between the relevant parties.

### i. Provision of coal by Yitai Suancigou to Jingtai Power

Yitai Suancigou, our 52% owned subsidiary, commenced to supply coal to Jingtai Power from December 2009. Jingtai Power is an ancillary coal power plant to Yitai Suancigou, which is in proximity to Yitai Suancigou, and, therefore, all the coal consumed by Jingtai Power is sourced from Yitai Suancigou. Jingtai Power underwent a trial run in 2009 and 2010 and procured all coal consumed from Yitai Suancigou from 2009. For 2009, 2010 and 2011, the total volume and value of coal products provided by Yitai Suancigou to Jingtai Power amounted to approximately 21.0 thousand tonnes, 1,244.4 thousand tonnes and 1,645.2 thousand tonnes, respectively, representing sales of RMB3.7 million, RMB191.3 million and RMB232.4 million, respectively.

We estimate the annual amounts payable by Jingtai Power to Yitai Suancigou based on the following considerations: (1) Given that Jingtai Power became fully operational in April 2011 and it procured all coal from Yitai Suancigou, it is expected that the provision of coal will increase from 1,645.2 thousand tonnes in 2011 to no more than 2,000.0 thousand tonnes per year for each of 2012, 2013 and 2014; and (2) for 2012, 2013 and 2014, we estimate the average price of coal supplied to Jingtai Power will remain constant at approximately RMB175 per tonne. As such, it is estimated that the value of coal provided by Yitai Suancigou to Jingtai Power in respect of 2012, 2013 and 2014 will not exceed RMB350.0 million per year.

## CONNECTED TRANSACTIONS

### ii. Provision of coal by our Company and Yitai Group to Jingneng Power

Our Company began to provide coal to Jingneng Power from 2011. For 2011, we provided 12.9 thousand tonnes of coal to Jingneng Power, representing sales of RMB7.4 million. To the best knowledge of our Directors, Yitai Group also provided coal to Jingneng Power from June 2010. For 2010 and 2011, the total volume of coal provided by Yitai Group to Jingneng Power amounted to approximately 78.5 thousand tonnes and 172.6 thousand tonnes, representing sales of RMB43.2 million and RMB96.9 million. After the Listing, as all the coal of Yitai Group, except for Sujiahao Mine (whose coal will be sold through our sales channel), will be exclusively purchased by us for re-sale, and pursuant to a consent letter issued by Jingneng Power, our Company will replace Yitai Group to provide coal to Jingneng Power. Therefore, it is estimated that the volume of coal provided by us to Jingneng Power for 2012, 2013 and 2014 will be no more than 220.0 thousand tonnes, 250.0 thousand tonnes and 300.0 thousand tonnes, respectively. Taking different coal types and transportation cost into consideration, the current unit price of coal is approximately RMB550.0 per tonne. We estimate that the annual amounts payable by Jingneng Power to us for 2012, 2013 and 2014 will not exceed RMB121.0 million, RMB137.5 million and RMB165.0 million, respectively.

The total amount payable by Jingneng Power (including Jingtai Power) to our Company (including Yitai Suancigou) for 2009, 2010 and 2011 amounted to RMB3.7 million, RMB191.3 million and RMB239.8 million, respectively. For 2012, 2013 and 2014, we estimate the annual caps will not exceed RMB560.0 million per year.

Set out below is a breakdown of the historical figures and annual caps between us and Jingneng Power (including Jingtai Power):

|                                                                                               | Historical amount                  |       |       | Annual cap                          |       |       |
|-----------------------------------------------------------------------------------------------|------------------------------------|-------|-------|-------------------------------------|-------|-------|
|                                                                                               | For the year ended<br>December 31, |       |       | For the year ending<br>December 31, |       |       |
|                                                                                               | 2009                               | 2010  | 2011  | 2012                                | 2013  | 2014  |
|                                                                                               | RMB millions                       |       |       |                                     |       |       |
| Provision of coal by Yitai Suancigou to Jingtai Power . . . . .                               | 3.7                                | 191.3 | 232.4 | 350.0                               | 350.0 | 350.0 |
| Provision of coal by our Company to Jingneng Power . . . . .                                  | 0                                  | 0     | 7.4   | 121.0                               | 137.5 | 165.0 |
| Provision of coal by Yitai Group to Jingneng Power . . . . .                                  | 0                                  | 43.2  | 96.9  | 0                                   | 0     | 0     |
| Total amount received by our Group from Jingneng Power<br>(including Jingtai Power) . . . . . | 3.7                                | 191.3 | 239.8 | 471.0                               | 487.5 | 515.0 |

The Jingneng Coal Supply Agreement will be subject to the announcement requirement under the Listing Rules.

### 7 Mutual provision of materials, equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group

With respect to the Retained Businesses and other businesses of Yitai Group, during the Track Record Period, we provided materials and equipment to Yitai Group. And Synfuels China, a subsidiary of Yitai Group, provided coal chemical materials to Yitai Coal-to-oil, our subsidiary. These transactions will continue after the Listing.

After the Listing, apart from the above-mentioned transactions, Yitai Group will exclusively supply all the coal produced by Hongqinghe Mine (if any) to us as the purchaser for re-sale, and will appoint us as the exclusive sales agent for all the coal produced by Sujiahao Mine. These transactions will no longer constitute connected transactions of our Company once we exercise our option to acquire Hongqinghe Mine and Sujiahao Mine pursuant to the Non-competition Agreement. For details of the Non-competition Agreement, please refer to "Relationship with Controlling Shareholders — Competition — Non-competition Agreement."

To regulate the business relationship, we entered into a provision of products and service framework agreement with respect to the Retained Businesses and other businesses of Yitai Group ("Retained Businesses and Other Businesses Framework Agreement") with Yitai Group on May 29, 2012.

The Retained Businesses and Other Businesses Framework Agreement is for a term commencing from the Listing Date and ending on December 31, 2014 and may be renewed for a period of three years upon mutual agreement, subject to compliance with the requirements of relevant laws and the Listing Rules.

Pursuant to the Retained Businesses and Other Businesses Framework Agreement, all the coal produced by Hongqinghe Mine (if any) shall be exclusively supplied to our Company as the purchaser for re-sale. And our Company will be appointed as the exclusive sales agent for all the coal produced by Sujiahao Mine. Without prejudice to the exclusive sales agent arrangement for all the coal produced by Sujiahao Mine and the exclusive supply of coal produced by Hongqinghe Mine (if any), with regard to the provision of products (excluding coal products) and services, if the terms and conditions of similar products and services offered by an independent third party are not more favorable than those offered by the contract party, the other party shall give priority in sourcing the requisite products and services from the contract party instead of the independent third party.

Our Company and Yitai Group will enter into separate agreements from time to time which shall set out the specific terms and conditions of providing products and services according to the principles laid down in the Retained Businesses and Other Businesses Framework Agreement.

The materials and products to be provided under the Retained Businesses and Other Businesses Framework Agreement will be priced based on: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the market price; or (d) where none of the above is applicable or where it is not practical to apply the above pricing policies, the price agreed between the relevant parties.

In relation to the exclusive agency service provided by our Company to Yitai Group, the agency fee will be 1% of the total revenue of the coal sales or such other fee as determined by our Company and Yitai Group based on the market condition at that time. Other services will be priced based on: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the bidding price where the bidding process is required or the market price where there is no bidding process; or (d) if the price offered by Yitai Group equals to or is more favourable than the bidding prices offered by other independent third parties, we shall procure services from Yitai Group instead of the independent third parties.

i. Provision of materials, equipment and exclusive sales agency service by us to Yitai Group

During the Track Record Period, we provided materials and equipment to Yitai Group. The total value of materials and equipment provided by us to Yitai Group for 2009, 2010 and 2011 amounted to approximately RMB19.9 million, RMB21.9 million and RMB36.8 million, respectively. The significant increase from 2010 to 2011 was mainly due to: (1) the increase in production volume of the Retained Mines; and (2) the renewal and renovation of equipment of Sujiahao Mine. Given that (1) we estimate that Hongqinghe Mine may obtain the project approval from the NDRC in the second half of 2012 and then it will start to procure materials and equipment from us for its preliminary constructions. If Hongqinghe Mine obtains the project approval in the second half of 2012, we estimate the value of materials and equipment supplied to Hongqinghe Mine will be no more than RMB10.0 million. If the actual amount of materials and equipment acquired by Hongqinghe Mine is more than RMB10.0 million, we will comply with relevant requirements under the Listing Rules; and (2) the price of materials and equipment will increase by no more than 15% per year based on our estimation on the market price trend, and hence it is estimated that the value of materials and equipment provided by us to Yitai Group for 2012, 2013 and 2014 will not exceed RMB50.0 million, RMB57.5 million and RMB66.1 million, respectively.

In addition, pursuant to the Non-competition Agreement, we will provide exclusive sales agency service to Sujiahao Mine of Yitai Group after the Listing. There are no historical figures as the exclusive sales agency service will commence only after the Listing. However, to the best knowledge of our Directors, the volume and value of coal produced by Sujiahao Mine for 2009, 2010 and 2011 amounted to approximately 818.5 thousand tonnes, 1,207.9 thousand tonnes and 1,079.3 thousand tonnes, respectively, representing sales of approximately RMB293.2 million, RMB414.4 million and RMB381.9 million, respectively. The significant increase from 2009 to 2010 was due to the increase in the production volume of Sujiahao Mine after an upgrading project. We estimate that the production volume of Sujiahao Mine will remain stable and will not exceed 1,200.0 thousand tonnes per year in 2012, 2013 and 2014. Based on the market price of the type of coal produced by Sujiahao Mine, which was approximately RMB360 per tonne in 2011, which is estimated to increase by 10% per year, and considering that our sales agency fee will be 1% of the total sales of Sujiahao

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Mine, we estimate that for 2012, 2013 and 2014, the total value of sales agency service payable to us by Yitai Group will not exceed RMB4.8 million, RMB5.2 million and RMB5.8 million, respectively.

Pursuant to the Retained Businesses and Other Businesses Framework Agreement, all the coal produced by Hongqinghe Mine (if any) shall be exclusively supplied to us as the purchaser for re-sale. To the best knowledge of our Directors, Yitai Group has obtained the NDRC approval on the overall planning of Hongqinghe Mine but it has not obtained the project approval from the NDRC and the development of Hongqinghe Mine is still at a preliminary preparation stage. After Hongqinghe Mine becomes operational, we will review the annual caps and comply with the applicable disclosure, announcement and/or independent shareholders' approval requirements under the Listing Rules.

|                               | Historical amount<br>For the year ended<br>December 31, |      |      | Annual cap<br>For the year ending<br>December 31, |      |      |
|-------------------------------|---------------------------------------------------------|------|------|---------------------------------------------------|------|------|
|                               | 2009                                                    | 2010 | 2011 | 2012                                              | 2013 | 2014 |
|                               | RMB millions                                            |      |      |                                                   |      |      |
| Provided by us to Yitai Group |                                                         |      |      |                                                   |      |      |
| Materials and equipment       | 19.9                                                    | 21.9 | 36.8 | 50.0                                              | 57.5 | 66.1 |
| Sales agent service           | N/A                                                     | N/A  | N/A  | 4.8                                               | 5.2  | 5.8  |
| Total                         | 19.9                                                    | 21.9 | 36.8 | 54.8                                              | 62.7 | 71.9 |

### ii. Provision of materials by Synfuels China to Yitai Coal-to-oil

For 2009, 2010 and 2011, the volume and value of coal chemical materials provided by Synfuels China to Yitai Coal-to-oil amounted to approximately 35.0 tonnes, 99.0 tonnes and 174.0 tonnes, respectively, representing sales of approximately RMB3.5 million, RMB9.9 million and RMB18.3 million, respectively. As Yitai Coal-to-oil underwent a trial run in 2010 and has reached its designed capacity in 2011, there was significant increase in the volume and value of coal chemical materials from 2009 to 2011. Taking into accounts of the production plan of the Yitai Coal-to-oil, it is expected that Synfuels China will supply approximately 200 tonnes of coal chemical materials to Yitai Coal-to-oil for each of 2012, 2013 and 2014. Given the unit price of coal chemical materials which increased from approximately RMB100,000 per tonne in 2011 to RMB200,000 per tonne from 2012 according to agreement between Yitai Coal-to-oil and Synfuels China, the annual fees payable by Yitai Coal-to-oil to Synfuels China for 2012, 2013 and 2014 will be no more than RMB 40.0 million per year.

A breakdown of the approximate historical provision of materials by Synfuels China to Yitai Coal-to-oil is set out below:

|                                                                 | Historical amount<br>For the year ended<br>December 31, |      |      | Annual cap<br>For the year ending<br>December 31, |      |      |
|-----------------------------------------------------------------|---------------------------------------------------------|------|------|---------------------------------------------------|------|------|
|                                                                 | 2009                                                    | 2010 | 2011 | 2012                                              | 2013 | 2014 |
|                                                                 | RMB millions                                            |      |      |                                                   |      |      |
| Provision of coal chemical materials by Synfuels China to Yitai |                                                         |      |      |                                                   |      |      |
| Coal-to-oil                                                     | 3.5                                                     | 9.9  | 18.3 | 40.0                                              | 40.0 | 40.0 |

The mutual provision of materials, equipment and services under the Retained Businesses and Other Businesses Framework Agreement will be subject to the announcement requirement under the Listing Rules.

### *Continuing connected transaction subject to independent shareholders' approval requirement*

The following transactions are entered into on normal commercial terms where each of the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors currently expect, exceed 5% on an annual basis. By virtue of Rule 14A.34 and 14A.35 of the Listing Rules, each of such transactions will constitute a non-exempt continuing connected transaction subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



## 8 Provision of coal by us to Guangdong Power Company

During the Track Record Period, we supplied coal to Guangdong Power Company. After the Listing, we will continue to supply coal to Guangdong Power Company.

Guangdong Power Company is a subsidiary of Guangdong Yudean Group Co., Ltd. (廣東省粵電集團有限公司), which is the controlling shareholder of Shanxi Yudean. Shanxi Yudean is a substantial shareholder of Yitai Suancigou. Therefore, Guangdong Power Company is a connected person of our Company under Rule 14A.11 of the Listing Rules and the provision of coal after the Listing constitutes a connected transaction under the Listing Rules.

To regulate the business relationship after the Listing, we entered into a coal supply framework agreement ("Guangdong Power Coal Supply Agreement") with Guangdong Power Company (for itself and on behalf of its subsidiaries and associates) on May 29, 2012, pursuant to which we will supply coal to Guangdong Power Company.

The Guangdong Power Coal Supply Agreement is for a term commencing from the Listing Date and ending on December 31, 2014 and may be renewed for a period of three years upon mutual agreement, subject to compliance with the requirements of relevant laws and the Listing Rules. Pursuant to the Guangdong Power Coal Supply Agreement, we will supply coal to Guangdong Power Company and Guangdong Power Company will purchase coal from us. Each party is entitled to enter into transactions with any third party, provided that each party's obligations under the Guangdong Power Coal Supply Agreement are duly fulfilled.

Our Company and Guangdong Power Company will enter into separate agreements from time to time which shall set out the specific terms and conditions of providing coal according to the principles laid down by the Guangdong Power Coal Supply Agreement. Guangdong Power Company shall inform us no later than December 15 of each year the estimated amount of coal it will purchase for the next year.

The coal products to be provided under this agreement will be priced based on the following pricing policy: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the market price; or (d) where none of the above is applicable or where it is not practical to apply the above pricing policies, the price agreed between the relevant parties.

For 2009, 2010 and 2011, the total volume and value of coal products provided by us to Guangdong Power Company amounted to approximately 1,196.5 thousand tonnes, 1,492.1 thousand tonnes and 1,559.4 thousand tonnes, respectively, representing sales of approximately RMB670.4 million, RMB919.1 million and RMB1,000.9 million, respectively. The provision of coal by our Company continuously increased during the Track Record Period due to the continuously strengthened relationship between our Group and Guangdong Power Company and this trend will continue after Listing. During the Track Record Period, Yitai Group also supplied coal to Guangdong Power Company. As all the coal produced by Yitai Group, except for Sujiahao Mine (whose coal will be sold through our sales channel), will be exclusively supplied to us as the purchaser for re-sale after the Listing, and pursuant to a consent letter issued by Guangdong Power Company, the coal that was originally supplied by Yitai Group to Guangdong Power Company will be supplied by us. To the best knowledge of our Directors, for 2009, 2010 and 2011, the volume and value of coal supplied by Yitai Group to Guangdong Power Company amounted to approximately 768.2 thousand tonnes, 645.7 thousand tonnes and 664.0 thousand tonnes, respectively, representing sales of approximately RMB412.6 million, RMB388.0 million and RMB392.1 million, respectively.

Based on the above, for 2009, 2010 and 2011, the total volume and value of coal provided by our Group and Yitai Group to Guangdong Power Company amounted to approximately 1,964.7 thousand tonnes, 2,137.8 thousand tonnes and 2,223.4 thousand tonnes, respectively, representing sales of approximately RMB1,083.0 million, RMB1,307.1 million and RMB1,393.0 million, respectively.

Taking into consideration of the continuous increase in the coal sales to Guangdong Power Company, based on the historical volume of coal supplied by our Group and Yitai Group for 2009, 2010 and 2011 which was 1,964.7 thousand tonnes, 2,137.8 thousand tonnes and 2,223.4 thousand tonnes, respectively, we expect



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to supply no more than 2,500 thousand tonnes, 2,800 thousand tonnes and 3,100 thousand tonnes of coal to Guangdong Power Company for 2012, 2013 and 2014, respectively. The average price of coal in 2011 was approximately RMB627.0 per tonne. On the assumption that the price of coal will increase by no more than 8% per year for the following three years, we estimate that the price of the type of coal supplied to Guangdong Power Company, taking the transportation cost into consideration, will be approximately RMB677.0 per tonne, RMB731.0 per tonne and RMB790.0 per tonne for 2012, 2013 and 2014, respectively. We estimate that the transportation cost, which only accounts for a minor part of the coal price, will increase by no more than 5% per year. Although our Directors estimate that the market price of coal may increase by no more than 10% per year in the following three years, given that Guangdong Power Company is one of the largest customers of our Group, the price of coal supplied to Guangdong Power Company will increase by no more than 8% per year, which was determined after arm's length negotiation on normal commercial terms. Our Directors expect that the favourable treatment to Guangdong Power Company has a positive contribution to the operating revenue of our Group and helps to strengthen the relationship with Guangdong Power Company, which is beneficial to the continuing operations and business of our Group. As such, it is estimated that the value of coal supplied by us to Guangdong Power Company in respect of 2012, 2013 and 2014 will not exceed RMB1,692.5 million, RMB2,046.8 million and RMB2,449.0 million, respectively.

Set out below is a breakdown of the historical figures and annual caps between us and Guangdong Power Company:

|                       | Historical amount               |         |         | Annual cap                       |         |         |
|-----------------------|---------------------------------|---------|---------|----------------------------------|---------|---------|
|                       | For the year ended December 31, |         |         | For the year ending December 31, |         |         |
|                       | 2009                            | 2010    | 2011    | 2012                             | 2013    | 2014    |
|                       | RMB millions                    |         |         |                                  |         |         |
| Our Group . . . . .   | 670.4                           | 919.1   | 1,000.9 | 1,692.5                          | 2,046.8 | 2,449.0 |
| Yitai Group . . . . . | 412.6                           | 388.0   | 392.1   | 0                                | 0       | 0       |
| Total . . . . .       | 1,083.0                         | 1,307.1 | 1,393.0 | 1,692.5                          | 2,046.8 | 2,449.0 |

The Guangdong Power Coal Supply Agreement will be subject to the announcement and independent shareholders' approval requirements under the Listing Rules.

### 9 Mutual provision of products, equipment and services between Yitai Group and us in respect of the Target Business Group

In respect of the Target Business Group, during the Track Record Period, we supplied materials, equipment and provided preparation and construction of the mining face service to Yitai Group.

After the Listing and until the Closing Date, in order to minimize the potential competition between Yitai Group and us, Yitai Group will supply all the coal produced by the Target Business Group to us as the purchaser for re-sale. Furthermore, as the sales of such coal required for transportation and storage service from Yitai Group's loading stations, which was historically an intra-group transaction of Yitai Group, we will require transportation and storage services from Yitai Group after the Listing until the Closing Date.

Upon completion of the Proposed Acquisition, all the above-mentioned transactions will no longer constitute connected transactions as they will be intra-group transactions.

To regulate the business relationship, we entered into a mutual provision of products and service framework agreement in respect of the Target Business Group (the "Target Business Group Framework Agreement") with Yitai Group on May 29, 2012.

The Target Business Group Framework Agreement is for a term commencing on the Listing Date and ending on the Closing Date of the Assets Transfer Agreement. If the Closing Date is later than December 31, 2014, the Target Business Group Framework Agreement will be renewed for a period of three years upon mutual agreement, subject to compliance with the requirements of relevant laws and the Listing Rules. Pursuant to the Target Business Group Framework Agreement, Yitai Group has undertaken to exclusively supply all coal produced by the Target Business Group to us as the purchaser for re-sale and we agreed to purchase these coal. Without prejudice to the exclusive supply arrangement of the coal produced by the Target Business Group, Yitai Group has undertaken that it will, and procure its subsidiaries and/or associates to, supply

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products and services on terms and conditions that are equal to or more favorable than the terms and conditions it offers to third parties. Yitai Group cannot provide products or services to third parties unless our request for products and services under the Target Business Group Framework Agreement are fully satisfied first.

Pursuant to the Target Business Group Framework Agreement, we agreed to supply materials, equipment and service to Yitai Group.

We and Yitai Group will enter into separate agreements which shall set out the specific terms and conditions of providing products and services according to the principles laid down by the Target Business Group Framework Agreement. Each party shall inform the other party no later than December 15 of each year of the estimated amount of products and services it will purchase from the other party for the next year.

The materials and products to be provided under the Target Business Group Framework Agreement will be priced based on the following pricing policy: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the market price; or (d) where none of the above is applicable or where it is not practical to apply the above pricing policies, the price agreed between the relevant parties.

The services to be provided under this agreement will be priced based on the following pricing policy: (a) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; (c) where there is neither a state-prescribed price nor a state-guidance price, the bidding price where the bidding process is required or the market price where there is no bidding process; or (d) if the price offered by Yitai Group equals to or is more favourable than the bidding prices offered by other independent third parties, we shall procure services from Yitai Group instead of the independent third parties.

i. Provision of materials, equipment and services provided by us to Yitai Group

With respect to the Target Business Group, the total value of materials, equipment and services provided by us to Yitai Group for 2009, 2010 and 2011 amounted to approximately RMB212.6 million, RMB115.1 million and RMB150.9 million, respectively. The decrease from 2009 to 2010 was mainly because the upgrading projects of Yitai Group were completed in 2009 and thus the value of materials, equipment and services significantly decreased in 2010.

Upon completion of the Proposed Acquisition, the Target Business Group will become part of our business and the above-mentioned transactions will no longer constitute our connected transactions. We expect that the Proposed Acquisition will be completed in 2013. For details, please refer to “Relationship with Controlling Shareholders — Competition — Proposed Acquisition.” Therefore, we expect that for 2012 and 2013, the total value of products and services payable by Yitai Group will not exceed RMB180 million and RMB202.5 million. We estimate the annual amounts payable by Yitai Group to us based on the following considerations: (1) For 2009, 2010 and 2011, the total value of preparation and construction of mining face service amounted to approximately RMB14.5 million, RMB17.3 million and RMB23.4 million respectively. We estimate that we will provide five times such service to the Target Mines in each of 2012 and 2013. Given that the service charge for every time of preparation and construction of mining face service is approximately RMB6.0 million, we estimate that for 2012 and 2013, the total value of preparation and construction of mining face service will be no more than RMB30.0 million per year; and (2) For 2009, 2010 and 2011, the total value of the provision of materials and equipment amounted to approximately RMB198.1 million, RMB97.8 million and RMB127.5 million, respectively. As the upgrading projects of the Target Mines have completed, we estimate the volume of provision of equipment and materials will remain stable in 2012 and 2013, except that the price of materials and equipment will increase by 15% per year based on our estimation on the market price trend. Therefore, we estimate that the total value of provision of equipment and materials will not exceed RMB150.0 million and RMB172.5 million for 2012 and 2013, respectively.

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A breakdown of the approximate historical materials and preparation and construction of mining face service and annual caps provided by us to Yitai Group is set out below:

|                                                                        | Historical amount  |       |                | Annual cap   |       |
|------------------------------------------------------------------------|--------------------|-------|----------------|--------------|-------|
|                                                                        | For the year ended |       |                | For the year |       |
|                                                                        | December 31,       |       |                | ending       |       |
|                                                                        | 2009               | 2010  | 2011           | 2012         | 2013  |
|                                                                        |                    |       | RMB<br>million |              |       |
| Provision of preparation and construction of mining face service ..... | 14.5               | 17.3  | 23.4           | 30.0         | 30.0  |
| Provision of materials and equipment .....                             | 198.1              | 97.8  | 127.5          | 150.0        | 172.5 |
| Total .....                                                            | 212.6              | 115.1 | 150.9          | 180.0        | 202.5 |

### ii. Provision of coal and service by Yitai Group to us

After the Listing and before the Closing Date, Yitai Group will supply coal and provide transportation and storage service to us.

#### (a) Provision of coal

After the Listing, as the coal produced in the Target Mines will be exclusively supplied to us as the purchaser for resale, such supply of coal will constitute a connected transaction of our Company. Upon completion of the Proposed Acquisition, the Target Mines will become our assets and the provision of coal will no longer constitute a connected transaction of our Company.

There are no historical figures for the Track Record Period as the exclusive supply of coal to us will only commence upon the Listing. However, to the best knowledge of our Directors, the volume and value of coal produced in the Target Mines for 2009, 2010 and 2011 amounted to approximately 9,635.6 thousand tonnes, 11,464.6 thousand tonnes and 12,685.5 thousand tonnes, respectively, representing sales of approximately RMB2,102.5 million, RMB2,904.3 million and RMB3,687.9 million, respectively. The constant increase during the Track Record Period was due to the expansion of production capacity after upgrading projects of Yitai Group.

As the upgrading projects for the Target Mines have completed in 2009, we estimate that the production capacity will remain constant in 2012 and 2013. We expect that the Proposed Acquisition will be completed in 2013. For details, please refer to "Relationship with Controlling Shareholders — Competition — Proposed Acquisition." Therefore, we expect that for 2012 and 2013, the volume of coal supplied from Yitai Group in respect of the Target Mines will not exceed 13.0 million tonnes per year. Based on the current average market price of coal produced by the Target Mines which is approximately RMB330 per tonne, on the assumption that the coal price will increase by no more than 10% annually, we expect that for 2012 and 2013, the value of coal supplied by Yitai group in respect of the Target Mines will not exceed RMB4,290.0 million and RMB4,719.0 million, respectively.

#### (b) Provision of transportation and storage service

##### i. Transportation and storage service for the coal produced in the Target Mines

After the Listing, as the coal produced in the Target Mines will be exclusively supplied to us as the purchaser for re-sale, and considering that the storage, which will remain Yitai Group's assets before completion of the Proposed Acquisition, is in proximity to the Target Mines, we will require transportation and storage service from Yitai Group for the coal.

There are no historical figures for the Track Record Period as the sales of coal, and hence the transportation and storage service, will commence upon the Listing. However, to the best knowledge of our Directors, the volume and value of transportation and storage service provided by Yitai Group's loading stations for the coal produced by the Target Mines for 2009, 2010 and 2011 was approximately 4,792.5 thousand tonnes, 2,764.8 thousand tonnes and 208.3 thousand tonnes, respectively, representing value of approximately RMB69.8 million, RMB40.3 million and RMB4.5 million, respectively. The significant decrease from 2009 to 2011

is because the Target Mines started to use the loading stations owned by our Group for the storage and transportation service, which decreased the need for the transportation and storage service from Yitai Group.

We expect that the Proposed Acquisition will be completed by 2013. For details, please refer to "Relationship with Controlling Shareholders." For 2012 and 2013, we expect the total volume of coal produced in the Target Mines that will require the storage and transportation service from Yitai Group will remain the same as that of 2011, which is approximately 200 thousand tonnes for each year. Based on the unit price of storage and transportation service of RMB21.57 per tonne which has increased since January 1, 2011, we estimate that for 2012 and 2013, the total value of storage and transportation service provided by Yitai Group for the coal supplied by the Target Mines will be no more than RMB4.3 million for each year.

ii. Transportation and storage service for the coal procured by us from third parties

As Yitai Group has undertaken not to conduct coal trading business after the Listing pursuant to the Non-competition Agreement, our Company will expand our coal trading business to take up the coal trading business of Yitai Group after the Listing. We will require Yitai Group's transportation and storage services in relation to the coal we procure from third parties that would have been procured by Yitai Group but for the Non-competition Agreement. However, these transactions will terminate once the Target Business Group (which includes Yitai Group's transportation and storage assets) has been transferred to us.

Our Company began to require transportation and storage service from Yitai Group for the coal procured from third parties by us from 2011. The volume of transportation and storage service we required from Yitai Group for the coal procured from third parties by us for 2011 was approximately 1,186.9 thousand tonnes, representing value of approximately RMB25.6 million. To the best knowledge of our Directors, the volume and value of transportation and storage service for the coal procured by Yitai Group for 2009, 2010 and 2011 was approximately 1,422.8 thousand tonnes, 3,361.6 thousand and 3,789.8 thousand tonnes, respectively, representing value of approximately RMB20.7 million, RMB49.0 million and RMB81.7 million, respectively. The aggregate volume of transportation and storage service required from Yitai Group for the coal procured by us and by Yitai Group for 2009, 2010 and 2011 was approximately 1,422.8 thousand tonnes, 3,361.6 thousand tonnes and 4,976.7 thousand tonnes, respectively.

We expect that the Proposed Acquisition will be completed by 2013. For details, please refer to "Relationship with Controlling Shareholders." For 2012 and 2013, the volume of coal procured from third parties which will require the storage and transportation service from Yitai Group will be approximately 7,000 thousand tonnes per year. The increase in such volume from approximately 5,000 thousand tonnes in 2011 to 7,000 thousand tonnes in 2012 and 2013 is mainly caused by the reasons that Xinghe station, part of our Group's trading business, is expected to become operational in 2012. As Xinghe station is in close proximity to Yitai Group's loading stations, all the coal procured through Xinghe station will require storage and transportation service from Yitai Group. Based on the unit price of storage and transportation service which has increased from approximately RMB14 per tonne to RMB21 per tonne since January 1, 2011 and is estimated to remain relatively constant in 2012 and 2013, we estimate that for 2012 and 2013, the total value of storage and transportation service provided by Yitai Group for the coal procured from third parties by us will be no more than RMB151.0 million per year.

iii. Transportation and storage service for the coal produced by us

During the Track Record Period, we required transportation and storage service from Yitai Group for the coal produced by us. This transaction will continue after the Listing. The volume and value of transportation and storage service we required from Yitai Group for the coal produced by us for 2009, 2010 and 2011 was approximately 8,643.2 thousand tonnes, 8,123.0 thousand tonnes and 5,099.7 thousand tonnes, respectively, representing value of storage and transportation service of approximately RMB120.3 million, RMB113.5 million and RMB107.8 million, respectively. The decrease in the volume and value of such transportation

## CONNECTED TRANSACTIONS

and storage service was mainly for the reason that we started to use our self-owned loading stations for the coal produced by us from 2011.

This transaction will terminate after the Closing Date when Yitai Group's loading stations are transferred to our Company and we expect that the Proposed Acquisition will be completed in 2013. For details please refer to "Relationship with Controlling Shareholders — Competition — Proposed Acquisition." We expect that for 2012 and 2013, the volume of transportation and storage service from Yitai Group for the coal produced by us will remain the same as that of 2011, which was approximately 5,000 thousand tonnes. Based on the unit price of storage and transportation service which has increased from approximately RMB14 per tonne to RMB21 per tonne since January 1, 2011 and is estimated to remain relatively constant in 2012 and 2013, we estimate that for 2012 and 2013, the total value of storage and transportation service provided by Yitai Group for the coal produced by us will be approximately RMB107.9 million for each year.

Based on the above, it is estimated that the total annual amount payable by us to Yitai Group under the Target Business Group Framework Agreement in respect of 2012 and 2013 will not exceed RMB4,553.2 million and RMB4,982.2 million, respectively.

Set out below is a breakdown of the historical figures and annual caps for the coal and service provided by Yitai Group to us:

|                                                 | Historical amount               |          |          | Annual cap          |         |
|-------------------------------------------------|---------------------------------|----------|----------|---------------------|---------|
|                                                 | For the year ended December 31, |          |          | For the year ending |         |
|                                                 | 2009                            | 2010     | 2011     | 2012                | 2013    |
|                                                 | RMB million                     |          |          |                     |         |
| Provision of coal .....                         | 2,102.5*                        | 2,904.3* | 3,687.9* | 4,290.0             | 4,719.0 |
| Provision of transportation and storage service |                                 |          |          |                     |         |
| for the coal produced in the Target Mines ..... | 69.8**                          | 40.3**   | 4.5**    | 4.3                 | 4.3     |
| for the coal procured from third parties .....  | 20.7***                         | 49.0***  | 107.3*** | 151.0               | 151.0   |
| for the coal produced by us .....               | 120.3                           | 113.5    | 107.8    | 107.9               | 107.9   |
| Total .....                                     | 120.3                           | 113.5    | 133.4    | 4,553.2             | 4,982.2 |

\* on an estimated basis as if the coal produced in the Target Mines had been supplied to us for 2009, 2010 and 2011.

\*\* on an estimated basis as if we had procured transportation and storage service from Yitai Group for the coal produced in the Target Mines for 2009, 2010 and 2011.

\*\*\* on an estimated basis as if we had procured transportation and storage service from Yitai Group for the coal procured from third parties for 2009, 2010 and 2011.

The mutual provision of products, equipment and service between Yitai Group and us under the Target Business Group Framework Agreement will be subject to the announcement and independent shareholders' approval requirements under the Listing Rules.

## APPLICATION FOR WAIVERS

Under the Listing Rules, for the continuing connected transactions under:

- paragraph 5 (Provision of coal by us to Yitai Coal-to-oil);
- paragraph 6 (Provision of products by us to Jingneng Power (including Jingtai Power); and
- paragraph 7 (Mutual provision of materials, equipment and services Between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group)

since each of the applicable percentage ratios calculated by reference to Rule 14.07 of the Listing Rules is on an annual basis less than 5% under Rule 14A.34 while more than 0.1% of the Listing Rules, such transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.35 to 14A.47 of the Listing Rules.

## CONNECTED TRANSACTIONS

The continuing connected transactions under:

- paragraph 8 (Provision of coal by us to Guangdong Power Company); and
- paragraph 9 (Mutual provision of products, equipments and service between Yitai Group and us in respect of the Target Business Group)

constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to the reporting and announcements requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirements set out in Rule 14A.48 of the Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and have been granted, a waiver from compliance with the above announcement and independent shareholders' approval requirements (where applicable) under Rule 14A.42(3) of the Listing Rules for 2012, 2013 and 2014. Apart from the announcement and/or independent shareholders' approval requirements for which a waiver has been obtained, we will comply with the relevant requirements under Chapter 14A of the Listing Rules.

### CONFIRMATION FROM THE DIRECTORS

The Directors (including the independent non-executive Directors) are of the view that (i) the non-exempt continuing connected transactions as disclosed from paragraphs 5 to 9 above, have been/will be entered into in our ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) the annual caps (where applicable) for such transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that (i) the non-exempt continuing connected transactions as disclosed from paragraphs 5 to 9 above, have been/will be entered into in our ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) the annual caps (where applicable) for such transactions are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.



## BOARD OF DIRECTORS

Our Board consists of eleven Directors, including seven executive Directors and four independent non-executive Directors. The Directors are elected at meetings of the Shareholders of our Company for a term of three years, renewable upon re-election and re-appointment. The functions and duties of our Board include: convening shareholders' meetings and reporting on the Board's work to the shareholders' meetings, implementing the resolutions passed on the shareholders' meetings, determining our business plans and investment proposals, formulating our annual budget and final accounts, formulating our proposals for profit distributions and the remediation of losses and increasing or reducing of our registered capital as well as exercising other powers, functions and duties as conferred by our Articles of Association. We have entered into service contracts with each of our executive Directors and independent non-executive Directors.

The following table sets out certain information relating to our Directors.

| <u>Name</u>              | <u>Age</u> | <u>Position</u>                              |
|--------------------------|------------|----------------------------------------------|
| Mr. ZHANG Donghai        | 41         | Executive Director and Chairman of the Board |
| Mr. LIU Chunlin          | 45         | Executive Director                           |
| Mr. GE Yaoyong           | 41         | Executive Director and President             |
| Mr. ZHANG Dongsheng      | 41         | Executive Director                           |
| Mr. KANG Zhi             | 53         | Executive Director and Vice President        |
| Mr. ZHANG Xinrong        | 47         | Executive Director and Vice President        |
| Mr. LV Guiliang          | 46         | Executive Director and Chief Finance Officer |
| Mr. XIE Xianghua         | 49         | Independent Non-executive Director           |
| Mr. LIAN Junhai          | 44         | Independent Non-executive Director           |
| Ms. SONG Jianzhong       | 58         | Independent Non-executive Director           |
| Mr. TAM Kwok Ming, Banny | 49         | Independent Non-executive Director           |

## DIRECTORS

### Executive Directors

Mr. Zhang Donghai (張東海), aged 41, has been acting as an executive Director of our Company since March 2001 and was appointed as the Chairman of our Board in April 2003. He is primarily responsible for the overall corporate strategy, planning and business development of our Group. He also plays an integral role in supervising our Company's operational management, and has 20 years of experience in corporate management in the coal mining industry during which he gained intricate understanding of the coal industry. Mr. Zhang has served as a director of Yitai Group since December 2001 and its president since June 2004. Mr. Zhang joined Ikochao League Coal Company (伊克昭盟煤炭公司), a predecessor of Yimei Group, in April 1990 and joined us in July 1999. He had been our president from March 2001 to November 2008, the deputy general manager of Yitai Group from April 2003 to June 2004 and our vice president from July 1999 to February 2001. He held various positions as the vice chief and the chief of the Beijing branch office of Inner Mongolia Ikochao League Coal Group Company, a predecessor of Yimei Group, the deputy head of the Operation Department and the deputy manager of the business operating branch company under the same company from May 1994 to June 1999. Mr. Zhang graduated from Fordham University in May 2005 with an MBA degree. He was granted the qualification of senior economist by the Department of Personnel of Inner Mongolia Autonomous Region (內蒙古自治區人事廳)<sup>(1)</sup> in December 2003. In May 2005, Mr. Zhang was awarded the "Model Worker of Inner Mongolia Autonomous Region" by the Inner Mongolia Government and the "National Model Worker" by the State Council. Mr. Zhang is a son of Mr. Zhang Shuangwang. Mr. Zhang has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Liu Chunlin (劉春林), aged 45, has been an executive Director of the Board since May 2004. Mr. Liu has been the director and the chief accountant of Yitai Group since June 2004. Mr. Liu has abundant experience in accounting and capital management. He joined Ikochao League Coal Company, a predecessor of Yimei Group, in June 1989 and joined us in August 1997. He served as the chairman of Inner Mongolia Yitai Real Estate Co., Ltd. from April 2006 to March 2010, the vice president of our Company from May 2004 to October 2004, the deputy chief accountant of Yitai Group from October 2002 to May 2004 and the financial

<sup>(1)</sup> The Department of Personnel of Inner Mongolia Autonomous Region is the official authority in Inner Mongolia to recognize occupation qualifications. The qualifications include three levels: junior level, intermediate level and senior level.

director of our Company from July 1999 to October 2002. He had been the director of the Finance Department of our Company from August 1997 to July 1999, the vice chief of the Finance Department of Yitai Group from February 1993 to August 1997. Over many years of experience in coal industry and the financial department, Mr. Liu gained intricate understanding in coal industry and accumulated expertise in corporate finance. Mr. Liu graduated, as a correspondence student (函授生<sup>(2)</sup>), from Inner Mongolia University (內蒙古大學) with a university diploma in July 2003. He graduated from Tsinghua University (清華大學) with an EMBA degree in 2010. Mr. Liu was awarded the qualification of senior accountant by the Department of Personnel of Inner Mongolia in July 2001. Mr. Liu has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Ge Yaoyong (葛耀勇), aged 41, has been an executive Director of our Board since December 2008, and our president since November 2008. He is primarily responsible for the day-to-day management and operation of our Group as well as our mine construction. Mr. Ge has also served as a director of Yitai Group since November 2008 and served as the chairman of Yitai Pharmaceutical from January 2009 to June 2011. He joined Yimei Group in April 1994 and joined us in March 2001, during which Mr. Ge gained extensive industry knowledge and management experience for large coal enterprises. Mr. Ge served as the deputy chief engineer of Yitai Group from August 2005 to November 2008 and from July 2000 to March 2001, general manager of Yitai Guanglian from February 2006 to November 2008, and vice president of our Company from March 2001 to August 2005. From November 1996 to March 2001, he acted as the deputy manager and the manager of E'qian League Coking Factory. Mr. Ge graduated from Shanxi Mining College (山西礦業學院) with a bachelor of engineering degree in mining engineering in July 1991, and from Tsinghua University with an EMBA degree in January 2010. Mr. Ge was granted the qualification of senior engineer by the Department of Personnel of Inner Mongolia in September 2004. Mr. Ge has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Zhang Dongsheng (張東升), aged 41, has been an executive Director of the Board since May 2009. He is primarily responsible for the construction and operation of our Group's railway lines. Mr. Zhang is a director of Yitai Group. He has served as the chairman of Yitai Zhundong since November 2008, and the chairman of Yitai Huzhun since July 2009 and its general manager since November 2007. Mr. Zhang joined Ikochao League Coal Company, a predecessor of Yimei Group, in October 1989 and joined us in January 2002 during which he gained extensive experience in coal transportation, sales and railway construction and management. He was the general manager and deputy general manager of Yitai Zhundong from August 2005 to November 2008, and acted as the director of the Operation Department of our Company from January 2002 to July 2005. Mr. Zhang had also held several other management positions in Yimei Group and Yitai Group. Mr. Zhang graduated from Beijing Transportation University (北京交通大學) with an MBA degree in June 2008. Mr. Zhang received the qualification of commercial logistics economist from the Ministry of Personnel of the PRC and the qualification of senior economist from the Department of Personnel of Inner Mongolia in June 1995 Inner Mongolia and September 2004 respectively. In addition, Mr. Zhang was recognized as a business manager by Department of Labor and Social Security (內蒙古自治區勞動和社會保障廳) in March 2006 and a Chinese coal professional manager by the CNCA in September 2007. Mr. Zhang is a nephew of Mr. Zhang Shuangwang. Mr. Zhang has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Kang Zhi (康治), aged 53, was appointed as our executive Director in February 2011 and as our vice president in March 2002. He is also the head of our Transportation and Sales Business Department, the chairman of Yitai Transport and Yitai Tiedong. Mr. Kang joined Yimei Group in February 1992 and joined us in January 2001 during which he was in charge of our coal sales business for years, and gained abundant experience in sales and marketing. Mr. Kang served as the manager of our Coal Marketing Business Department from November 2006 to February 2009. He had been the deputy manager of our Operation Department from March 2001 to March 2002 and the manager of the Shanghai Sales Branch Company of our operating branch company from August 2000 to February 2001. From 1997 to 2000, he had held various management positions in our Company such as the chief of our Shanghai branch office, assistant manager of our operating branch company and deputy head of our Operation Department. Mr. Kang graduated, as a

<sup>(2)</sup> Correspondence education means a distance learning course that aims to deliver education to students who are not physically "on site," in a traditional classroom or campus. The correspondence student may take courses online or by correspondence with teachers. The correspondence education offered by institutions shall be accredited by the Ministry of Education of PRC.

correspondence student, from Beijing Meteorology Institute (北京氣象學院) in December 1988 with a junior college diploma, and graduated, as a correspondence student (函授生) from the Accounting Division of Beijing Technology and Business University (北京工商大學) with a university diploma in January 2007. Mr. Kang was granted the qualification of intermediate level engineer and intermediate level economist by the Department of Personnel of Inner Mongolia in May 1993 and June 1995, respectively. Mr. Kang has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Zhang Xinrong (張新榮), aged 47, was appointed as our executive Director in February 2011 and appointed as the vice president in October 2004 and the head of our Coal Production Business Department in November 2006, respectively. Mr. Zhang has been responsible for management of coal production in our Company for years, during which he gained abundant experience in the production and operational management of coal enterprises. He joined Ikochao League Coal Company, a predecessor of Yimei Group, in February 1991, and joined us in March 1998. Mr. Zhang currently serves as a director of Yitai Bashan and a director of Yitai Tongda. Mr. Zhang served as the assistant to general manager and executive deputy general manager of Inner Mongolia Yitai Biology & High-Tech Co., Ltd. from October 2002 to October 2004. He headed our Quality Inspection Department, the Quality Management Department and the Corporate Governance Department consecutively from July 1999 to October 2002. Mr. Zhang graduated from Wuhan Geology College (武漢地質學院) in July 1986 with a bachelor of science degree, and was granted the qualification of senior engineer by the Department of Personnel of Inner Mongolia in July 2001. Mr. Zhang has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Lv Guiliang (呂貴良), aged 46, was appointed as our executive Director in February 2011 and as the chief finance officer of our Company in April 2008. He is responsible for our financial management. Mr. Lv is also the supervisor of Yitai Baoshan and the supervisor of Yitai Tongda. He joined Yimei Group in 1994, and joined us in August 1997 during which he gained extensive experience in enterprise financial management. Mr. Lv was the head of our Finance Department from March 2004 to February 2009 and acted as the vice chief of the Finance Division of Yitai Group from November 2002 to March 2004. From July 1999 to November 2002, he had been the vice director of our Finance Department. Mr. Lv graduated, as a correspondence student (函授生), from the Correspondence Institute of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in December 2008 with a university diploma, and graduated from Huazhong University of Science & Technology (華中科技大學) with an EMBA degree in June 2011. Mr. Lv was granted the qualification of intermediate level accountant by the Department of Personnel of Inner Mongolia November 1993. Mr. Lv has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

### **Independent Non-Executive Directors**

Mr. Xie Xianghua (解祥華), aged 49, has been an independent non-executive Director of the Board since June 2007. Mr. Xie has been teaching at Inner Mongolia Finance & Economics University School of Continuing Studies since 1984. He was accredited as a professor of economics management by the Department of Personnel of Inner Mongolia in July 2005. He is currently the dean of School of Continuing Education of Inner Mongolia Finance & Economics College (內蒙古財經學院繼續教育學院). Mr. Xie is a senior corporation consultant at China Enterprise Confederation, a council member of Inner Mongolia Enterprise Confederation (內蒙古企業聯合會) and Inner Mongolia Enterprise Directors Association (內蒙古企業家聯合會). Over these years, Mr. Xie gained intricate expertise in finance and accounting. He joined us in 2007. Mr. Xie obtained a bachelor's degree in economics at Inner Mongolia University with a major in planning statistics in 1984. He graduated from Inner Mongolia University of Technology (內蒙古工業大學) with a master's degree in project management engineering in December 2007. Mr. Xie has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Mr. Lian Junhai (連俊孩), aged 44, has been an independent non-executive Director of the Board since November 2007. He has been the vice president of Inner Mongolia Zhongtao Bolong Accounting Firm since February 2011. Mr. Lian has been the deputy head of Inner Mongolia Zhengyu United Certified Public Accountants from 2006 to February 2011, and is also serving as the vice president of Inner Mongolia Zhengyu Engineering Cost Consulting Co., Ltd. Mr. Lian has ten years of experience in finance and accounting. He was the project manager of Beijing Zhongtian Huazheng Certified Public Accountants from January 2002 to

December 2005, and worked at Inner Mongolia Guozheng Certified Public Accountants from November 1999 to December 2001. He joined us in 2007. Mr. Lian graduated from Shanxi Finance & Economics College (山西財經學院) with a junior college diploma in July 1993 and was accredited as a certified public accountant by the Ministry of Finance of PRC in December 2003. Mr. Lian has not held any directorship in any other listed public companies (except for our Company) in the three years preceding the Latest Practicable Date.

Ms. Song Jianzhong (宋建中), aged 58, has been an independent non-executive Director of the Board since August 2009. Ms. Song is currently the head of Inner Mongolia Jianzhong Law Firm and a part-time law professor at Renmin University of China (人民大學), Tianjin University (天津大學) and Inner Mongolia University of Science and Technology (內蒙古科技大學). Ms. Song established the Inner Mongolia Jianzhong Law Firm in 1986. She was a lawyer and the deputy head of Baotou Law Firm from 1980 to 1986 and worked in the People's Court of Kundulun District, Baotou City from 1976 to 1980. She has served as the legal counsel of large state-owned enterprises and listed companies for a consecutive 25 years. She joined us in 2009. Ms. Song graduated, as a correspondence student (函授生), from China University of Political Science and Law (中國政法大學) in 1987 with a junior college diploma and University of Science & Technology Beijing (北京科技大學) with a bachelor's degree in law in December 1993. She is admitted as a PRC qualified lawyer in 1984 by the Inner Mongolia Department of Justice (內蒙古司法廳). Ms. Song has studied the civil and commercial laws of Japan at the Tokyo Lawyer Training Center in 1996. She was accredited as a senior lawyer in May 1990 by the Department of Personnel of Inner Mongolia and a Class A lawyer by the same authority in November 1998. Ms. Song currently is an independent non-executive director of Beijing Sanyuan Food Joint Stock Co., Ltd. (Stock Code: 600429) and Tianjin Quanyechang (Group) Co., Ltd. (Stock Code: 600821).

Mr. Tam Kwok Ming, Banny (譚國明), aged 49, has been an independent non-executive Director of the Board since February 2011. Mr. Tam is an ordinary resident in Hong Kong. Mr. Tam worked with SHINEWING (HK) CPA Limited (formerly known as Ho and Ho & Company) for over 18 years during which he was mainly responsible for auditing PRC B Share companies, H Share companies and Hong Kong listed companies. Mr. Tam was a partner of SHINEWING (HK) CPA Limited from August 2010 to July 2011. Mr. Tam obtained a certification of accountancy from the Hong Kong Polytechnic University (香港理工大學) in 1993. He holds the qualification of Certified Public Accountant and a fellow member of Hong Kong Institute of Certified Public Accountants (formerly known as the "Hong Kong Society of Accountants"). Mr. Tam currently is an independent non-executive director of Legend Strategy International Holdings Group Company Limited (Stock Code: 8160) and China 3D Digital Entertainment Limited (Stock Code: 8078).

#### Information that needs to be disclosed pursuant to Rule 13.51(2) of the Listing Rules

There is no information about each of the Directors that needs to be disclosed, pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, save for that which has been disclosed in this Prospectus. There are no other matters that need to be brought to the attention of the Shareholders under Rule 13.51(2) of the Listing Rules.

#### BOARD OF SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors and this requirement is also contained in the Articles of Association. The board of Supervisors consists of seven Supervisors, two of whom are elected by the shareholders as their representatives, three of whom are employee representatives elected by our employees and two of whom are independent Supervisors. The term of office of the Supervisors is three years, which is renewable upon re-election and re-appointment. An elected Supervisor cannot concurrently hold the position of a Director, president and other senior management or financial controller. The functions and duties of the board of Supervisors include, but are not limited to: monitoring the financial activities of our Company; supervising the performance of Directors, president and other senior management members, and monitoring as to whether they had acted in violation of the law, administrative stipulations and Articles of Association in the execution of their duties; requesting Directors and senior management members to rectify any actions which are damaging to our Company's interests; examining the periodic reports of our Company prepared by the Board of Directors and providing written comments; proposing to hold special general meeting; and exercising other rights given to them under the Articles of Association.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table sets out certain information relating to our Supervisors.

| <u>Name</u>         | <u>Age</u> | <u>Position</u>                      |
|---------------------|------------|--------------------------------------|
| Mr. Li Wenshan      | 49         | Chairman of the board of Supervisors |
| Mr. ZHANG Mingliang | 43         | Supervisor                           |
| Mr. WANG Sanmin     | 38         | Employee Representative Supervisor   |
| Mr. Ji Zhifu        | 28         | Employee Representative Supervisor   |
| Mr. Han Zhanchun    | 48         | Employee Representative Supervisor   |
| Mr. WANG Yongliang  | 49         | Independent Supervisor               |
| Mr. WU Qu           | 47         | Independent Supervisor               |

Mr. Li Wenshan (李文山), aged 49, has been the chairman of the board of Supervisors of our Company since December 2008. He has also been the chairman of the board of supervisors of Yitai Group and Yitai Coal-to-oil since November 2008. Mr. Li has accumulated rich experience in enterprise management and corporate governance. Mr. Li joined Ikochao League Coal Company, a predecessor of Yimei Group, in September 1992 and joined us in August 1997. He was our Director from July 1999 to December 2008 and our vice president from August 2005 to November 2008 and from January 2002 to March 2004, and was the deputy general manager and general manager of Yitai Zhundong from March 2004 to August 2005. From August 1997 to January 2002, he acted as the head of our Securities Department and Corporate Governance Department. Mr. Li graduated from Inner Mongolia Finance & Economics College (內蒙古財經學院) with a bachelor of economics degree in July 1987. He was granted the qualification of intermediate level economist by the Department of Personnel of Inner Mongolia in November 2004. Mr. Li has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Zhang Mingliang (張明亮), aged 43, has been a Supervisor of our Company since June 2007 and the deputy general manager of our Production Department since February 2012. Mr. Zhang has extensive experience in coal mine production, safety and management. He joined Yimei Group and joined us in January 1994 and in November 1997, respectively. He was the director of Jungar Temple dispatching station of our Coal Transportation Department from March 2011 to February 2012, the head of Sujiahao Mine of Yitai Group from June 2009 to March 2011, the deputy head of our Hongjingta Mine from March 2006 to June 2009 and the vice director of our Operation Department from March 2002 to March 2006. He held various positions in our Company as the deputy spot chief of Nalinmiao Mine No. 1 mine, the spot chief of Nalinmiao Mine No. 4 mine, the deputy head and the head of Nalinmiao Mine and the deputy head of Nalinmiao Mine No. 2 mine from November 1997 to June 2009. Mr. Zhang graduated from Datong Coal Industry School (大同煤炭工業學校) with a major in underground coal mining in July 1991 and was granted the qualification of intermediate level engineer by the Department of Personnel of Inner Mongolia in August 2007. Mr. Zhang has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Wang Sanmin (王三民), aged 38, has been a Supervisor of our Company since February 2011. He is also the head of the supply department of our Company since December 2010. Mr. Wang has extensive experience in finance and management. He joined Yimei Group in 1996 and joined us in April 2005. He was the head of our corporate management department from April 2007 to November 2010, deputy administrative general manager of Yitai Pharmatech Co., Ltd. from October 2006 to March 2007. Mr. Wang was the president of the labor union and the deputy general manager of the Shenglong Branch of Yitai Pharmaceutical from April 2005 to September 2006. He was the head of the accounting department of Yitai Group from April 2004 to April 2005. From October 2001 to April 2004, Mr. Wang held various positions in Yitai Pharmaceutical as the head of the Finance Department of Licorice Base, deputy head of the Finance Department, and head of both the Finance Department and Corporate Management Department of Shenglong Branch. He was the head of Finance Department of Ordus Qian Qi Coking Plant from December 2000 to October 2001 and held different positions in Yimei Group as the director of the Marketing Department and the Finance Department of Taifeng Simengou Coke Flour Mill, Taifeng Variety Operating Company, Taifeng Coal Mine, Taifeng Hu City Clean Coal Branch, Taifeng General Company from 1996 to 2000. Mr. Wang graduated from Inner Mongolia Finance & Economics College with a bachelor's degree (correspondence) in accounting in July 2005. Mr. Wang is currently pursuing his EMBA in China University of Mining and Technology. He was granted the qualification of international accountant in July 2010, operating manager and licensed pharmacist in March 2006, senior IT project manager in November 2008. Mr. Wang has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Ji Zhifu (姬志福), aged 28, has been a Supervisor of our Company since February 2011. He is also the director of Operation Management Office of Coal Transportation Department of our Company. Mr. Ji has rich experience in finance. He joined Yitai Zhundong in 2005 and joined our Company in 2006. He was the director of General Affair Office of Coal Transportation and Sales Business Department of our Company from February 2009 to September 2011. He was the deputy head of the finance department of our Company from March 2008 to February 2009. Mr. Ji worked in the finance department of our Company from October 2006 to February 2009 and worked for Yitai Zhundong from July 2005 to October 2006. He graduated from Inner Mongolia Finance & Economics College (內蒙古財經學院) in July 2004 with a major in management. Mr. Ji has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Han Zhanchun (韓占春), aged 48, has been a Supervisor of our Company since February 2011. He is also the director of Operating Office of the Department of Coal Production of our Company since December 2010. Mr. Han is experienced in finance and accounting. He was the deputy head of the Finance Department of our Company from March 2010 to December 2010 and head of the Finance Department of Yitai Suancangou from April 2007 to March 2010. He served as the principal accountant of the office of Yitai Suancangou from August 2005 to April 2007 and the head of Finance Department of our Qinhuangdao office from November 1999 to August 2005. Mr. Han acted as the accountant, deputy director, deputy head and the head of Finance Department of the Fengzhen Office of Yimei Group from January 1995 to November 1999. From May 1992 to January 1995, Mr. Han was the accountant of the Tanggongta Mine of Yimei Group. Mr. Han graduated from Ikochao League Finance & Economics School (伊盟財經學校) with a major in business accounting in June 1985 and from China Central Radio and TV University (中央廣播電視大學) with a diploma in accounting in April 2006. Mr. Han has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Wang Yongliang (王永亮), aged 49, has been a Supervisor of our Company since February 2011. He is also the director of Inner Mongolia Ikochao League Law Firm since March 2001. Mr. Wang has extensive experience in legal issues. He was the head of Business Department of Ikochao League Law Firm from April 1996 to March 2001 and served as the deputy head of the Correctional Division and office of the Judicial Department of Ikochao League from March 1990 to April 1996. He was a teacher in Ikochao League Politics & Law School (伊盟政法幹校) from December 1986 to March 1990 and a member of Ikochao League Correctional Division from August 1985 to December 1986. Mr. Wang graduated from China University of Political Science and Law with a major in civil and commercial law in May 2003. He has a master's degree and was granted the qualification of Level 2 Lawyer by the Department of Personnel of Inner Mongolia in October 2004. Mr. Wang has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Wu Qu (鄔曲), aged 47, has been a Supervisor of our Company since February 2011. He is also the head of the Auditing Department of Inner Mongolia Dongshen Accounting Firm Co., Ltd since 2001. Mr. Wu is very experienced in auditing and finance. He was the finance manager of Ordos Rongze Food Co., Ltd. from December 1998 to October 2000, the head of Finance Department of Inner Mongolia Shengyi Plastic Products Co., Ltd. (內蒙古勝億塑料製品有限公司) from October 1994 to December 1998. He acted as the head of Finance Department of Ikochao League Dongsheng Food Industry Company from July 1986 to October 1994. Mr. Wu graduated from Ikochao League Finance & Economics School in July 1986 and from Correspondence Institute of the Party School of the Central Committee of C.P.C (中央黨校函授學院) with a bachelor's degree in economic management in December 1998. Mr. Wu has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.



## Senior Management

The following table sets out certain information relating to our senior management.

| <u>Name</u>       | <u>Age</u> | <u>Position</u>                                                                                 |
|-------------------|------------|-------------------------------------------------------------------------------------------------|
| Mr. Ge Yaoyong    | 41         | Executive Director and President                                                                |
| Mr. KANG Zhi      | 53         | Executive Director, Vice President and Head of the Transportation and Sales Business Department |
| Mr. ZHANG Xinrong | 47         | Executive Director, Vice President and Head of the Coal Production Business Department          |
| Mr. Ji Yongqiang  | 53         | Vice President                                                                                  |
| Mr. LV Guiliang   | 46         | Executive Director and Chief Finance Officer                                                    |
| Mr. LIU Jiming    | 50         | Chief Engineer and President of the Labor's Union                                               |
| Ms. JIAN Qing'e   | 46         | Board Secretary and Joint Company Secretary                                                     |

Mr. Ge Yaoyong (葛耀勇), aged 41, is an executive Director of our Board and our president. Please refer to the biography under the paragraph "Director — Executive Directors."

Mr. Kang Zhi (康治), aged 53, is an executive Director of our Board and our vice president. Please refer to the biography under the paragraph "Directors — Executive Directors."

Mr. Zhang Xinrong (張新榮), aged 47, is an executive Director of our Board and our vice president. Please refer to the biography under the paragraph "Directors — Executive Directors."

Mr. Ji Yongqiang (姬永強), aged 53, was appointed as the vice president of our Company in February 2010. He joined Ikochao League Coal Company, a predecessor of Yimei Group, in 1990 and joined us in July 1997 during which he gained abundant experience in the operational management of coal enterprises. Mr. Ji serves as the general manager of Ordos Yizheng Coalfield Fire Extinguishing Engineering Co., Ltd. since June 2010. From September 2007 to January 2010, Mr. Ji was the president of Inner Mongolia Yitai Real Estate Co., Ltd. He had served as the general manager of Yitai Shengli Energy Co., Ltd. from August 2005 to September 2007, and the vice president of our Company from July 1999 to August 2005. He acted as the deputy general manager of the operation branch company of Yimei Group from February 1993 to July 1999. Mr. Ji was granted the qualification of senior officer of political & ideological affairs by Inner Mongolia Senior Professional Qualification Assessment Committee of Enterprise Ideological & Political Affairs Management Personnel (內蒙古企業思想政治工作人員高級專業職務評審委員會) in December 2007. Mr. Ji has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Mr. Lv Guiliang (呂貴良), aged 46, is an executive Director of our Board and our chief finance officer. Please refer to the biography under the paragraph "Directors — Executive Directors."

Mr. Liu Jiming (劉繼明), aged 50, has been the chief engineer and the president of the Labor's Union of our Company since February 2012. Mr. Liu joined Yimei Group in March 1994 and our Company in March 1998. He acted as the deputy general manager of the Coal Production Department of our Company from June 2011 to February 2012. Mr. Liu possesses extensive industry knowledge as well as abundant experience in production, operation and safety production management. Mr. Liu served as the head of Nalinmiao No.1 Mine of the Production Department of our Company from September 2009 to November 2010. From March 2008 to September 2009, he served as the director of the Safety Supervision Department of our Company. He also served as the chairman of the board of directors of Yitai West Coal from April 2007 to March 2008, the director of the safety supervision department of Yitai Group from March 2005 to April 2007, and the manager of the Production Technology Department of our Company from December 2001 to March 2005. Mr. Liu graduated from the Correspondence Institute of the Party School of the Central Committee of the C.P.C. in economic management in December 1997. He graduated, as a correspondence student, from Shandong University of Science and Technology (山東科技大學) with a master's degree of engineering in engineering in June 2011. Mr. Liu was granted the qualification of economist by the former Ministry of Personnel in November 2000, the qualification of mining engineer by the Department of Personnel of the Inner Mongolia in December 2000, and the qualification of a certified safety engineer by SAWS in July 2007. Mr. Liu has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

Ms. Jian Qing'e (菅青娥), aged 46, was appointed as the secretary to the Board and the head of our Securities Department in August 2005, and is also our joint company secretary. Ms. Jian has extensive experience in the operation of listed companies. She joined our Company in December 1997. From August 1999 to August 2005, Ms. Jian held various positions in our Company, including the business executive of the Securities Department, the representative of securities affairs and the deputy head of the Securities Department. Prior to joining our Group, Ms. Jian was involved in corporate legal work, and has participated in structuring of enterprises, mergers and acquisitions and initial public offerings on the A share market. Ms. Jian graduated from Inner Mongolia University in July 1989 with a bachelor's degree, and obtained an MBA degree from the same university in July 2006. She was granted the qualification of senior economist by the Department of Personnel of Inner Mongolia and is admitted as a PRC qualified lawyer in April 1994. Ms. Jian has not held any directorship in any other listed public companies in the three years preceding the Latest Practicable Date.

### **Joint Company Secretaries**

Ms. Jian Qing'e (菅青娥), is the secretary of our Board and one of our joint company secretaries. For details of Ms. Jian's biography, please refer to the sub-section headed "Senior Management" above.

Ms. LEE Mei Yi (李美儀), *ACIS, ACS*, aged 44, is the joint company secretary of our Company. Ms. Lee is a senior manager of Corporate Services Department of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Lee graduated from City University of Hong Kong (formerly City Polytechnic of Hong Kong) with a honour degree in accountancy in 1992. Ms. Lee has over 20 years of experience in the corporate secretarial area and is currently company secretary of the following three companies listed on the Stock Exchange:

- Shenzhen Neptunus Interlong Bio-technique Company Limited (Stock Code: 8329) (as joint company secretary)
- Guangzhou Pharmaceutical Company Limited (Stock Code: 874) (as joint company secretary)
- SPG Land (Holdings) Limited (Stock Code: 337) (as company secretary)

Ms. Jian Qing'e has been appointed as the contact person in our Company to Ms. Lee Mei Yi in compliance with paragraph F1.1 of Appendix 14 of the Listing Rules.

### **BOARD COMMITTEES**

We have established the following five committees in our Board of Directors: a strategic planning committee, an audit committee, a nomination committee, a remuneration and assessment committee and a production committee. The committees operate in accordance with terms of reference established by our Board of Directors.

#### **Strategic Planning Committee**

We have established a strategic planning committee. According to the terms of reference of the strategic planning committee, the primary duties of which are to formulate our overall development plans and investment decision-making procedures.

The strategic planning committee currently consists of eleven members, including Zhang Donghai, Liu Chunlin, Ge Yaoyong, Zhang Dongsheng, Kang Zhi, Zhang Xinrong, Lv Guiliang, Song Jianzhong, Xie Xianghua, Lian Junhai and Tam Kwok Ming, Banny. Zhang Donghai is the chairman of the strategic planning committee.

The responsibilities of our strategic planning committee include, among others:

- Reviewing our long-term development strategies
- Reviewing major issues affecting our development
- Reviewing significant capital expenditure, investment and financing projects that require approval of our Board

### **Audit Committee**

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to assist our Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

The audit committee consists of four independent non-executive Directors, Lian Junhai, Xie Xianghua, Song Jianzhong and Tam Kwok Ming, Banny (who has professional qualifications in accountancy). Lian Junhai is the chairman of the audit committee.

The responsibilities of our audit committee after the completion of the Global Offering include, among others:

- Appointing and overseeing the work of our independent auditors and pre-approving all non-audit services to be provided by our independent auditors
- Reviewing our annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of our disclosure controls and procedures and important trends and developments in financial reporting practices and requirements
- Reviewing the planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of our internal audit team and the quality and effectiveness of our internal controls
- Reviewing our risk assessment and management policies
- Establishing procedures for the treatment of complaints received by us regarding accounting, internal accounting controls, auditing matters, potential violations of law and questionable accounting or auditing matters

### **Nomination Committee**

We have established a nomination committee with written terms of reference as recommended in paragraph A5.2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management and to recommend suitable candidates for Directors and senior management to the Board.

The nomination committee consists of four independent non-executive Directors, Song Jianzhong, Xie Xianghua, Lian Junhai and Tam Kwok Ming, Banny and three executive Directors, Zhang Donghai, Liu Chunlin and Ge Yaoyong. Song Jianzhong is the chairman of the nomination committee.

### **Remuneration and Assessment Committee**

We have established a remuneration and assessment committee with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to consider and recommend to the Board the emoluments and other benefits paid by us to our Directors and to assess the appropriateness of the nature and amount of emoluments of such senior management on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum Shareholder benefit from the retention of talented individuals.

The remuneration and assessment committee consists of four independent non-executive Directors, Xie Xianghua, Lian Junhai, Song Jianzhong and Tam Kwok Ming, Banny and three executive Director, Zhang

Donghai, Liu Chunlin and Ge Yaoyong. Xie Xianghua is the chairman of the remuneration and assessment committee.

The responsibilities of our remuneration and assessment committee include, among others:

- Approving and overseeing the total compensation package for our executive officers, evaluating the performance of and determining and approving the compensation to be paid to our senior management
- Reviewing and making recommendations to our Board of Directors with respect to Director compensation, including equity-based compensation
- Administering and periodically reviewing and making recommendations to our board of directors regarding the long-term incentive compensation or equity plans made available to our Directors, employees and consultants
- Reviewing and making recommendations to our Board of Directors regarding executive compensation philosophy, strategy and principles and preparing annual reports on the compensation of our senior management

### **Production Committee**

We have established a production committee. According to the terms of reference of the production committee, the primary duties of the production committee are to supervise and control the production volumes of our coal mines.

The production committee currently consists of five members, including Zhang Donghai, Ge Yaoyong, Zhang Xinrong, Lian Junhai and Xie Xianghua. Zhang Donghai is the chairman of the production committee.

The responsibilities of our production committee include, among others:

- Determining the annual planned production volumes of the relevant coal mines for the following year with reference to the Assessed Capacities and market conditions
- Reviewing our actual production volumes on a quarterly basis
- Considering whether we need to revise the annual planned production volumes of the relevant coal mines or to apply to increase the Assessed Capacities

### **EMPLOYEES**

As of December 31, 2011, our Company had a total of 5,287 full time employees. Set out below is a breakdown of the number of our employees by function as of the same date:

|                                           | <u>Number of employees</u> |
|-------------------------------------------|----------------------------|
| Production .....                          | 1,969                      |
| Transportation, sales and marketing ..... | 1,948                      |
| Technician .....                          | 439                        |
| Accounts and finance .....                | 209                        |
| Administration .....                      | 722                        |
| Total .....                               | 5,287                      |

The remuneration package for our employees generally includes salary and bonuses. Employees also receive welfare benefits and allowance including communication and meal expenses reimbursement. The remuneration package for each employee is determined based on his or her job position, job responsibility and the contribution to our business. We conduct periodic performance reviews for all our employees, and salaries and bonuses of employees are performance-based.

In the PRC, in accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay, in respect to our employees in the PRC, various social insurance including pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity insurance. In accordance with applicable PRC regulations on housing funds, we are also required to contribute

to a housing fund plan for our employees. We have made provisions for the payment of the various social insurances and the housing fund which were payable by us during the Track Record Period. We currently make full payments in respect of the various social insurances and the housing fund in accordance with applicable PRC laws and regulations. The contributions by us for 2009, 2010 and 2011 were approximately RMB24.7 million, RMB34.6 million and RMB46.5 million, respectively.

Our Directors confirm that our Group complied with the relevant labor and social welfare laws and regulations of the PRC and made the relevant contributions in accordance with the PRC laws and regulations during the Track Record Period.

## **COMPLIANCE ADVISER**

Our Company has agreed to appoint CICC to be the compliance advisor upon listing in compliance with Rules 3A.19 and 19A.05 of the Listing Rules. Our Company expects to enter into a compliance advisor's agreement with the compliance advisor prior to the Listing Date, the material terms of which are as follows:

- our Company will appoint CICC as the compliance advisor for the purposes of the Listing Rules for a period commencing from the Listing Date and ending on the date on which our Company distributes its annual report incorporating financial results for the first full financial year commencing after the Listing Date in compliance with Rule 13.46 of the Listing Rules;
- the compliance advisor will provide our Company with certain services, including providing our Company with proper guidance and advise as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and to act as one of our Company's principal channels with the Hong Kong Stock Exchange;
- our Company may terminate the appointment of the compliance advisor if its work is of an unacceptable standard (which cannot be resolved within 30 days); and
- the compliance advisor may terminate the appointment by service of a notice to the Company.

## **WAIVERS GRANTED BY THE HONG KONG STOCK EXCHANGE**

### **Waiver from Rules 8.12 and 19A.15 of the Listing Rules**

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under Rule 8.12 and Rule 19A.15 in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed "Waivers From Strict Compliance With The Listing Rules — Management Presence in Hong Kong."

### **Waiver from Rules 8.17 and 3.28 of the Listing Rules**

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under Rules 8.17 and 3.28 in relation to the requirement on the qualifications of company secretary. For details of the waiver, please see the section headed "Waivers From Strict Compliance With the Listing Rules — Qualification of Company Secretary."

## **Compensation of the Directors and Supervisors**

Our Directors receive compensation in the form of fees, salaries, allowances, bonuses and other benefits-in-kind, including our Company's contribution to the pension plan on their behalf.

Total compensation paid to our Directors for 2009, 2010 and 2011, were approximately RMB9.3 million, RMB9.6 million and RMB9.5 million, respectively. During the Track Record Period, no remuneration was paid by our Group to our Directors or the five highest paid employees as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors or the five highest paid

|                                                                |
|----------------------------------------------------------------|
| <b>DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES</b> |
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employees for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments for 2009, 2010 and 2011.

As required by PRC regulations, we participate in various defined pension schemes for our employees, including those organized by regional or municipal governments. The employees covered by such schemes include our Directors, Supervisors and management personnel.

The five highest paid employees for 2009, 2010 and 2011 include four, five and four Directors respectively. The aggregate amount of compensation paid by our Company to the five highest paid employees who are not directors (the number of non-director employees being one, zero and one, respectively) during the same periods were approximately RMB1.0 million, nil and RMB1.2 million respectively. Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind receivable by the Directors (including four independent non-executive Directors) and Supervisors in respect of the year ending December 31, 2012 are estimated to be approximately RMB9.0 million (including approximately RMB0.36 million to be received by the independent non-executive Directors) and RMB2.7 million, respectively.



## SHARE CAPITAL

As of the Latest Practicable Date, the registered share capital of our Company is RMB1,464.0 million, divided into 1,464 million Shares which consist of 800,000,000 Domestic Shares and 664,000,000 B Shares with a nominal value of RMB1.00 each. The interest of the Shareholders in our issued share capital was as follows:

| <u>Issued fully paid or credited as fully paid:</u>              | <u>Number of Shares</u> | <u>Approximate Percentage of Issued Share Capital</u> |
|------------------------------------------------------------------|-------------------------|-------------------------------------------------------|
| Domestic Shares held by Yitai Group . . . . .                    | 800,000,000             | 54.64%                                                |
| B Shares indirectly held by Yitai Group <sup>(1)</sup> . . . . . | 97,843,064              | 6.69%                                                 |
| B Shares held by other public shareholders . . . . .             | 566,156,936             | 38.67%                                                |
| Total . . . . .                                                  | <u>1,464,000,000</u>    | <u>100.00%</u>                                        |

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

| <u>Issued and to be issued, fully paid or credited as fully paid:</u> | <u>Number of Shares</u> | <u>Approximate Percentage of Issued Share Capital</u> |
|-----------------------------------------------------------------------|-------------------------|-------------------------------------------------------|
| Domestic Shares held by Yitai Group . . . . .                         | 800,000,000             | 49.18%                                                |
| B Shares indirectly held by Yitai Group <sup>(1)</sup> . . . . .      | 97,843,064              | 6.02%                                                 |
| B Shares held by other public shareholders . . . . .                  | 566,156,936             | 34.80%                                                |
| H Shares under the Global Offering . . . . .                          | 162,667,000             | 10.00%                                                |
| Total . . . . .                                                       | <u>1,626,667,000</u>    | <u>100.00%</u>                                        |

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

| <u>Issued and to be issued, fully paid or credited as fully paid:</u> | <u>Number of Shares</u> | <u>Approximate Percentage of Issued Share Capital</u> |
|-----------------------------------------------------------------------|-------------------------|-------------------------------------------------------|
| Domestic Shares held by Yitai Group . . . . .                         | 800,000,000             | 48.45%                                                |
| B Shares indirectly held by Yitai Group <sup>(1)</sup> . . . . .      | 97,843,064              | 5.93%                                                 |
| B Shares held by other public shareholders . . . . .                  | 566,156,936             | 34.29%                                                |
| H Shares under the Global Offering . . . . .                          | 187,067,000             | 11.33%                                                |
| Total . . . . .                                                       | <u>1,651,067,000</u>    | <u>100.00%</u>                                        |

(1) These B Shares are indirectly held by Yitai Group through its wholly-owned subsidiary Yitai HK.

The above tables assume the Global Offering becomes unconditional and is completed.

## OUR SHARES

Our H Shares, B Shares and Domestic Shares are all ordinary shares in the share capital of our Company. H Shares and B Shares may only be subscribed for and traded in Hong Kong dollars and U.S. dollars respectively. Domestic Shares, on the other hand, may only be subscribed for and traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. B Shares can be subscribed for by and traded among foreign legal and natural persons and other organisations, legal and natural persons and other organisations in Hong Kong, Macau and Taiwan, overseas Chinese citizens, and other investors approved by the CSRC to subscribe for and deal in domestic listed foreign shares and must be traded in foreign currencies. Starting from June 1, 2001 and according to the rules of CSRC, domestic Chinese citizens are allowed to trade in B shares. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. All dividends in respect of the H Shares and B Shares are to be paid by us in Hong Kong dollars and U.S. dollars respectively whereas all dividends in respect of the Domestic Shares are to be paid by us in Renminbi.

Our B Shares have been listed on the SHSE since August 8, 1997. According to the present laws and regulations, our H Shares, B Shares and Domestic Shares are neither interchangeable nor fungible, and the market prices of our Company's H Shares and B Shares may be different. The transfer and trading of our Company's B Shares shall be in accordance with prevailing applicable relevant rules and regulations in the PRC.

According to our Articles of Association, we have two classes of shares, (i) "non-overseas-listed-foreign shares" which include Domestic Shares (shares issued and subscribed for in RMB to investors within the PRC); and B Shares (shares issued and subscribed for in foreign currency to investors within and outside the PRC and listed in the PRC); and (ii) overseas listed foreign shares, i.e. H Shares (shares issued and subscribed for in foreign currency to foreign investors and listed in Hong Kong). According to our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, there are no laws or regulations treating B Shares and Domestic Shares as different classes of shares in the PRC currently. Shareholders of our B Shares and Domestic Shares enjoy the same rights and interests, and exercise the same voting power at the same shareholders' general meeting. After the proposed issue of H Shares and pursuant to relevant PRC laws and regulations, "non-overseas-listed-foreign shares" and H Shares will be treated as class shares. The abovementioned rules governing the class shares have been stated in our Articles of Association which were approved by our shareholders at the general meeting. Our PRC legal advisor has confirmed that the rules governing the class shares adopted by us are legally valid, binding and comply with the Mandatory Provision.

Shareholders holding different classes of Shares of our Company are considered as different classes of shareholders. Our Company has two classes of shareholders, namely shareholders of "non-overseas-listed-foreign shares" (i.e. Domestic Shares and B Shares) and shareholders of overseas listed foreign shares (i.e. H Shares). The rights conferred on any class of shareholders may not be varied or abrogated unless approved by a special resolution of shareholders' general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with our Articles of Association. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in Appendix IX to this Prospectus. However, the special procedures for approval by separate class shareholders shall not apply (i) where we issue, upon approval by a special resolution of our shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued "non-overseas-listed-foreign shares" and overseas listed foreign shares; (ii) where our plan to issue "non-overseas-listed-foreign shares" and overseas listed foreign shares at the time of our establishment is implemented within 15 months from the date of approval of the securities supervision and management department of the PRC; or (iii) where our "non-overseas-listed-foreign shares" may be transferred to overseas investors upon the approval of the securities supervision and management department of the PRC and such Shares may be listed or traded on an overseas stock exchange.

Except as described in this Prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix IX to this Prospectus, our H Shares, B Shares and Domestic Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus. However, the transfer of "non-overseas-listed-foreign shares" is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

#### **APPROVAL FROM SHAREHOLDERS OF DOMESTIC SHARES AND B SHARES**

Approval from shareholders of Domestic Shares and B Shares is required for our Company to issue H Shares and seek the listing of H Shares on the Hong Kong Stock Exchange. Such approval was obtained by our Company at the Second Session of the First Extraordinary General Meeting in 2010 held on May 11, 2010 and in the Second Extraordinary General Meeting in 2011 held on August 26, 2011 and is subject to the following conditions:

(1) Size of the offer

The proposed number of H Shares to be offered shall not exceed 15% of the total issued share capital after the issuing of H Shares, and if the Over-allotment Option is exercised, the number of

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| <b>SHARE CAPITAL</b> |
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H Shares to be offered under the Over-allotment Option shall not exceed 15% of the number of Offer Shares initially available under the Global Offering.

(2) Method of listing

The method of listing shall be by way of international offering and public offer for subscription in Hong Kong.

(3) Target investors

The H Shares shall be issued to professional, institutional, individual investors and the public outside the PRC.

(4) Price determination basis

The Offer Price shall be determined by the Underwriters and us based on factors including interests of the existing shareholders and market demand.

(5) Validity period

The issue of H Shares and listing of H Shares on the Hong Kong Stock Exchange shall be completed within 18 months from the date of the shareholders' meeting. According to the resolution passed in the Second Extraordinary General Meeting in 2011, the validity period of the authorization to the Board or its authorized persons to deal with the relevant matters with respect to the Listing and Global Offering is extended to 12 months from November 11, 2011.

## SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly controlled, or were entitled to exercise, or control the exercise of, 5% or more of our Shares:

| Shareholder                        | Class of Shares <sup>(4)</sup> | Number of Shares directly or indirectly held | Approximate percentage of share capital (%) |
|------------------------------------|--------------------------------|----------------------------------------------|---------------------------------------------|
| Yitai Group <sup>(1)</sup>         | Domestic Shares and B Shares   | 897,843,064                                  | 61.33%                                      |
| Yitai Investment <sup>(2)(3)</sup> | Domestic Shares and B Shares   | 897,843,064                                  | 61.33%                                      |
| Yitai HK.                          | B Shares                       | 97,843,064                                   | 6.69%                                       |

(1) Yitai Group directly holds 800,000,000 Domestic Shares of our Company. Yitai Group holds 100% of the issued share capital of Yitai HK. Accordingly, under the SFO, Yitai Group is deemed to be interested in the 97,843,064 B Shares held by Yitai HK.

(2) Yitai Investment holds 99.54% of the registered capital of Yitai Group and Yitai Group holds 100% of the issued share capital of Yitai HK. Under the SFO, Yitai Investment is deemed to be interested in the 800,000,000 Domestic Shares held by Yitai Group and 97,843,064 B Shares held by Yitai HK.

(3) The equity interests of Yitai Investment are held by 31 individuals on behalf of the Employees Group. Mr. Zhang Shuangwang and his spouse beneficially own 15.01% equity interests in Yitai Investment.

(4) According to the Articles of Association, we have two classes of shares, consisting of: (i) “non-overseas-listed-foreign shares” which include Domestic Shares and B Shares; and (ii) H Shares.

So far as the Directors of our Company are aware, the above mentioned shareholders will, immediately following the completion of the Global Offering (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Shareholder                        | Number of Shares directly or indirectly held | Approximate percentage of share capital (%) |
|------------------------------------|----------------------------------------------|---------------------------------------------|
| Yitai Group <sup>(4)</sup>         | 897,843,064                                  | 55.20%                                      |
| Yitai Investment <sup>(5)(6)</sup> | 897,843,064                                  | 55.20%                                      |

(4) Yitai Group directly holds 800,000,000 Domestic Shares of our Company. Yitai Group holds 100% of the issued share capital of Yitai HK. Accordingly, under the SFO, Yitai Group is deemed to be interested in the 97,843,064 B Shares held by Yitai HK.

(5) Yitai Investment holds 99.54% of the registered capital of Yitai Group. Under the SFO, Yitai Investment is deemed to be interested in the 800,000,000 Domestic Shares held by Yitai Group and 97,843,064 B Shares held by Yitai HK.

(6) The equity interests of Yitai Investment are held by 31 individuals on behalf of the Employees Group. Mr. Zhang Shuangwang and his spouse beneficially own 15.01% equity interest in Yitai Investment.

For details of our Directors’ and Supervisors’ interests in the Shares immediately following the completion of the Global Offering, see “Appendix X — Statutory and General Information — 5. Disclosure of Interests — B. Disclosure of the Directors’ and Supervisors’ interests in the registered capital of associate corporations of the Company.”

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings.

Except as disclosed in this Prospectus (including Appendix X — Statutory and General Information), as of the Latest Practicable Date, we were not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## The Cornerstone Placing

We have entered into placing agreements with the following investors (the “**Cornerstone Investors**”), who in aggregate have agreed to subscribe at the Offer Price for such number of Offer Shares that may be purchased with an aggregate amount of approximately US\$388.4 million. Assuming an Offer Price of HK\$43.00, the low end of the estimated Offer Price range set forth in this Prospectus, the total number of H shares to be subscribed for by the Cornerstone Investors would be 70,051,800 H shares, representing approximately 4.3% of our total issued and outstanding share capital, or 43.1% of the H shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00, the mid-point of the estimated Offer Price range set forth in this Prospectus, the total number of H Shares to be subscribed for by the Cornerstone Investors would be 62,754,700 H Shares, representing approximately 3.9% of our total issued and outstanding share capital, or 38.6% of the H Shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00, the high end of the estimated Offer Price range set forth in this Prospectus, the total number of H shares to be subscribed for the Cornerstone Investors would be 56,834,500 H shares, representing approximately 3.5% of our total issued and outstanding share capital, or 34.9% of the H shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Each of the Cornerstone Investors is an Independent Third Party not connected with us and will not be a substantial shareholder of the Company upon Listing and during the six-month lock-up period as described below. The Cornerstone Investors are also independent from each other. All H Shares to be held by the Cornerstone Investors will be counted as part of our public float.

The cornerstone placing forms part of the International Offering. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective placing agreement. Immediately following the completion of the Global Offering, no Cornerstone Investor will have any board representation in the Company. The Cornerstone Investors do not have any preferential rights compared with other public shareholders in the respective placing agreement. Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allotment in the Hong Kong Public Offering to be published on July 11, 2012.

## Our Cornerstone Investors

We set forth below a brief description of our Cornerstone Investors:

### Baosteel Resources International Co., Ltd.

Baosteel Resources International Co., Ltd. (“**Baosteel Resources**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$29.7 million (approximately HK\$230.4 million based on an exchange rate of US\$1.00 to HK\$7.7591 as of the Latest Practicable Date) at the Offer Price. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), Baosteel Resources would subscribe for 5,359,100 H shares, representing approximately 3.3% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), Baosteel Resources would subscribe for 4,800,900 H Shares, representing approximately 3.0% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), Baosteel Resources would subscribe for 4,348,000 H shares, representing approximately 2.7% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

Baosteel Resources is incorporated in Hong Kong and its core business is investment, trading and logistic services in relation to iron ore, coal, non-ferrous metals, raw materials and scrap. Baosteel Resources is a subsidiary of Baosteel Group Corporation, one of the largest and most profitable steel enterprises in the world with a current annual production capacity of 50 million tonnes.

### Datang International (Hong Kong) Limited

Datang International (Hong Kong) Limited (“**Datang Hong Kong**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$100 million (approximately HK\$775.9 million based on an exchange rate of US\$1.00 to HK\$7.7591 as of the Latest Practicable Date) at the Offer Price. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), Datang Hong Kong would subscribe for 18,044,400 H shares, representing approximately 11.1% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), Datang Hong Kong would subscribe for 16,164,700 H Shares, representing approximately 9.9% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), Datang Hong Kong would subscribe for 14,639,800 H shares, representing approximately 9.0% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

Datang Hong Kong is a limited liability company incorporated in Hong Kong and is wholly owned by Datang International Power Generation Co., Ltd. It is principally engaged in the financial transactions and business, import and export trade, and acquisition and establishment of companies.

Datang International Power Generation Co., Ltd. is a joint stock limited company established in the PRC and its shares are listed on the Hong Kong Stock Exchange (stock code: 00991) and the Shanghai Stock Exchange (stock code: 601991), respectively.

### Inner Mongolia Man Shi Investment Group Limited

Inner Mongolia Man Shi Investment Group Limited (“**Man Shi Investment**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of RMB500 million (approximately HK\$615.8 million based on an exchange rate of RMB0.8120 to HK\$1.00 as of the Latest Practicable Date) at the Offer Price. The cross rate published by Bloomberg after the close of business on the date of determining the Offer Price shall be used to calculate the Hong Kong dollar equivalent of RMB500 million in order to determine the number of H Shares to be allocated to Man Shi Investment. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), Man Shi Investment would subscribe for 14,320,000 H shares, representing approximately 8.8% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), Man Shi Investment would subscribe for approximately 12,828,400 H Shares, representing approximately 7.9% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), Man Shi Investment would subscribe for 11,618,100 H shares, representing approximately 7.1% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

Man Shi Investment is the parent company of Inner Mongolia Man Shi Coal Group Limited (“**Man Shi Group**”). Man Shi Investment is a leading modern business group in Ordos. It is principally engaged in businesses including coal production, transportation and sales, real estate development, retail and trade, financial services and ecological tourism.

### King Link Holding Limited

King Link Holding Limited (“**KLH**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$30 million (approximately HK\$232.8 million based on an exchange rate of US\$1.00 to HK\$7.7591 as of the Latest Practicable Date) at the Offer Price. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), KLH would subscribe for 5,413,300 H shares, representing approximately 3.3% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), KLH would subscribe for 4,849,400 H Shares, representing approximately 3.0% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an



Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), KLH would subscribe for 4,391,900 H shares, representing approximately 2.7% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

KLH is a wholly owned subsidiary of China King Link Investment Holding Limited, a member of China Soft Capital Group (“CSC”). CSC is a private equity investment and asset management institution focusing on strategic emerging industries, including new generation of IT, consumption upgrade and high-end equipment manufacturing. CSC has managed several private equity and venture capital funds with a total value over RMB3 billion, including CSC HX Growth (Beijing) Fund, CSC HR Soft (Hangzhou) Fund, CSC HR New-Tech (Changzhou) Fund and CSC HX Equipment (Shanghai) Fund. CSC’s headquarters is in Beijing, and it has representative offices in Shanghai, Hangzhou, Changzhou and Hong Kong.

KLH may obtain external financing from lenders (which may include affiliates of UBS) to finance its subscription of H Shares. The loan, if obtained, will be on normal commercial terms after arm’s length negotiations. All or some of the H Shares to be subscribed for by KLH may be charged to the lenders as security for such loan. Under the financing arrangement, KLH may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders may therefore have the right to enforce their security interest in the H Shares subject to such charge at any time from and including the Listing Date upon the occurrence of certain customary events of default.

### **Lion Fund Rainbow No.1 Investment Mandate**

Lion Fund Rainbow No.1 Investment Mandate (“**Lion Fund**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$20 million (approximately HK\$155.2 million based on an exchange rate of US\$1.00 to HK\$7.7591 as of the Latest Practicable Date) (inclusive of relevant brokerage and levies) at the Offer Price. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), Lion Fund would subscribe for 3,572,800 H shares, representing approximately 2.2% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), Lion Fund would subscribe for 3,200,600 H Shares, representing approximately 2.0% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), Lion Fund would subscribe for 2,898,700 H shares, representing approximately 1.8% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

Lion Fund is an asset management account under the Chinese Qualified Domestic Institutional Investor (QDII) scheme. Lion Fund Management Co., Ltd., one of the top 20 asset managers in China, is the asset manager of Lion Fund. Lion Fund is regulated by Chinese law.

### **Ordos Vanzip Project Construction Company Limited**

Ordos Vanzip Project Construction Company Limited (“**Vanzip Construction**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of RMB500 million (approximately HK\$615.8 million based on an exchange rate of RMB0.8120 to HK\$1.00 as of the Latest Practicable Date) at the Offer Price. The cross rate published by Bloomberg after the close of business on the date of determining the Offer Price shall be used to calculate the Hong Kong dollar equivalent of RMB500 million in order to determine the number of H Shares to be allocated to Vanzip Construction. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), Vanzip Construction would subscribe for 14,320,000 H shares, representing approximately 8.8% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), Vanzip Construction would subscribe for approximately 12,828,400 H Shares, representing approximately 7.9% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), Vanzip Construction would subscribe for 11,618,100 H shares, representing approximately 7.1% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

Vanzip Construction is a subsidiary of Vanzip Investment Group Co., Ltd. (“**Vanzip Group**”). Vanzip Group is a large-scale privately-owned group which is principally engaged in businesses including wine, real estate development, highway construction and management, infrastructure investment and construction, architecture, gardening and greening, decoration, trade, finance and construction materials in Ordos.

### **Reignwood International Investment (Group) Co., Ltd.**

Reignwood International Investment (Group) Co., Ltd. (“**Reignwood International**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$50 million (approximately HK\$388.0 million based on an exchange rate of US\$1.00 to HK\$7.7591 as of the Latest Practicable Date) at the Offer Price. Assuming an Offer Price of HK\$43.00 (being the low end of the Offer Price range set forth in this Prospectus), Reignwood International would subscribe for 9,022,200 H shares, representing approximately 5.5% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$48.00 (being the mid-point of the Offer Price range set forth in this Prospectus), Reignwood International would subscribe for 8,082,300 H Shares, representing approximately 5.0% of the H Shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised). Assuming an Offer Price of HK\$53.00 (being the high end of the Offer Price range set forth in this Prospectus), Reignwood International would subscribe for 7,319,900 H shares, representing approximately 4.5% of the H shares to be issued pursuant to the Global Offering (assuming the Over-allotment Option is not exercised).

Reignwood International is a diversified international investment group in key growth sectors including consumer products, property & hospitality, energy & mining, offshore engineering, general aviation and financial leasing, with investments throughout Asia, Europe and North America. The energy beverage producer Redbull China is its prominent subsidiary.

Reignwood International may obtain external financing from lenders (which may include affiliates of CS) to finance its subscription of H Shares. The loan, if obtained, will be on normal commercial terms after arm’s length negotiations. All or some of the H Shares to be subscribed for by Reignwood International may be charged to the lenders as security for such loan. Under the financing arrangement, Reignwood International may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders may therefore have the right to enforce their security interest in the H Shares subject to such charge at any time from and including the Listing Date upon the occurrence of certain customary events of default.

### **Conditions Precedent**

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent: (i) the underwriting agreement for the Hong Kong Public Offering and the underwriting agreement for the International Offering being entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in those underwriting agreements or as subsequently waived or varied by agreement of the parties thereto; (ii) none of the aforesaid underwriting agreements having been terminated; (iii) the Listing Committee of the Hong Kong Stock Exchange having granted approval for the listing of, and permission to deal in, the H Shares and that such approval and permission have not been revoked; and (iv) the respective representations, warranties and undertakings of the Cornerstone Investor remaining true, accurate and not misleading at closing of the International Offering.

### **Restrictions on the Cornerstone Investors’ Investments**

Saved as disclosed above, each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the Joint Bookrunners, it will not, whether directly or indirectly, at any time during the period of six (6) months following the Listing Date, dispose of (as defined in the relevant placing agreement) any legal or beneficial interests in the H Shares subscribed for by it pursuant to the relevant placing agreement (or any interest in any company or entity holding any of the H Shares), other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor and, in the case of Reignwood International and KLH, pledge of such H Shares according to the respective placing agreement for the purposes of obtaining funding in their respective investments in our H Shares provided that, among other things, such wholly-owned subsidiary undertakes in writing to be, and such Cornerstone Investor undertakes in writing prior to such transfer to procure such subsidiary to be, bound by the Cornerstone Investor’s obligations under the relevant placing agreement.

## FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited consolidated financial information set forth in the Accountants' Report included as Appendix IA to this Prospectus and the notes thereto, the audited combined financial information of the Target Business Group set forth in the Accountants' Report included as Appendix IB to this Prospectus and the notes thereto and the unaudited pro forma combined financial information of our Group and the Target Business Group set forth in Appendix IIA to this Prospectus and the notes thereto. Our reporting accountants have reviewed our unaudited interim financial statements, including the notes thereto, which have been prepared on the same basis as our audited consolidated financial statements. The unaudited interim consolidated financial statements include all normal and recurring adjustments that we consider necessary to fairly present our financial condition and results of operations as of the dates and for the periods indicated as included in Appendix III to this Prospectus.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements."

Unless otherwise indicated, all financial data, whether presented on a consolidated basis or by segment, are presented net of intersegment transactions (i.e., intersegment and other intra-group transactions have been eliminated).

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables present the selected historical consolidated financial information of our Group and the selected historical combined financial information of the Target Business Group for the periods indicated. The selected summary consolidated and combined statements of comprehensive income information, operating segment information and cash flows information for 2009, 2010 and 2011, and the selected summary consolidated and combined statements of financial position information as of December 31, 2009, 2010 and 2011 are derived from, and should be read in conjunction with, the consolidated and combined financial information set forth in the Accountants' Reports included as Appendix IA and Appendix IB to this Prospectus, respectively. The selected summary consolidated statements of comprehensive income information and cash flow information for the three months ended March 31, 2011 and 2012, and the selected summary consolidated statement of financial position information as of March 31, 2012 of our Group are derived from, and should be read in conjunction with the Unaudited Interim Financial Information included in Appendix III to this Prospectus. The selected historical consolidated financial information has been prepared in accordance with IFRS.

# FINANCIAL INFORMATION

## Our Group

### Consolidated statements of comprehensive income

|                                                                                              | Year ended December 31, |                |                | Three months ended March 31, |                |
|----------------------------------------------------------------------------------------------|-------------------------|----------------|----------------|------------------------------|----------------|
|                                                                                              | 2009                    | 2010           | 2011           | 2011                         | 2012           |
|                                                                                              | RMB million             |                |                | (unaudited)                  |                |
| Revenue                                                                                      | 10,252.2                | 13,853.8       | 16,515.8       | 3,210.2                      | 5,371.7        |
| Cost of sales                                                                                | (5,235.0)               | (5,998.7)      | (8,100.9)      | (1,342.2)                    | (3,034.7)      |
| <b>Gross profit</b>                                                                          | <b>5,017.2</b>          | <b>7,855.1</b> | <b>8,414.9</b> | <b>1,868.0</b>               | <b>2,337.0</b> |
| Other income                                                                                 | 132.0                   | 152.2          | 349.9          | 54.2                         | 101.4          |
| Selling and distribution costs                                                               | (627.3)                 | (705.2)        | (717.7)        | (171.5)                      | (175.7)        |
| Administrative expenses                                                                      | (524.9)                 | (790.2)        | (1,009.0)      | (145.1)                      | (178.0)        |
| Other expenses                                                                               | (65.4)                  | (99.9)         | (64.4)         | 26.8                         | (22.3)         |
| Finance income                                                                               | 36.3                    | 25.5           | 34.1           | 5.9                          | 8.7            |
| Finance costs                                                                                | (279.7)                 | (171.9)        | (285.3)        | (42.7)                       | (98.7)         |
| Exchange gains, net                                                                          | 25.2                    | 6.9            | 17.7           | 1.2                          | 0.6            |
| Share of losses of a jointly-controlled entity                                               | (0.3)                   | —              | —              | —                            | —              |
| Share of profits and losses of associates                                                    | 0.6                     | 2.6            | 19.8           | (2.6)                        | 2.5            |
| <b>Profit before tax</b>                                                                     | <b>3,713.7</b>          | <b>6,275.1</b> | <b>6,760.0</b> | <b>1,594.2</b>               | <b>1,975.5</b> |
| Income tax expense                                                                           | (565.3)                 | (959.1)        | (1,010.7)      | (236.0)                      | (303.0)        |
| <b>Profit for the year/period</b>                                                            | <b>3,148.4</b>          | <b>5,316.0</b> | <b>5,749.3</b> | <b>1,358.2</b>               | <b>1,672.5</b> |
| Other comprehensive income                                                                   | —                       | —              | —              | —                            | —              |
| <b>Total comprehensive income for the year/period</b>                                        | <b>3,148.4</b>          | <b>5,316.0</b> | <b>5,749.3</b> | <b>1,358.2</b>               | <b>1,672.5</b> |
| <b>Profit and total comprehensive income attributable to:</b>                                |                         |                |                |                              |                |
| Owners of our Company                                                                        | 3,042.9                 | 5,014.6        | 5,464.0        | 1,311.0                      | 1,525.6        |
| Non-controlling interests                                                                    | 105.5                   | 301.4          | 285.3          | 47.2                         | 146.9          |
|                                                                                              | <u>3,148.4</u>          | <u>5,316.0</u> | <u>5,749.3</u> | <u>1,358.2</u>               | <u>1,672.5</u> |
| <b>Basic earnings per share attributable to ordinary equity holders of our Company (RMB)</b> |                         |                |                |                              |                |
| — For profit for the year/period                                                             | <u>2.08</u>             | <u>3.43</u>    | <u>3.73</u>    | <u>0.90</u>                  | <u>1.04</u>    |

# FINANCIAL INFORMATION

## Consolidated statements of financial position

|                                                     | As of December 31, |                 |                 | As of<br>March 31, |
|-----------------------------------------------------|--------------------|-----------------|-----------------|--------------------|
|                                                     | 2009               | 2010            | 2011            | 2012               |
|                                                     | RMB million        |                 |                 | (unaudited)        |
| <b>Non-current assets</b>                           |                    |                 |                 |                    |
| Property, plant and equipment                       | 15,623.3           | 17,698.3        | 20,371.0        | 20,580.5           |
| Investment properties                               | 38.0               | 36.1            | 33.7            | 33.1               |
| Prepaid land lease payments                         | 158.3              | 228.6           | 265.8           | 265.4              |
| Mining rights                                       | 235.3              | 226.4           | 218.1           | 216.9              |
| Intangible assets                                   | 19.1               | 16.9            | 17.5            | 17.3               |
| Investment in a jointly-controlled entity           | 4.9                | 4.9             | —               | —                  |
| Investments in associates                           | 200.8              | 279.6           | 353.0           | 355.5              |
| Available-for-sale investments                      | 1,338.8            | 2,108.1         | 2,870.6         | 2,889.6            |
| Other non-current assets                            | 20.6               | 18.0            | 17.7            | 25.0               |
| Deferred tax assets                                 | 47.4               | 27.4            | 101.3           | 90.4               |
| <b>Total non-current assets</b>                     | <b>17,686.5</b>    | <b>20,644.3</b> | <b>24,248.7</b> | <b>24,473.7</b>    |
| <b>Current assets</b>                               |                    |                 |                 |                    |
| Inventories                                         | 316.4              | 460.1           | 676.7           | 660.9              |
| Trade and bills receivables                         | 668.5              | 573.2           | 751.4           | 1,095.0            |
| Prepayments, deposits and other receivables         | 660.0              | 454.0           | 836.0           | 1,419.4            |
| Restricted cash                                     | 15.0               | 27.2            | 20.3            | 20.3               |
| Cash and short-term deposits                        | 3,275.4            | 3,715.2         | 3,535.5         | 3,811.1            |
| <b>Total current assets</b>                         | <b>4,935.3</b>     | <b>5,229.7</b>  | <b>5,819.9</b>  | <b>7,006.7</b>     |
| <b>Current liabilities</b>                          |                    |                 |                 |                    |
| Trade and bills payables                            | 269.9              | 279.4           | 543.5           | 630.4              |
| Other payables and accruals                         | 2,147.2            | 1,946.3         | 1,886.4         | 2,052.1            |
| Interest-bearing loans and borrowings               | 1,752.6            | 918.6           | 2,206.2         | 2,070.0            |
| Income tax payable                                  | 236.6              | 320.8           | 161.3           | 347.2              |
| <b>Total current liabilities</b>                    | <b>4,406.3</b>     | <b>3,465.1</b>  | <b>4,797.4</b>  | <b>5,099.7</b>     |
| <b>Net current assets</b>                           | <b>529.0</b>       | <b>1,764.6</b>  | <b>1,022.5</b>  | <b>1,907.0</b>     |
| <b>Total assets less current liabilities</b>        | <b>18,215.5</b>    | <b>22,408.9</b> | <b>25,271.2</b> | <b>26,380.7</b>    |
| <b>Non-current liabilities</b>                      |                    |                 |                 |                    |
| Interest-bearing loans and borrowings               | 7,367.8            | 7,011.8         | 6,100.6         | 5,569.5            |
| Other non-current liabilities                       | 96.1               | 100.6           | 387.2           | 317.8              |
| <b>Total non-current liabilities</b>                | <b>7,463.9</b>     | <b>7,112.4</b>  | <b>6,487.8</b>  | <b>5,887.3</b>     |
| <b>Net assets</b>                                   | <b>10,751.6</b>    | <b>15,296.5</b> | <b>18,783.4</b> | <b>20,493.4</b>    |
| <b>Equity</b>                                       |                    |                 |                 |                    |
| Issued capital                                      | 732.0              | 1,464.0         | 1,464.0         | 1,464.0            |
| Reserves                                            | 8,042.6            | 10,085.5        | 13,355.6        | 14,881.2           |
| Proposed final dividends                            | 732.0              | 2,196.0         | 2,196.0         | 2,196.0            |
| <b>Equity attributable to owners of our Company</b> | <b>9,506.6</b>     | <b>13,745.5</b> | <b>17,015.6</b> | <b>18,541.2</b>    |
| Non-controlling interests                           | 1,245.0            | 1,551.0         | 1,767.8         | 1,952.2            |
| <b>Total equity</b>                                 | <b>10,751.6</b>    | <b>15,296.5</b> | <b>18,783.4</b> | <b>20,493.4</b>    |

# FINANCIAL INFORMATION

## Operating segment information

|                                     | Year ended December 31, |          |          | Three months ended |
|-------------------------------------|-------------------------|----------|----------|--------------------|
|                                     | 2009                    | 2010     | 2011     | March 31,          |
|                                     | RMB million             |          |          | 2012               |
|                                     |                         |          |          | (unaudited)        |
| Revenue from operations             |                         |          |          |                    |
| Coal                                | 9,676.0                 | 13,360.1 | 15,197.3 | 4,786.3            |
| Transportation                      | 534.5                   | 435.3    | 604.4    | 211.3              |
| Coal-related chemical               | —                       | —        | 677.8    | 367.4              |
| Others                              | 41.7                    | 58.4     | 36.3     | 6.7                |
| Total revenue from operations       | 10,252.2                | 13,853.8 | 16,515.8 | 5,371.7            |
| Depreciation and amortization       |                         |          |          |                    |
| Coal                                | 444.6                   | 452.7    | 552.2    | 147.5              |
| Transportation                      | 89.0                    | 158.5    | 195.4    | 60.7               |
| Coal-related chemical               | —                       | 14.0     | 65.7     | 37.6               |
| Others                              | 9.4                     | 6.4      | 5.6      | 2.1                |
| Total depreciation and amortization | 543.0                   | 631.6    | 818.9    | 247.9              |
| Capital expenditure                 |                         |          |          |                    |
| Coal                                | 2,408.0                 | 1,114.1  | 1,865.6  | 181.0              |
| Transportation                      | 1,496.4                 | 1,529.8  | 1,270.6  | 216.6              |
| Coal-related chemical               | 848.6                   | 558.6    | 452.1    | 58.2               |
| Others                              | 1.5                     | 5.7      | 5.4      | 0.1                |
| Total capital expenditure           | 4,754.5                 | 3,208.2  | 3,593.7  | 455.9              |

Revenue from our transportation operations decreased by 18.6% from RMB534.5 million in 2009 to RMB435.3 million in 2010 primarily due to a decrease in the volume of coal our trucking subsidiaries transported for our customers as they downsized their fleets. Revenue from our transportation operations increased by 38.8% from RMB435.3 million in 2010 to RMB604.4 million in 2011 and increased by 99.7% from RMB105.8 million for the three months ended March 31, 2011 to RMB211.3 million for the three months ended March 31, 2012, primarily due to an increase in the volume of coal that our railway lines transported for customers and an increase in the rate of the platform fee on our railway lines. We commenced the operations of the coal-to-oil project in July 2011, and generated revenue of approximately RMB677.8 million and RMB367.4 million for 2011 and the three months ended March 31, 2012, respectively. Revenue from our other operations increased by 40.0% from RMB41.7 million in 2009 to RMB58.4 million in 2010 and decreased by 37.8% from RMB58.4 million in 2010 to RMB36.3 million in 2011, primarily due to an increase and decrease in the revenue generated from our Chinese medicine business in 2010 and 2011, respectively. Revenue from our other operations increased by 28.3% from RMB5.3 million for the three months ended March 31, 2011 to RMB6.7 million for the three months ended March 31, 2012, primarily due to an increase in the revenue generated from our pharmaceutical business.

## Selected consolidated cash flows information

|                                                    | Year ended December 31, |           |           | Three months ended |           |
|----------------------------------------------------|-------------------------|-----------|-----------|--------------------|-----------|
|                                                    | 2009                    | 2010      | 2011      | 2011               | 2012      |
|                                                    | RMB million             |           |           | (unaudited)        |           |
| Net cash flows from operating activities           | 3,724.6                 | 6,361.3   | 6,712.1   | 853.2              | 2,055.0   |
| Net cash flows used in investing activities        | (3,741.1)               | (3,800.1) | (4,752.9) | (592.4)            | (1,039.5) |
| Net cash flows from/(used in) financing activities | (618.7)                 | (2,124.9) | (2,152.5) | 276.5              | (736.3)   |



# FINANCIAL INFORMATION

## The Target Business Group

### Combined statements of comprehensive income

|                                                      | Year ended December 31, |                |                |
|------------------------------------------------------|-------------------------|----------------|----------------|
|                                                      | 2009                    | 2010           | 2011           |
|                                                      | RMB million             |                |                |
| Revenue .....                                        | 5,274.6                 | 9,268.3        | 10,848.9       |
| Cost of goods sold .....                             | (3,614.7)               | (6,358.9)      | (7,515.2)      |
| <b>Gross profit</b> .....                            | <b>1,659.9</b>          | <b>2,909.4</b> | <b>3,333.7</b> |
| Other income .....                                   | 55.1                    | 118.3          | 128.5          |
| Selling and distribution expenses .....              | (299.7)                 | (372.8)        | (423.4)        |
| Administrative expenses .....                        | (120.2)                 | (122.7)        | (158.1)        |
| Other expenses .....                                 | 12.3                    | (20.6)         | 28.7           |
| Finance income .....                                 | 7.0                     | 13.7           | 4.2            |
| Finance costs .....                                  | (0.4)                   | (0.4)          | (0.4)          |
| <b>Profit before tax</b> .....                       | <b>1,314.0</b>          | <b>2,524.9</b> | <b>2,913.2</b> |
| Income tax expense .....                             | (293.5)                 | (559.5)        | (617.6)        |
| <b>Profit for the year</b> .....                     | <b>1,020.5</b>          | <b>1,965.4</b> | <b>2,295.6</b> |
| Other comprehensive income .....                     | —                       | —              | —              |
| <b>Total comprehensive income for the year</b> ..... | <b>1,020.5</b>          | <b>1,965.4</b> | <b>2,295.6</b> |
| <b>Attributable to:</b>                              |                         |                |                |
| Owner of the Target Business Group .....             | 928.3                   | 1,792.8        | 2,035.0        |
| Non-controlling interests .....                      | 92.2                    | 172.6          | 260.6          |
|                                                      | <u>1,020.5</u>          | <u>1,965.4</u> | <u>2,295.6</u> |

# FINANCIAL INFORMATION

## Combined statements of financial position

|                                                           | As of December 31, |         |         |
|-----------------------------------------------------------|--------------------|---------|---------|
|                                                           | 2009               | 2010    | 2011    |
|                                                           | RMB million        |         |         |
| <b>Non-current assets</b>                                 |                    |         |         |
| Property, plant and equipment                             | 1,145.7            | 1,051.4 | 1,054.7 |
| Prepaid land lease payments                               | 47.2               | 60.3    | 58.9    |
| Mining rights                                             | 279.4              | 258.2   | 235.8   |
| Intangible assets                                         | 0.5                | 0.3     | 0.3     |
| Deferred tax assets                                       | 23.4               | 21.2    | 11.0    |
| Total non-current assets                                  | 1,496.2            | 1,391.4 | 1,360.7 |
| <b>Current assets</b>                                     |                    |         |         |
| Inventories                                               | 157.8              | 181.9   | 338.5   |
| Trade and bills receivables                               | 209.7              | 549.0   | 675.7   |
| Prepayments, deposits and other receivables               | 98.9               | 135.6   | 110.5   |
| Restricted bank deposits                                  | 11.0               | 7.0     | 7.1     |
| Cash and cash equivalents                                 | 760.6              | 1,122.5 | 917.2   |
| Total current assets                                      | 1,238.0            | 1,996.0 | 2,049.0 |
| <b>Current liabilities</b>                                |                    |         |         |
| Trade and bills payables                                  | 155.5              | 229.4   | 237.3   |
| Other payables and accruals                               | 755.5              | 820.3   | 542.6   |
| Taxes payable                                             | 30.5               | 68.1    | 42.3    |
| Total current liabilities                                 | 941.5              | 1,117.8 | 822.2   |
| <b>Net current assets</b>                                 | 296.5              | 878.2   | 1,226.8 |
| <b>Total assets less current liabilities</b>              | 1,792.7            | 2,269.6 | 2,587.5 |
| <b>Non-current liabilities</b>                            |                    |         |         |
| Other non-current liabilities                             | 5.7                | 6.0     | 6.4     |
| Total non-current liabilities                             | 5.7                | 6.0     | 6.4     |
| <b>Net assets</b>                                         | 1,787.0            | 2,263.6 | 2,581.1 |
| <b>Equity</b>                                             |                    |         |         |
| Equity attributable to owner of the Target Business Group | 1,638.5            | 1,942.3 | 2,377.2 |
| Minority interests                                        | 148.5              | 321.3   | 203.9   |
| <b>Total equity</b>                                       | 1,787.0            | 2,263.6 | 2,581.1 |

## Selected combined cash flows information

|                                                    | Year ended December 31, |           |           |
|----------------------------------------------------|-------------------------|-----------|-----------|
|                                                    | 2009                    | 2010      | 2011      |
|                                                    | RMB million             |           |           |
| Net cash flows from operating activities           | 1,980.3                 | 1,852.4   | 1,932.4   |
| Net cash flows used in investing activities        | (413.8)                 | (1.5)     | (159.6)   |
| Net cash flows from/(used in) financing activities | (1,280.0)               | (1,489.0) | (1,978.1) |

## OVERVIEW

We are the largest Local Coal Enterprise in Inner Mongolia, China, and one of the largest coal enterprises in China, in terms of revenue in 2010. See the section headed “Business” for a further description of our business operations. We manage our operations and report our financial results according to the following four separate business segments:

- *Coal operations.* Coal operations are our core business and mainly include the production, transportation and sales of coal. We generate our coal operations revenue primarily from sales of coal extracted from our mines and, to a substantially lesser extent, from resales of coal purchased from third-party coal companies. We sell all of our coal in China and our customers are primarily power generation companies. Our revenue from coal operations increased by 38.1% from RMB9,676.0 million in 2009 to RMB13,360.1 million in 2010 and further increased by 13.8% to RMB15,197.3 million in 2011.
- *Transportation operations.* We provide road and railway transportation services to third-party coal companies, including Yitai Group. Coal transported for external customers, including Yitai Group, constituted 30.9%, 38.1% and 51.5% of the total volume of coal we transported for 2009, 2010 and 2011, respectively. In 2009, 2010 and 2011, we generated revenue of RMB534.5 million, RMB435.3 million and RMB604.4 million from our transportation operations, respectively, which accounted for 5.2%, 3.2% and 3.7% of our total revenue in those periods, respectively.
- *Coal-related chemical operations.* Our coal-related chemical operations include primarily our coal-to-oil project. We commenced the operations of the coal-to-oil project in July 2011 and generated revenue of approximately RMB677.8 million for 2011.
- *Other operations.* We also engage in other operations, which mainly include the development, production and sales of traditional Chinese medicine. In 2009, 2010 and 2011, our revenue from these other operations was RMB41.7 million, RMB58.4 million and RMB36.3 million, respectively, which accounted for 0.4%, 0.4% and 0.2% of our total revenue in those periods, respectively.

Our total revenue increased by 35.1% from RMB10,252.2 million in 2009 to RMB13,853.8 million in 2010, and further increased by 19.2% to RMB16,515.8 million in 2011. Our profit increased by 68.8% from RMB3,148.4 million in 2009 to RMB5,316.0 million in 2010, and further increased by 8.2% to RMB5,749.3 million in 2011.

With a view to expanding the scale of our coal business in terms of reserves and output and reducing potential competition between Yitai Group and us, we entered into an Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we will acquire the Target Business Group from Yitai Group. For a discussion of the financial condition and results of operations of the Target Business Group, see “— Financial Information of Target Business Group.”

## SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by the price and the sales volume of our principal product, coal, and by a number of other factors, including but not limited to those described below.

## Pricing of Our Coal Products

We generally price our coal products taking into account (i) the prevailing market prices; (ii) grade and quality of the coal; and (iii) the sales volume and the length and stability of relationships with customers. Depending on the sales region and the type of customer, we are typically required to deliver our products to the purchasers, if they are accessible by road or railway, or to loading ports with the purchasers paying for the water freight, if further delivery by water is necessary. Accordingly, our coal prices are typically quoted as FOB or CFR. We also sell a portion of our coal at our mines at mine gate prices. Generally, the longer the distances we need to deliver our products, the higher the prices we charge for our products. The following table shows selected historical operating data with respect to our coal sales for the periods indicated:

|                                                                | Year ended December 31, |          |          | Three months ended March 31, |
|----------------------------------------------------------------|-------------------------|----------|----------|------------------------------|
|                                                                | 2009                    | 2010     | 2011     | 2012<br>(unaudited)          |
| Sales volume (million tonnes) . . . . .                        | 27.7                    | 35.7     | 38.3     | 11.7                         |
| Average selling price (RMB per tonne) <sup>(1)</sup> . . . . . | 349.3                   | 374.2    | 396.8    | 409.1                        |
| Revenue (RMB million) . . . . .                                | 9,676.0                 | 13,360.1 | 15,197.3 | 4,786.3                      |

(1) Average selling price is calculated by dividing revenue for the period by the sales volume for the period.

Domestic coal prices in China are largely market driven. The main factors affecting domestic thermal coal prices are the supply of, and demand for, thermal coal in the PRC, which in turn are affected by the global economy as well as international coal prices. Demand for thermal coal in the PRC is largely driven by electricity consumption. In China, as a result of strong economic growth, electricity consumption increased from 3,659.5 billion Kwh in 2009 to 4,692.8 billion Kwh in 2011, according to the China Electricity Council, representing a CAGR of 13.2%. Thermal coal is the main raw material for power generation, and the domestic price of thermal coal increased significantly in recent years until late 2008, when it began to decline as the growth of the PRC economy slowed down due to the global economic downturn. With the gradual recovery of the PRC economy, thermal coal prices have also gradually recovered. However, any future slowdown in the global and the PRC economy could result in reduced demand and prices for our coal products, which would have an adverse effect on our business and results of operations. Since March 31, 2012, we have not experienced any significant fluctuations in the selling prices of our coal products when compared with the monthly average selling prices of the first three months of 2012.

## Sales Volume of Coal

In 2009, 2010 and 2011, the sales volume of our coal was 27.7 million tonnes, 35.7 million tonnes and 38.3 million tonnes, representing a CAGR of 17.6%. The main factors affecting the sales volume of our coal include:

- market demand for our coal;
- our coal production capacity; and
- coal transportation capacity.

*Market demand for our coal.* We sell our coal mainly to power producers and coal distribution companies in China. China's power industry accounts for more than half of the domestic coal consumption. According to the China Electricity Council, at the end of 2011, China's total installed electricity generation capacity was 1,055.8 GW, 72.5% of which was generated by coal-fired power plants. According to the China Coal Resources website, the coal-fired power industry in China consumed 1,468.1 million tonnes and 1,868.7 million tonnes of coal, respectively, in 2009 and 2011, representing a CAGR of 12.8%. However, electricity consumption and, consequently, demand for thermal coal declined significantly in late 2008 because of the global economic downturn. With the gradual recovery of the global and the PRC economy, demand for thermal coal has also gradually recovered. Any significant fluctuation in the demand for thermal coal in the future could have a material adverse effect on our results of operations. Since March 31, 2012, we have not experienced any significant fluctuations in the sales volume of our coal products when compared with the monthly average sales volume of the first three months of 2012.

*Our coal production capacity.* Growth in the production volume of our coal products has largely been driven by our capital investment in the expansion of existing mines and construction of new mines. To expand

production capacity, we carried out consolidations and technology upgrades from 2005 to 2008 at our mines, including Nalinmiao No. 2 Mine, Hongjingta No. 1 Mine, Nalinmiao No. 1 Mine, the Yangwangou Mine, the Fuhua Mine and the Kaida Mine. The Suancigou Mine, our largest mine in terms of marketable reserves and production capacity, was commissioned in August 2008. In 2009, 2010 and 2011, we produced 26.0 million tonnes, 36.1 million tonnes and 35.1 million tonnes of coal, respectively. To further expand our coal production, we entered into an Asset Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we will purchase the Target Business Group. See “Business — the Proposed Acquisition and the Target Business Group.” In 2009, 2010 and 2011, the Target Business Group produced 9.6 million tonnes, 11.5 million and 12.7 million tonnes of coal, respectively. We intend to continue to expand our production capacity in the future. For a discussion of our production expansion strategy, see “Business — Our Business Strategies — Integrate and consolidate internal and external resources, increase production scale and construction of ancillary systems, create a 100-million-tonne-level energy enterprise, and enhance our core competitiveness and market position.”

*Coal transportation capacity.* We primarily use the national railway system to transport our products to our customers and major ports in China’s coastal regions. The transportation capacity of the national railway system is allocated by the MOR annually. Yitai Group has applied, and will continue to apply after the Listing, to the MOR annually for itself and on our behalf for transportation quotas and license such transportation quotas to us at nil consideration for transporting Yitai Group’s and our coal products. See “Connected Transaction — Continuing Connected Transaction — Exempt Continuing Connected Transaction — 3 Transportation Quota License Agreement.” As a result, the availability of transportation capacity on the national railway system and the sufficiency of the transportation quota allocated to Yitai Group by the MOR directly affect our coal sales volume. The MOR allocates the transportation capacity based on general demand, an applicant’s needs and other factors, including the applicant’s ability to fully utilize any quota allocated to it. As such, we believe that our integrated transportation system, which enhances our ability to transport our coal from our mines to the national railway system, provides Yitai Group with a competitive edge in securing allocation of transportation capacity in the national railway system. Although there has been a shortage of national railway capacity for coal transportation in the past several years, we have not experienced any railway transportation capacity shortage or delay which materially affected the sales or delivery of our products. See “Business — Our Competitive Strengths — We have strengthened our competitive advantage in coal transportation through significant investments in our railway and highway transportation network.” The following table sets forth information on the national railway system transportation capacities used by Yitai Group and us, respectively, for the periods indicated:

| Transportation<br>capacity of the national railway<br>system | 2009               |                     | 2010               |                     | 2011               |                     |
|--------------------------------------------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
|                                                              | (million tonnes)   | %                   | (million tonnes)   | %                   | (million tonnes)   | %                   |
| Used by Yitai Group . . . . .                                | 10.7               | 38.9                | 14.0               | 47.3                | 14.1               | 51.5                |
| Used by us . . . . .                                         | 16.8               | 61.1                | 15.6               | 52.7                | 13.3               | 48.5                |
| <b>Total . . . . .</b>                                       | <b><u>27.5</u></b> | <b><u>100.0</u></b> | <b><u>29.6</u></b> | <b><u>100.0</u></b> | <b><u>27.4</u></b> | <b><u>100.0</u></b> |

Our sales of coal are also dependent on transportation capacities of third-party port facilities to the extent our coal is delivered by water. The availability of port facilities is primarily affected by general demand. We expect that increases in our coal sales volume will continue to be the main driver of our revenue growth in the future. Such increases, however, may be affected by the receipt by us of sufficient transportation capacity on the national railway system and at third-party port facilities.

### Cost of Sales

Cost of sales directly affects our gross margin. Cost of sales comprises primarily transportation costs, cost of coal purchased from external suppliers, resource and management fees, service fees, depreciation and amortization expenses, labor costs, costs of repairs and maintenance, materials and other costs.

Transportation costs, consisting of roadway and railway transportation expenses we pay carriers who deliver our coal, are the largest component of our cost of sales. For 2009, 2010 and 2011, our transportation costs were RMB2,607.7 million, RMB2,548.0 million and RMB2,414.2 million, respectively, representing 49.8%, 42.5% and 29.8% of our cost of sales over those periods, respectively. Factors affecting our transportation costs include primarily the locations of our customers, which determine the delivery distances, the type of

transportation methods we use, fuel prices and railway freight charge rates. The NDRC sets railway freight charge rates of the national railway system. The freight charge of the national railway system for thermal coal consists of two rates: one based on both tonnage and transportation distance plus one based on tonnage only regardless of transportation distance. The NDRC has increased the charge rates of the national railway system five times since 2007, from RMB0.0434 per tonne per kilometer plus RMB9.30 per tonne to RMB0.0454 per tonne per kilometer plus RMB9.30 per tonne effective November 5, 2007, further to RMB0.0484 per tonne per kilometer plus RMB9.60 per tonne effective July 1, 2008, further to RMB0.0537 per tonne per kilometer plus RMB10.50 per tonne effective December 13, 2009, further to RMB0.0553 per tonne per kilometer plus RMB10.80 per tonne effective April 1, 2011, and further to RMB0.0629 per tonne per kilometer plus RMB12.20 per tonne effective May 20, 2012. As we sell most of our coal to customers in China's coastal regions, transportation costs will continue to be an important factor affecting our profit margin. Any significant increase in fuel prices or railway freight charge rates will have a material adverse effect on our results of operations.

In addition to selling coal produced from our mines, we purchase coal from external suppliers and sell it to our customers. Of the coal we sold in 2009, 2010 and 2011, 1.7 million tonnes, 0.2 million tonnes and 4.6 million tonnes were purchased from external suppliers. Cost of coal purchased from external suppliers amounted to RMB269.1 million, RMB79.0 million and RMB1,837.3 million, respectively, in 2009, 2010 and 2011, or 5.1%, 1.3% and 22.7% of our cost of sales for those periods, respectively. To increase our market share and meet our clients' demand, we started to import coal in 2011 with a total volume of 1.9 million tonnes. The amount of coal we purchase from external suppliers depends mainly on our ability to meet customer demand based on our production capacity and the coal transportation capacity we receive and prevailing market prices of coal. As the Target Business Group also purchases coal from external suppliers and resells the coal, depending on market conditions, such as market demand for and prevailing market prices of coal, and the transportation capacity we receive, we may purchase more coal from external suppliers after we complete the Proposed Acquisition. Of the coal sold by the Target Business Group in 2009, 2010 and 2011, 3.1 million tonnes, 12.0 million tonnes and 13.2 million tonnes were purchased from external suppliers, respectively, the cost of which was RMB747.2 million, RMB2,684.5 million and RMB3,728.9 million, respectively. Although coal purchased from external suppliers only constitutes a relatively small portion of our coal sales volume each year, because the average unit operating cost of coal produced by ourselves is significantly lower than the unit purchase cost of coal purchased externally, any significant increase in the volume or purchase prices of coal purchased from external suppliers could have an adverse effect on our gross margin.

The other components of our cost of sales, such as resource and management fees, service fees, depreciation and amortization expenses, labor costs, costs of repairs and maintenance, generally correlate with our production capacity and output. As our production capacity and output grew over the Track Record Period, these costs and expenses also increased. We expect these cost items to continue to increase in line with the expansion of our operations. For a further discussion of our cost of sales, see "— Description of Components of Results of Operations — Cost of Sales."

## Taxation

We are subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which we are domiciled and operate. The statutory PRC corporate income tax rate is 25% of an enterprise's taxable income, as reported in its statutory accounts, which are prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Our Company and our subsidiary Yitai Zhundong were entitled to a preferential corporate income tax rate of 15% in 2009, 2010 and 2011 and Yitai Suancigou in 2010 and 2011. Pursuant to the "Great Western Development" policy of the PRC Government, our Company and certain of our subsidiaries enjoyed a preferential corporate income tax rate of 15% for the ten years ended December 31, 2010. In July 2011, the Inner Mongolia State Tax Bureau issued an announcement (the "IMSTB Announcement"), pursuant to which an Inner Mongolia enterprise that previously enjoyed preferential tax treatment under the "Great Western Development" policy may continue to enjoy the preferential corporate income tax rate of 15%, provided that (i) over 70% of such enterprise's revenue is derived from its principal businesses; (ii) such principal businesses belong to the "encouraged" category of the Industry Structure Guidance Index issued by the NDRC; and (iii) the enterprise has obtained a confirmation from the competent state tax bureau. Further, in July 2011, the MOF, the PRC General Administration of Customs and the SAT jointly issued the Notice on the Tax Policies Relating to the



Further Implementation of Great Western Development Strategy (the “SAT Notice”), according to which an enterprise in western China shall enjoy a corporate income tax of 15% from January 1, 2011 to December 31, 2020, provided that (i) over 70% of such enterprise’s revenue is derived from its principal businesses; and (ii) such principal businesses belong to the “encouraged” category of the Western Area Encouraged Industries Catalog to be issued by the PRC Government. We believe that we are eligible to continue to enjoy the preferential tax treatment according to the IMSTB Announcement and the SAT Notice, and are applying for the confirmation stipulated in the IMSTB Announcement. However, there is no assurance that we will obtain such confirmation in time, or at all. For 2009, 2010 and 2011, our effective tax rates were 15.2%, 15.3% and 15.0%, respectively. We intend to continue to apply for preferential tax treatment. However, there is no assurance that we will receive such treatment. Any modification or termination of the foregoing tax incentives currently applicable to us and our subsidiaries will affect our financial condition and results of operations.

Similarly, the Target Business Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Target Business Group are domiciled and operate. Yitai Baoshan and Yitai Tongda were both entitled to a preferential corporate income tax rate of 15% in 2009, 2010 and 2011. Yitai Baoshan and Yitai Tongda believe that they are eligible to continue to enjoy the preferential tax treatment according to the IMSTB Announcement and the SAT Notice, and are applying for the confirmation stipulated in the IMSTB Announcement. However, there is no assurance that they will obtain such confirmation in time, or at all. The effective income tax rates applicable to the Target Business Group for 2009, 2010 and 2011 were 22.3%, 22.2% and 21.2%, respectively. Yitai Baoshan and Yitai Tongda intend to continue to apply for preferential tax treatment. However, there is no assurance that their application will be granted. Any modification or termination of the foregoing tax incentives currently applicable to the Target Business Group will affect its financial condition and results of operations and, after the completion of the Proposed Acquisition, our financial condition and results of operations.

### **General Economic Conditions of the PRC**

Our results of operations and financial condition have been and will continue to be significantly affected by the financial performance of our customers and the general economic condition in the PRC. Most of our current and target customers are PRC power generation companies, whose success is dependent on electricity consumption in China, which in turn is affected by China’s economic condition and economic measures implemented by the PRC government. China’s economic growth in recent years has led to an increase in electricity consumption. According to the China Electricity Council, electricity consumption in China grew from 3,659.5 billion Kwh in 2009 to 4,692.8 billion Kwh in 2011, representing a CAGR of 13.2%. Demand for electricity and coal is expected to continue increasing along with the PRC’s continued economic growth. The rate of increase, however, could be affected by an economic slowdown. The economic growth in the PRC experienced a slowdown in late 2008 and early 2009 as a result of the global economic downturn. As a result, demand for electricity and coal grew at a slower pace during that period of time. While the PRC economy has since improved and stabilized in part because of the PRC government’s stimulus program, any future economic downturn would have a material adverse impact on our results of operations and financial condition.

### **Policies and Regulations of the PRC Coal Industry**

Our business and results of operations could be materially affected by changes in the policies, laws and regulations relating to the PRC coal industry, which include, among others, the following:

- the granting and renewal of coal exploration rights and mining rights;
- the granting of coal production permits and safe production permits;
- the collection of resources tax, mining right usage fees, mineral resources compensatory fees and coal price adjustment levy;
- resource recovery rate requirements;
- environmental, safety and health standards;
- allocation of the coal transportation capacity on the national railway system;
- pricing of coal transportation services;
- the adoption of temporary measures to limit increases in coal prices; and

- taxes, duties and fees.

The liabilities, compliance costs, obligations and requirements associated with these laws and regulations may be significant and any significant changes in these laws and regulations may have a material adverse effect on our operations. For example, the Inner Mongolia government began to require coal enterprises to contribute to a coal price-regulation fund (煤炭價格調節基金) managed by it in 2009. We must contribute RMB15 for each tonne of coal we produce. For additional information regarding PRC regulations, see “Regulations.”

### Anticipated Capital Expenditures

We intend to spend approximately RMB3,244.9 million as capital expenditures in 2012 primarily to expand our railway transportation capacity, carry out further technology upgrades at our mines, improve our coal-to-oil project and expand our coal production, without taking into account the Proposed Acquisition. See “— Capital Expenditures.” The costs associated with these expansion and improvement plans may change and the revenue we expect to derive from them may be insufficient to cover our costs, the occurrence of any of which could have a material adverse effect on our results of operations.

### Financing Arrangements

We finance a significant portion of our business operations and capital projects with short-term and long-term borrowings from banks in China. As of December 31, 2009, 2010 and 2011, our outstanding short-term and long-term borrowings amounted to RMB9,120.4 million, RMB7,930.4 million and RMB8,306.8 million, respectively, and our finance costs for 2009, 2010 and 2011, respectively were RMB279.7 million, RMB171.9 million and RMB285.3 million. See “— Indebtedness.” Since a substantial majority of our borrowings have variable interest rates, any significant increase in interest rates on such borrowings would significantly impact our results of operations. For a discussion of the effect of interest rate fluctuation on our results of operations, see “— Market Risks — Interest Rate Risk.” In addition, our ability to pay interest payable on our borrowings, to repay and/or refinance borrowings due, and to obtain additional borrowings to finance our operations will materially affect our results of operations.

### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our results of operations and financial condition are based on our audited consolidated financial information, which has been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial information. We base our assumptions and estimates on historical experience and on various other assumptions that we currently believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited consolidated financial information. Our principal accounting policies are set forth in detail in Note 3 of the Accountants’ Report included as Appendix IA to this Prospectus. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our audited consolidated financial information.

### Impairment of Non-financial Assets

Our management exercises judgment in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continuing use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of

impairment, including the discount rates and the growth rate assumptions in the cash flow projections, could materially affect the net present value result in the impairment test.

### **Impairment of Financial Assets — carried at Amortized Cost**

The impairment provision for doubtful debts is based on our ongoing evaluation, both individually and collectively, of the objective evidence of impairment for such financial assets. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amounts of debtors together with any associated provision allowance are written off when there is no realistic prospect of future recovery.

### **Current Income Tax**

Our Group is subject to income taxes in numerous jurisdictions in PRC. Judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

### **Deferred Tax Assets**

Deferred tax assets are recognized for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilized. Management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with tax planning opportunities.

### **Useful Lives and Residual Values of Items of Property, Plant and Equipment**

Except for mining structures, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, as follows:

|                                   |               |
|-----------------------------------|---------------|
| Buildings .....                   | 5 to 20 years |
| Plant and machinery .....         | 3 to 20 years |
| Motor vehicles .....              | 4 to 8 years  |
| Railway .....                     | 8 to 45 years |
| Road .....                        | 20 years      |
| Office equipment and others ..... | 3 to 5 years  |

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on a unit-of-production basis over the economically recoverable reserves of the mine concerned. In determining the useful lives and residual values of items of property, plant and equipment, our management periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the item of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is based on historical experience of our management with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at least at the end of each reporting period, based on changes in circumstances.

### **Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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- from the rendering of services, when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to us;
- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- dividend income, when the shareholders' right to receive payment has been established.

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the loan costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that we incur in connection with the borrowing of funds.

## DESCRIPTION OF COMPONENTS OF RESULTS OF OPERATIONS

### Revenue

We derive a substantial majority of our revenue from our coal operations. In addition, we also generate revenue from our transportation operations, coal-related chemical operations and other operations, which primarily consist of the production and sale of traditional Chinese medicine. Our revenue is presented net of intersegment sales. The table below presents, for the periods indicated, our revenue from operating segments in terms of amount and as a percentage of our total revenue:

| Segments                                   | Year ended December 31, |              |                 |              |                 |              |
|--------------------------------------------|-------------------------|--------------|-----------------|--------------|-----------------|--------------|
|                                            | 2009                    |              | 2010            |              | 2011            |              |
|                                            | RMB million             | %            | RMB million     | %            | RMB million     | %            |
| Coal operations . . . . .                  | 9,676.0                 | 94.4         | 13,360.1        | 96.4         | 15,197.3        | 92.0         |
| Transportation operations . . . . .        | 534.5                   | 5.2          | 435.3           | 3.2          | 604.4           | 3.7          |
| Coal-related chemical operations . . . . . | —                       | —            | —               | —            | 677.8           | 4.1          |
| Other operations . . . . .                 | 41.7                    | 0.4          | 58.4            | 0.4          | 36.3            | 0.2          |
| <b>Total</b> . . . . .                     | <b>10,252.2</b>         | <b>100.0</b> | <b>13,853.8</b> | <b>100.0</b> | <b>16,515.8</b> | <b>100.0</b> |

Our coal operations generate revenue primarily through sales of coal produced at our seven mines and, to a substantially lesser extent, through the resale of coal purchased from third-party coal companies. There is no significant difference in the selling prices for these two types of coal. We derive revenue from our transportation operations by providing railway and roadway coal transportation services to third parties, including Yitai Group, through our Yitai Zhundong Railway Line and Huzhun Railway Line and our trucking subsidiaries, Ordos Yitai Transport and Yitai Transport. We commenced the operations of our coal-related chemical business in July 2011 and generated revenue of RMB677.8 million for 2011. We also receive a limited amount of revenue from the production and sale of Chinese traditional medicine and other operations.

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### Cost of Sales

Cost of sales comprises primarily transportation costs, cost of coal purchased from external suppliers, resource and management fees, service fees, depreciation and amortization expenses, labor costs, costs of repairs and maintenance, materials and other costs. The following table sets forth a breakdown of our cost of sales for the periods indicated:

|                                                | Year ended December 31, |              |                |              |                |              |
|------------------------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|
|                                                | 2009                    |              | 2010           |              | 2011           |              |
|                                                | RMB million             | (%)          | RMB million    | (%)          | RMB million    | (%)          |
| Transportation costs                           | 2,607.7                 | 49.8         | 2,548.0        | 42.5         | 2,414.2        | 29.8         |
| Cost of coal purchased from external suppliers | 269.1                   | 5.1          | 79.0           | 1.3          | 1,837.3        | 22.7         |
| Resource and management fees                   | 697.6                   | 13.3         | 1,367.6        | 22.8         | 1,364.2        | 16.8         |
| Service fees                                   | 385.1                   | 7.4          | 572.8          | 9.5          | 490.4          | 6.0          |
| Depreciation and amortization                  | 336.8                   | 6.4          | 435.0          | 7.2          | 469.0          | 5.8          |
| Labor costs                                    | 218.5                   | 4.2          | 297.0          | 5.0          | 338.3          | 4.2          |
| Repairs and maintenance                        | 211.1                   | 4.0          | 141.8          | 2.4          | 167.7          | 2.1          |
| Materials                                      | 191.0                   | 3.7          | 179.0          | 3.0          | 188.3          | 2.3          |
| Others <sup>(1)</sup>                          | 318.1                   | 6.1          | 378.5          | 6.3          | 831.5          | 10.3         |
| <b>Total</b>                                   | <b>5,235.0</b>          | <b>100.0</b> | <b>5,998.7</b> | <b>100.0</b> | <b>8,100.9</b> | <b>100.0</b> |

(1) Consisted primarily of business taxes and surcharges, land requisition and resettlement expenses, and other miscellaneous costs.

Transportation costs were the main component of our cost of sales, representing 49.8%, 42.5% and 29.8% of our cost of sales in 2009, 2010 and 2011. Transportation costs mainly include road and railway transportation expenses we pay to carriers who deliver our coal. Transportation cost per tonne of coal products sold was RMB94.1, RMB71.4 and RMB63.0 for the three years ended December 31, 2011, respectively. The transportation cost per tonne of coal products sold decreased from 2009 to 2011 primarily because the proportion of coals sold at mine gates, which bear few transportation costs, increased during the same period. For the years ended December 31, 2009, 2010 and 2011, the sales volume of coals sold at mine gates was 3.0 million tonnes, 11.9 million tonnes and 14.9 million tonnes, representing 10.8%, 33.3% and 38.9% of the total sales volume for 2009, 2010 and 2011, respectively.

In addition to selling the coal produced from our mines, we purchase coal from external suppliers and then sell it to our customers. Cost of coal purchased from external suppliers, including Yitai Group, represented 5.1%, 1.3% and 22.7% of our cost of sales in 2009, 2010 and 2011, respectively. The significant increase in cost of coal purchased from external suppliers in 2011 was primarily due to an increase in the volume of coal purchased from external suppliers as a result of our efforts to increase our market share. 6.1%, 0.6% and 12.0% of the coal we sold in 2009, 2010 and 2011, or 1.7 million tonnes, 0.2 million tonnes and 4.6 million tonnes, respectively, during the same periods, were purchased from external coal companies.

Resource and management fees include primarily production safety related expenses, resources compensation fees and reclamation and environmental protection expenses. Resource and management fees constituted 13.3%, 22.8% and 16.8% of our cost of sales in 2009, 2010 and 2011, respectively. Resource and management fees increased significantly as a percentage of our cost of sales from 2009 to 2010 primarily because the Inner Mongolia government began to require coal enterprises to contribute to the coal price-regulation fund established by it in July 2009. We are required to contribute RMB15 for each tonne of coal we produce. We expect resource and management fees to increase generally in line with the growth of our coal output.

Service fees represent fees we pay to third-party service providers in relation to services rendered for assisting us in extracting coal at our mines. Service fees constituted 7.4%, 9.5% and 6.0% of our cost of sales in 2009, 2010 and 2011, respectively. Our service fees have increased over the Track Record Period and are expected to increase generally in line with the growth of our coal output.

Depreciation and amortization expenses constituted 6.4%, 7.2% and 5.8% of our cost of sales in 2009, 2010 and 2011, respectively. As we expanded our operations and acquired more property, plant and equipment in recent years, our depreciation and amortization expenses had showed a general trend of increase. We expect that our depreciation and amortization costs will continue to increase as we expand our operations.

## Other Income

Other income comprises primarily income from the sales of other materials (mainly spare materials for coal production), income from rendering of other services, including primarily tolls collected on our Caoyang Tollway and income from mining services we provide to third parties including Yitai Group, government grants and gains on disposal of property, plant and equipment and intangible assets. Government grants primarily consist of government grants, awards, subsidies and similar incentives that we periodically receive from various PRC government authorities for rewarding our achievements and encouraging our involvement in certain projects promoted by the government. Government grants are generally granted on a case-by-case basis and are not recurring. Some government grants may only be used for designated purposes and may not otherwise be used. We have fulfilled all the conditions of the government grants we have received. We do not receive government grants on a regular basis, and the amounts that we have received in the past have tended to fluctuate significantly.

## Selling and Distribution Costs

Our selling and distribution costs primarily consist of port expenses, staff cost (salary and compensation for our sales and marketing staff), office expense, handling fees, depreciation and amortization, and other miscellaneous expenses. The following table sets forth a breakdown of our selling and distribution costs for the periods indicated:

|                               | Year ended December 31 |              |              |              |              |              |
|-------------------------------|------------------------|--------------|--------------|--------------|--------------|--------------|
|                               | 2009                   |              | 2010         |              | 2011         |              |
|                               | RMB million            | (%)          | RMB million  | (%)          | RMB million  | (%)          |
| Port expenses                 | 341.5                  | 54.4         | 332.7        | 47.2         | 297.3        | 41.4         |
| Staff cost                    | 140.8                  | 22.5         | 173.8        | 24.6         | 197.2        | 27.5         |
| Office expense                | 47.0                   | 7.5          | 59.6         | 8.5          | 68.7         | 9.6          |
| Handling fees                 | 39.8                   | 6.3          | 54.4         | 7.7          | 57.6         | 8.0          |
| Depreciation and amortization | 30.9                   | 4.9          | 38.2         | 5.4          | 53.6         | 7.5          |
| Others                        | 27.3                   | 4.4          | 46.5         | 6.6          | 43.3         | 6.0          |
| <b>Total</b>                  | <b>627.3</b>           | <b>100.0</b> | <b>705.2</b> | <b>100.0</b> | <b>717.7</b> | <b>100.0</b> |

Port expenses represent the fees we pay to port facilities when coal is transported through ports and constitute the largest component of our selling and distribution costs, representing 54.4%, 47.2% and 41.4%, respectively, of our total selling and distribution costs for 2009, 2010 and 2011.

## Administrative Expenses

Administrative expenses primarily consist of staff cost (salary and compensation for our general management and administrative staff), depreciation and amortization, office expense, environmental compensation expenditure and other miscellaneous expenses. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

|                                        | Year ended December 31, |              |              |              |                |              |
|----------------------------------------|-------------------------|--------------|--------------|--------------|----------------|--------------|
|                                        | 2009                    |              | 2010         |              | 2011           |              |
|                                        | RMB million             | (%)          | RMB million  | (%)          | RMB million    | (%)          |
| Staff cost                             | 153.4                   | 29.2         | 298.5        | 37.8         | 396.9          | 39.3         |
| Office expense                         | 119.3                   | 22.7         | 189.3        | 24.0         | 228.2          | 22.6         |
| Depreciation and amortization          | 86.0                    | 16.4         | 96.5         | 12.2         | 135.1          | 13.4         |
| Environmental compensation expenditure | 12.4                    | 2.4          | 27.4         | 3.4          | 30.1           | 3.0          |
| Others <sup>(1)</sup>                  | 153.8                   | 29.3         | 178.5        | 22.6         | 218.7          | 21.7         |
| <b>Total</b>                           | <b>524.9</b>            | <b>100.0</b> | <b>790.2</b> | <b>100.0</b> | <b>1,009.0</b> | <b>100.0</b> |

(1) Others include primarily repairs and maintenance, professional service fees, research and development expense and business tax.



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### Other Expenses

The following table sets forth a breakdown of other expenses:

|                            | Year ended December 31, |             |             |
|----------------------------|-------------------------|-------------|-------------|
|                            | 2009                    | 2010        | 2011        |
|                            | RMB million             |             |             |
| Bank charges .....         | 4.3                     | 4.1         | 6.7         |
| Impairment of assets ..... | 15.1                    | (52.5)      | (25.9)      |
| Others .....               | 46.0                    | 148.3       | 83.6        |
| <b>Total .....</b>         | <b>65.4</b>             | <b>99.9</b> | <b>64.4</b> |

Impairment of assets includes allowance for doubtful debts, slow-moving stock, and fixed assets impairment.

Others mainly consist of charitable donations and losses on disposal of assets.

### Finance Income

Finance income primarily consists of bank interest income from our bank deposits.

### Finance Costs

Finance costs primarily consist of interest payments made for bank loans. Finance costs increased by 66.0% from RMB171.9 million in 2010 to RMB285.3 million in 2011, primarily because (i) the interest on the loan used to finance the construction of the coal-to-oil project and Phase II of the Yitai Zhundong Railway Line was no longer capitalized but was accounted for as finance costs after the commencement of the operations of these projects in 2011 and (ii) an increase in banking loans for our subsidiaries' needs for working capital.

### Exchange Gain, Net

Exchange gain consists of net foreign exchange losses or gains, which primarily arise from our borrowings from the Kuwait Fund for Arab Economic Development that are denominated in Kuwait dinars.

### Share of Losses of a Jointly-controlled Entity

We shared profits and losses of Inner Mongolia Taihe Energy Co., Ltd. ("Taihe," 內蒙古泰河能源有限責任公司), our jointly-controlled entity, in proportion to our equity ownership of it. Taihe engaged in oil shale sales and production, and we owned 40% of its equity interest from 2009 to 2010.

### Share of Profits and Losses of Associates

We share profits and losses of our associates in proportion to our equity ownership of such associates. An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which we have a long-term interest of generally not less than 20% of the equity voting rights and over which we are in a position to exercise significant influence. Our associates during the Track Record Period mainly included Inner Mongolia Xinnuo Eco-Heating Technology Development Co., Ltd. (內蒙古新諾生態供暖科技發展有限公司), Inner Mongolia Yitai Solar Energy Co., Ltd. (內蒙古伊泰太陽能光熱有限責任公司), Ordos Tiandi Huarun Mine Equipment Co., Ltd. (鄂爾多斯天地華潤煤礦裝備有限責任公司), Jingtai Power, Avic Liming Jinhua Petrochemical Equipment (Inner Mongolia) Co., Ltd. (中航黎明錦化機石化裝備(內蒙古)有限公司), Yizheng Fire-proof and Ordos Lianke Qingjie Energy Technology Co. Ltd. (鄂爾多斯市聯科清潔能源技術有限公司).

### Income Tax Expenses

We are subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which we are domiciled and operate. The statutory PRC corporate income tax rate is 25% of an enterprise's taxable income, as reported in its statutory accounts, which are prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

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Our Company and our subsidiary Yitai Zhundong were entitled to a preferential corporate income tax rate of 15% during the Track Record Period pursuant to preferential tax treatment granted by the Inner Mongolia National Taxation Department and Ordos Local Taxation Bureau, respectively. Yitai Suancigou was entitled to the same preferential treatment in 2010 and 2011. Jingtian & Gongcheng Attorneys at Law, our PRC legal advisors, have advised us that these authorities are the appropriate competent authorities to grant the preferential tax treatment.

Our Directors confirm that we have made all the required tax filings under the relevant tax laws and regulations in the relevant jurisdictions where we conduct our business and have paid all outstanding tax liabilities, and that we are not subject to any dispute or potential dispute with the tax authorities.

We intend to continue to apply for preferential tax treatment for our Company and our subsidiaries in the future. However, we cannot assure you that we will continue to receive preferential tax treatment. Any change in, or termination of, the preferential tax treatment may result in a significant increase in our tax liability, which would have a material adverse effect on our business, results of operations and financial condition.

No provision for Hong Kong profits tax has been made in the financial information as we had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

Our effective income tax rates for 2009, 2010 and 2011 were 15.2%, 15.3% and 15.0%, respectively.

## CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our consolidated statements of comprehensive income:

|                                                          | Year ended December 31,               |                             |           |                             |           |                             | Three months ended March 31, |           |
|----------------------------------------------------------|---------------------------------------|-----------------------------|-----------|-----------------------------|-----------|-----------------------------|------------------------------|-----------|
|                                                          | 2009                                  |                             | 2010      |                             | 2011      |                             | 2011                         | 2012      |
|                                                          | Amount                                | Percentage of total revenue | Amount    | Percentage of total revenue | Amount    | Percentage of total revenue | Amount                       | Amount    |
|                                                          | (RMB million, except percentage data) |                             |           |                             |           |                             | (unaudited)                  |           |
| Revenue                                                  | 10,252.2                              | 100.0                       | 13,853.8  | 100.0                       | 16,515.8  | 100.0                       | 3,210.2                      | 5,371.7   |
| Cost of sales                                            | (5,235.0)                             | (51.1)                      | (5,998.7) | (43.3)                      | (8,100.9) | (49.0)                      | (1,342.2)                    | (3,034.7) |
| Gross profit                                             | 5,017.2                               | 48.9                        | 7,855.1   | 56.7                        | 8,414.9   | 51.0                        | 1,868.0                      | 2,337.0   |
| Other income                                             | 132.0                                 | 1.3                         | 152.2     | 1.1                         | 349.9     | 2.1                         | 54.2                         | 101.4     |
| Selling and distribution costs                           | (627.3)                               | (6.1)                       | (705.2)   | (5.1)                       | (717.7)   | (4.3)                       | (171.5)                      | (175.7)   |
| Administrative expenses                                  | (524.9)                               | (5.1)                       | (790.2)   | (5.7)                       | (1,009.0) | (6.1)                       | (145.1)                      | (178.0)   |
| Other expenses                                           | (65.4)                                | (0.6)                       | (99.9)    | (0.7)                       | (64.4)    | (0.5)                       | 26.8                         | (22.3)    |
| Finance income                                           | 36.3                                  | 0.3                         | 25.5      | 0.2                         | 34.1      | 0.2                         | 5.9                          | 8.7       |
| Finance costs                                            | (279.7)                               | (2.7)                       | (171.9)   | (1.2)                       | (285.3)   | (1.7)                       | (42.7)                       | (98.7)    |
| Exchange gain, net                                       | 25.2                                  | 0.2                         | 6.9       | —                           | 17.7      | 0.1                         | 1.2                          | 0.6       |
| Share of profit and loss of Jointly- Controlled entities | (0.3)                                 | —                           | —         | —                           | —         | —                           | —                            | —         |
| Share of profit and loss of associates                   | 0.6                                   | —                           | 2.6       | —                           | 19.8      | 0.1                         | (2.6)                        | 2.5       |
| Profit before tax                                        | 3,713.7                               | 36.2                        | 6,275.1   | 45.3                        | 6,760.0   | 40.9                        | 1,594.2                      | 1,975.5   |
| Income tax expense                                       | (565.3)                               | (5.5)                       | (959.1)   | (6.9)                       | (1,010.7) | (6.1)                       | (236.0)                      | (303.0)   |
| Profit for the year/period                               | 3,148.4                               | 30.7                        | 5,316.0   | 38.4                        | 5,749.3   | 34.8                        | 1,358.2                      | 1,672.5   |
| Other comprehensive income                               | —                                     | —                           | —         | —                           | —         | —                           | —                            | —         |
| Total comprehensive income for the year/period           | 3,148.4                               | 30.7                        | 5,316.0   | 38.4                        | 5,749.3   | 34.8                        | 1,358.2                      | 1,672.5   |
| Attributable to:                                         |                                       |                             |           |                             |           |                             |                              |           |
| Owners of our Company                                    | 3,042.9                               | 29.7                        | 5,014.6   | 36.2                        | 5,464.0   | 33.1                        | 1,311.0                      | 1,525.6   |
| Non-controlling interests                                | 105.5                                 | 1.0                         | 301.4     | 2.2                         | 285.3     | 1.7                         | 47.2                         | 146.9     |

## Year Ended December 31, 2011 Compared With Year Ended December 31, 2010

### Revenue

Our total revenue increased by 19.2% from RMB13,853.8 million in 2010 to RMB16,515.8 million in 2011. This increase was primarily attributable to an increase in revenue from our coal operations and revenue generated from our coal-related chemical operations.

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Revenue generated from our coal operations increased by 13.8% from RMB13,360.1 million in 2010 to RMB15,197.3 million in 2011, primarily due to an increase in both sales volume and selling prices of our coal products. In 2011, we sold approximately 38.3 million tonnes of coal, compared to approximately 35.7 million tonnes in 2010, representing an increase of 7.3%, primarily due to increased market demand for our coal products. The average selling price of our coal products increased by 6.0% from RMB374.2 per tonne in 2010 to RMB396.8 per tonne in 2011.

Revenue from our transportation operations increased by 38.8% from RMB435.3 million in 2010 to RMB604.4 million in 2011, primarily due to an increase in the volume of coal that our railway lines transported for customers and an increase in the rate of the platform fee on our railway lines.

We commenced our coal-related chemical operations in July 2011. Revenue from our coal-related chemical operations was RMB677.8 million in 2011.

Revenue from our other operations decreased by 37.8% from RMB58.4 million in 2010 to RMB36.3 million in 2011, primarily due to a decrease in the revenue generated from our Chinese medicine business.

### ***Cost of sales***

Cost of sales increased by 35.0% from RMB5,998.7 million in 2010 to RMB8,100.9 million in 2011. The increase was primarily due to a significant increase in cost of coal purchased from external suppliers from RMB79.0 million in 2010 to RMB1,837.3 million in 2011, primarily because we sold approximately 0.2 million tonnes of coal purchased from external suppliers in 2010, compared with approximately 4.6 million tonnes of coal purchased from external suppliers in 2011, which was primarily due to an increase in market demand for our coal products.

### ***Gross profit***

As a result of the foregoing, our gross profit increased by 7.1% from RMB7,855.1 million for 2010 to RMB8,414.9 million for 2011. Our gross profit margin decreased from 56.7% for 2010 to 51.0% for 2011, primarily due to an increase in the proportion of the sales of coal purchased from third parties, which had a lower gross profit margin than the sales of self-produced coal products. The gross profit margin for the sales of coal from third parties decreased from 19.1% for 2010 to 11.9% for 2011, primarily because we started to import coal in 2011, which had a much lower gross profit margin than coal purchased locally. The percentage of sales of coal purchased from third parties to total sales of coal was 0.8% and 15.5% for 2010 and 2011, respectively. However, the gross profit margin for the sales of self-produced coal products increased slightly from 60.0% for 2010 to 60.4% for 2011, primarily due to an increase in the market prices of coal products.

### ***Other income***

Other income increased by 129.9% from RMB152.2 million in 2010 to RMB349.9 million in 2011.

### ***Selling and distribution costs***

Selling and distribution costs increased by 1.8% from RMB705.2 million in 2010 to RMB717.7 million in 2011, primarily due to increases in staff cost and office expense as a result of our business expansion, partially offset by a decrease in port expenses due to a decrease in the sales volume of coal that was delivered through ports.

### ***Administrative expenses***

Administrative expenses increased by 27.7% from RMB790.2 million in 2010 to RMB1,009.0 million in 2011, primarily due to increases in staff cost and office expense as a result of our business expansion.

### ***Other expenses***

Other expenses decreased by 35.5% from RMB99.9 million in 2010 to RMB64.4 million in 2011, primarily due to a significant decrease in donations.

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*Finance income*

Finance income increased by 33.7% from RMB25.5 million in 2010 to RMB34.1 million in 2011, mainly due to an increase in interest income as a result of an increase in interest rates on bank deposits.

*Finance costs*

Finance costs increased by 66.0% from RMB171.9 million in 2010 to RMB285.3 million in 2011, primarily because (i) the interest on the loan used to finance the construction of the coal-to-oil project and Phase II of Yitai Zhundong Railway Line was no longer capitalized but was accounted for as finance costs after the commencement of the operations of these projects in 2011 and (ii) an increase in bank loans for our subsidiaries' needs for working capital.

*Exchange gain, net*

Net exchange gain increased by 156.5% from RMB6.9 million in 2010 to RMB17.7 million in 2011, primarily due to the appreciation of the Renminbi against the Kuwait dinar.

*Share of losses of a jointly-controlled entity*

Share of losses of jointly-controlled entities was RMB23,086.9 in 2010 and nil in 2011.

*Share of profits of associates*

Share of profits of associates increased from RMB2.6 million in 2010 to RMB19.8 million in 2011, primarily due to increased profits generated by Jingtai Power and Yizheng Fire-proof.

*Income tax expenses*

Income tax expense increased by 5.4% from RMB959.1 million in 2010 to RMB1,010.7 million in 2011 as a result of an increase in our taxable income. Our effective income tax rates decreased from 15.3% in 2010 to 15.0% in 2011.

*Profit for the year*

As a result of the foregoing, our profit for the year increased by 8.2% from RMB5,316.0 million in 2010 to RMB5,749.3 million in 2011. Our net profit margin decreased from 38.4% in 2010 to 34.8% in 2011.

*Profit and total comprehensive income attributable to owners of our Company*

Profit and total comprehensive income attributable to owners of our Company increased by 9.0% from RMB5,014.6 million in 2010 to RMB5,464.0 million in 2011.

*Profit and total comprehensive income attributable to non-controlling interests*

Profit and total comprehensive income attributable to non-controlling interests decreased by 5.3% from RMB301.4 million in 2010 to RMB285.3 million in 2011, primarily due to a decrease in the profit generated by Yitai Suancigou.

**Year Ended December 31, 2010 Compared With Year Ended December 31, 2009***Revenue*

Our total revenue increased by 35.1% from RMB10,252.2 million in 2009 to RMB13,853.8 million in 2010. This increase was attributable to an increase in revenue from our coal operations and, to a substantially lesser extent, an increase in revenue from our other operations, partially offset by a decrease in revenue from our transportation operations.

Revenue generated from our coal operations increased by 38.1% from RMB9,676.0 million in 2009 to RMB13,360.1 million in 2010. This increase was attributable to an increase in both the sales volume of our coal products and the selling prices of our coal products. In 2010, we sold approximately 35.7 million tonnes of coal,

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compared to approximately 27.7 million tonnes in 2009, representing an increase of 28.9%, as we captured growth in market demand by increasing our coal output. Due to increased demand primarily driven by the recovery of the PRC economy, the average selling price of our coal increased from RMB349.3 per tonne in 2009 to RMB374.2 per tonne in 2010.

Revenue from our transportation operations decreased by 18.6% from RMB534.5 million in 2009 to RMB435.3 million in 2010 primarily due to a decrease in the volume of coal our trucking subsidiaries transported for our customers as they downsized their fleets.

Revenue from our other operations increased by 40.0% from RMB41.7 million in 2009 to RMB58.4 million in 2010 primarily due to our increased sales volume of Chinese medicine products.

### *Cost of sales*

Cost of sales increased by 14.6% from RMB5,235.0 million in 2009 to RMB5,998.7 million in 2010. The increase was primarily due to the following factors:

- Increases in resource and management fees, service fees and labor costs in an aggregate amount of RMB936.2 million primarily due to our increased coal output and mandatory contributions to the coal price-regulation fund (煤炭價格調節基金) set by the Inner Mongolia government. Of the approximately 35.7 million tonnes of coal we sold in 2010, approximately 35.5 million tonnes was produced at our mines, as compared to approximately 26.0 million tonnes out of 27.7 million tonnes for the previous year. The Inner Mongolia government began requiring coal companies to contribute to the fund in July 2009. The contribution rate applicable to us is RMB15 per tonne of thermal coal produced.
- Cost of coal purchased from external suppliers decreased by 70.6% from RMB269.1 million in 2009 to RMB79.0 million in 2010, primarily because we sold substantially less coal that was purchased from external suppliers as we were able to meet our customers' needs by increasing our own coal output. Of all the coal we sold in 2010, approximately 0.2 million tonnes was purchased from external suppliers, as compared to 1.7 million tonnes for the previous year.
- Transportation costs decreased by 2.3% from RMB2,607.7 million in 2009 to RMB2,548.0 million in 2010 primarily due to a decrease in the sales volume of coal that was delivered via railway and ports. The increase in our total sales volume of coal was attributable to increased sales to our local customers for which we incurred no or relatively low transportation costs.

### *Gross profit*

As a result of the foregoing, our gross profit increased by 56.6% from RMB5,017.2 million for 2009 to RMB7,855.1 million for 2010. Our gross profit margin increased from 48.9% for 2009 to 56.7% for 2010, primarily due to increases in both of the gross profit margins for the sales of self-produced coal products and coal purchased from third parties. The gross profit margin for the sales of self-produced coal products increased from 56.4% for 2009 to 60.0% for 2010, and the gross profit margin for the sales of coal purchased from third parties increased from 17.6% for 2009 to 19.1% for 2010, which was primarily due to an increase in the market prices of coal products. In addition, the increase in our gross profit margin was partially due to a decrease in the percentage of sales of coal purchased from third parties to total sales of coal from 4.9% for 2009 to 0.8% for 2010, which had lower profit margin than the self-produced coal.

### *Other income*

Other income increased by 15.3% from RMB132.0 million in 2009 to RMB152.2 million in 2010. This increase was primarily due to increases in tolls collected on our Caoyang Tollway. We collected more tolls on our Caoyang Tollway as a result of an increase in traffic volume.

### *Selling and distribution costs*

Selling and distribution costs increased by 12.4% from RMB627.3 million in 2009 to RMB705.2 million in 2010, primarily due to our business growth and increased sales volume.

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*Administrative expenses*

Administrative expenses increased by 50.5% from RMB524.9 million in 2009 to RMB790.2 million in 2010, primarily due to increased office expense and staff cost driven by our business growth.

*Other expenses*

Other expenses increased by 52.8% from RMB65.4 million in 2009 to RMB99.9 million in 2010 primarily due to our increased charitable donations and loss on disposal of property, plant and equipment, partially offset by a reversal of impairment of assets.

*Finance income*

Finance income decreased by 29.8% from RMB36.3 million in 2009 to RMB25.5 million in 2010, mainly due to our decreased bank deposits in 2010.

*Finance costs*

Finance costs decreased by 38.5% from RMB279.7 million in 2009 to RMB171.9 million in 2010, primarily due to our overall decreased loan balance.

*Exchange gain*

Exchange gain decreased by 72.6% from RMB25.2 million in 2009 to RMB6.9 million in 2010.

*Share of losses of a jointly-controlled entity*

Share of losses of jointly-controlled entities was RMB0.3 million in 2009 compared with RMB23,086.9 in 2010.

*Share of profits and losses of associates*

Share of profits of associates increased from RMB0.6 million in 2009 to RMB2.6 million in 2010 primarily due to increased profits generated by Jingtai Power in 2010.

*Income tax expenses*

Income tax expense increased by 69.7% from RMB565.3 million in 2009 to RMB959.1 million in 2010. The effective income tax rates applicable to us in 2009 and 2010 were 15.2% and 15.3%, respectively.

*Profit for the year*

As a result of the foregoing, our profit for the year increased by 68.8% from RMB3,148.4 million in 2009 to RMB5,316.0 million in 2010. Our net profit margin increased from 30.7% to 38.4% over the same period.

*Profit and total comprehensive income attributable to owners of our Company*

Profit and total comprehensive income attributable to owners of our Company increased by 64.8% from RMB3,042.9 million in 2009 to RMB5,014.6 million in 2010.

*Profit and total comprehensive income attributable to non-controlling interests*

Profit and total comprehensive income attributable to non-controlling interests increased by 185.7%, from RMB105.5 million in 2009 to RMB301.4 million in 2010, primarily due to an increase in Yitai Suancigou's and Yitai Huzhun's profits in 2010.



### **Three Months Ended March 31, 2012 Compared With Three Months Ended March 31, 2011**

#### *Revenue*

Revenue increased by 67.3% from RMB3,210.2 million for the three months ended March 31, 2011 to RMB5,371.7 million for the three months ended March 31, 2012, primarily attributable to an increase in revenue from our coal operations and our coal-related chemical operations.

Revenue generated from our coal operations increased by 54.4% from RMB3,099.1 million for the three months ended March 31, 2011 to RMB4,786.3 million for the three months ended March 31, 2012, primarily due to increases in both sales volume and selling prices of our coal products.

Revenue generated from our transportation operations increased by 99.7% from RMB105.8 million for the three months ended March 31, 2011 to RMB211.3 million for the three months ended March 31, 2012, primarily due to an increase in the volume of coal that our railway lines transported for customers and an increase in the rates of the platform fee on our railway lines.

Revenue generated from our coal-related chemical operations increased significantly from nil for the three months ended March 31, 2011 to RMB367.4 million for the three months ended March 31, 2012, since our coal-related chemical operations commenced in July 2011.

Revenue generated from our other operations increased by 28.3% from RMB5.3 million for the three months ended March 31, 2011 to RMB6.7 million for the three months ended March 31, 2012, primarily due to an increase in the revenue generated from our pharmaceutical business.

#### *Cost of sales*

Cost of sales increased by 126.1% from RMB1,342.2 million for the three months ended March 31, 2011 to RMB3,034.7 million for the three months ended March 31, 2012. The increase was primarily due to an increase in cost of coal purchased from external suppliers as a result of our business growth.

#### *Gross profit*

As a result of the foregoing, our gross profit increased by 25.1% from RMB1,868.0 million for the three months ended March 31, 2011 to RMB2,337.0 million for the three months ended March 31, 2012. Our gross profit margin decreased from 58.2% for the three months ended March 31, 2011 to 43.5% for the three months ended March 31, 2012, primarily due to an increase in the contribution of sales of coal purchased from third parties, which has lower gross profit margins than the self-produced coal.

#### *Other income*

Other income increased by 87.1% from RMB54.2 million for the three months ended March 31, 2011 to RMB101.4 million for the three months ended March 31, 2012.

#### *Selling and distribution costs*

Selling and distribution expenses slightly increased by 2.4% from RMB171.5 million for the three months ended March 31, 2011 to RMB175.7 million for the three months ended March 31, 2012.

#### *Administrative expenses*

Administrative expenses increased by 22.7% from RMB145.1 million for the three months ended March 31, 2011 to RMB178.0 million for the three months ended March 31, 2012, primarily due to an increase in depreciation of property, plant and equipment and office expense as a result of our business expansion.

#### *Other expenses*

We booked the reversal of other expenses of RMB26.8 million for the three months ended March 31, 2011, primarily due to reversal of provision for bad debts. Other expenses for the three months ended March 31, 2012 was RMB22.3 million, of which, RMB20.7 million was donation expenses incurred.

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*Finance income*

Finance income increased by 47.5% from RMB5.9 million for the three months ended March 31, 2011, to RMB8.7 million for the three months ended March 31, 2012, primarily due to an increase in both interest rates and the average deposit balance.

*Finance costs*

Finance costs increased by 131.1% from RMB42.7 million for the three months ended March 31, 2011, to RMB98.7 million for the three months ended March 31, 2012, primarily due to an increase in interest costs as a result of a decrease in capitalization of interest for certain construction projects.

*Exchange gains, net*

Exchange gains decreased by 50.0% from RMB1.2 million for the three months ended March 31, 2011, to RMB0.6 million for the three months ended March 31, 2012, primarily due to the appreciation of the Renminbi against the Kuwait dinar.

*Share of profits/losses of associates*

Share of losses of associates was RMB2.6 million for the three months ended March 31, 2011. Share of profits of associates was RMB2.5 million for the three months ended March 31, 2012, primarily due to the profits generated by Yizheng Fire-proof starting from the first quarter of 2012.

*Income tax expense*

Income tax expense increased by 28.4% from RMB236.0 million for the three months ended March 31, 2011, to RMB303.0 million for the three months ended March 31, 2012, primarily due to an increase in our taxable income as a result of our business growth.

*Profit for the period*

As a result of the foregoing, our profit for the period increased by 23.1% from RMB1,358.2 million for the three months ended March 31, 2011, to RMB1,672.5 million for the three months ended March 31, 2012. Our net profit margin decreased from 42.3% for the three months ended March 31, 2011, to 31.1% for the three months ended March 31, 2012.

*Profit and total comprehensive income attributable to owners of our Company*

Profit and total comprehensive income attributable to owners of our Company increased 16.4% from RMB1,311.0 million for the three months ended March 31, 2011, to RMB1,525.6 million for the three months ended March 31, 2012.

*Profit and total comprehensive income attributable to non-controlling interests*

Profit and total comprehensive income attributable to non-controlling interests increased 211.2% from RMB47.2 million for the three months ended March 31, 2011, to RMB146.9 million for the three months ended March 31, 2012, primarily due to a significant increase in the profit generated by Yitai Suancigou.

**LIQUIDITY AND CAPITAL RESOURCES**

We fund our operations primarily through cash flows from operations and short-term and long-term borrowings. Our primary use of funds has been capital expenditures, working capital and repayment of short-term and long-term borrowings. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity. We did not conduct any fund raising activities during the Track Record Period.

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Our current assets divided by current liabilities, or current ratio, was 1.1, 1.5 and 1.2 as of December 31, 2009, 2010 and 2011, respectively. Our current assets less inventories divided by current liabilities, or quick ratio, was 1.0, 1.4 and 1.1 as of December 31, 2009, 2010 and 2011, respectively.

|                                             | As of December 31, |         |         | As of<br>March 31, | As of<br>April 30, |
|---------------------------------------------|--------------------|---------|---------|--------------------|--------------------|
|                                             | 2009               | 2010    | 2011    | 2012               | 2012               |
|                                             | RMB million        |         |         | (unaudited)        | (unaudited)        |
| <b>Current assets</b>                       |                    |         |         |                    |                    |
| Inventories                                 | 316.4              | 460.1   | 676.7   | 660.9              | 682.7              |
| Trade and bills receivables                 | 668.5              | 573.2   | 751.4   | 1,095.0            | 886.0              |
| Prepayments, deposits and other receivables | 660.0              | 454.0   | 836.0   | 1,419.4            | 1,842.6            |
| Restricted cash                             | 15.0               | 27.2    | 20.3    | 20.3               | 20.7               |
| Cash and short-term deposits                | 3,275.4            | 3,715.2 | 3,535.5 | 3,811.1            | 3,319.6            |
| Total current assets                        | 4,935.3            | 5,229.7 | 5,819.9 | 7,006.7            | 6,751.6            |
| <b>Current liabilities</b>                  |                    |         |         |                    |                    |
| Trade and bills payables                    | 269.9              | 279.4   | 543.5   | 630.4              | 750.8              |
| Other payables and accruals                 | 2,147.2            | 1,946.3 | 1,886.4 | 2,052.1            | 1,864.7            |
| Interest-bearing loans and borrowings       | 1,752.6            | 918.6   | 2,206.2 | 2,070.0            | 1,855.0            |
| Income tax payable                          | 236.6              | 320.8   | 161.3   | 347.2              | 155.1              |
| Total current liabilities                   | 4,406.3            | 3,465.1 | 4,797.4 | 5,099.7            | 4,625.6            |
| <b>Net current assets/(liabilities)</b>     | 529.0              | 1,764.6 | 1,022.5 | 1,907.0            | 2,126.0            |

### Net Current Assets

As of April 30, 2012, our net current assets were RMB2,126.0 million, consisting of current assets of RMB6,751.6 million and current liabilities of RMB4,625.6 million. Our current assets mainly included cash and short-term deposits of RMB3,319.6 million prepayments, deposit and other receivable of RMB1,842.6 million inventories of RMB682.7 million and trade and bills receivable of RMB886.0 million. Trade and bills receivables decreased from RMB1,095.0 million as of March 31, 2012 to RMB886.0 million as of April 30, 2012, primarily due to our improved collection of trade receivables. Prepayments, deposits and other receivables increased from RMB1,419.4 million as of March 31, 2012 to RMB1,842.6 million as of April 30, 2012, primarily due to an increase in prepayments for coal purchased from external suppliers. Our current liabilities mainly included interest-bearing loans and borrowings of RMB2,070.0, other payables and accruals of RMB1,864.7 million, trade and bills payable of RMB750.8 million and income tax payable of RMB155.1 million.

As of March 31, 2012, our net current assets were RMB1,907.0 million, consisting of current assets of RMB7,006.7 million and current liabilities of RMB5,099.7 million. Our current assets mainly included cash and short-term deposits of RMB3,811.1 million, prepayments, deposits and other receivables of RMB1,419.4 million, inventories of RMB660.9 million and trade and bills receivables of RMB1,095.0 million. Our current liabilities mainly included interest-bearing loans and borrowings of RMB2,070.0, other payables and accruals of RMB2,052.1 million, trade and bills payable of RMB630.4 million and income tax payable of RMB347.2 million.

As of December 31, 2011, our net current assets were RMB1,022.5 million, consisting of current assets of RMB5,819.9 million and current liabilities of RMB4,797.4 million. Our current assets mainly included cash and short-term deposits of RMB3,535.5 million, prepayments, deposits and other receivables of RMB836.0 million, inventories of RMB676.7 million and trade and bills receivables of RMB751.4 million. Our current liabilities mainly included interest-bearing loans and borrowings of RMB2,206.2, other payables and accruals of RMB1,886.4 million, trade and bills payable of RMB543.5 million and income tax payable of RMB161.3 million.

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### Cash Flows

Our primary uses of cash are to invest in mines, production facilities and equipment, repay our indebtedness, and fund working capital and normal recurring expenses. As of December 31, 2011, we had cash and cash equivalents of RMB3,513.5 million and approximately RMB27,080.0 million of unutilized bank credit facilities. The following table sets forth our cash flows for these periods indicated:

|                                                                 | Year ended December 31, |                |                | Three months ended March 31, |
|-----------------------------------------------------------------|-------------------------|----------------|----------------|------------------------------|
|                                                                 | 2009                    | 2010           | 2011           | 2012                         |
|                                                                 | RMB million             |                |                | (unaudited)                  |
| Net cash flows from operating activities . . . . .              | 3,724.6                 | 6,361.3        | 6,712.1        | 2,055.0                      |
| Net cash flows used in investing activities . . . . .           | (3,741.1)               | (3,800.1)      | (4,752.9)      | (1,039.5)                    |
| Net cash flows used in financing activities . . . . .           | (618.7)                 | (2,124.9)      | (2,152.5)      | (736.3)                      |
| Net increase/(decrease) in cash and cash equivalents . . .      | (635.2)                 | 436.3          | (193.3)        | 279.2                        |
| Effect of foreign exchanges, net . . . . .                      | —                       | —              | —              | —                            |
| Cash and cash equivalents at beginning of year/period . . . . . | 3,905.7                 | 3,270.5        | 3,706.8        | 3,513.5                      |
| Cash and cash equivalents at end of year/period . . . . .       | <u>3,270.5</u>          | <u>3,706.8</u> | <u>3,513.5</u> | <u>3,792.7</u>               |

#### *Net cash flows from operating activities*

In 2011, we generated net cash from operating activities of RMB6,712.1 million, which was primarily attributable to profit before tax of RMB6,760.0 million and depreciation of property, plant and equipment of RMB789.4 million, primarily due to our business growth, partially offset by an increase in inventories of RMB216.6 million.

In 2010, we generated net cash from operating activities of RMB6,361.3 million, which was primarily attributable to profit before tax of RMB6,275.1 million, an increase in other payables and accruals of RMB246.0 million and a decrease in trade and bills receivables of RMB101.6 million, partially offset by an increase in inventories of RMB143.7 million. The increase in other payables and accruals was mainly due to an increase in the prepayments for our coal as we required more customers to pay in advance. The decrease in trade and bills receivables was mainly due to (i) improved recoverability of our receivables as a result of the recovery of the PRC economy from the economic slowdown and strong demand for our coal and (ii) our requirement for more customers to pay in advance. The increase in inventories was mainly because we increased our inventories in response to increased demand for our coal products.

In 2009, we generated net cash from operating activities of RMB3,724.6 million, which was primarily attributable to profit before tax of RMB3,713.7 million, a decrease in trade and bills receivables of RMB153.7 million and a decrease in inventories of RMB60.2 million, partially offset by a decrease in trade and bills payables of RMB135.7 million. The decrease in trade and bills receivables was mainly due to fewer sales during late 2009 than in late 2008 driven by lower coal sales prices in late 2009. The decrease in inventories was mainly due to our increased sales volume of coal in late 2009 driven by the generally colder weather in the winter of 2009 as compared with the winter of 2008. The decrease in trade and bills payables was mainly because we purchased significantly less coal from external suppliers as our production capacity increased.

#### *Net cash flow used in investing activities*

Net cash used in investing activities was RMB4,752.9 million in 2011. The amount reflects cash used in the purchase of property, plant and equipment in the amount of RMB4,027.6 million, mainly due to the construction of a second track of Phase I of Yitai Zhundong Railway Line, Talahao Mine and a second track of the Huzhun Railway Line. The amount also reflects investments in a jointly-controlled entity, associates and available-for-sale investments of RMB819.5 million, including primarily our investments in Ordos Lianke Qingjie Energy Technology Co., Ltd. (鄂爾多斯市聯科清潔能源技術有限公司), Avic Liming Jinhuaaji Petrochemical Equipment (Inner Mongolia) Co., Ltd., Zhunshuo Railway Co., Ltd., Mengji Railway Co., Ltd., Mianyang Technology Property Investment Fund, and Tangshan Caofeidian Coal Port Co., Ltd. (唐山曹妃甸煤炭港務有限公司).

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Net cash used in investing activities was RMB3,800.1 million in 2010. The amount reflects cash used in the purchase of property, plant and equipment in the amount of RMB3,524.2 million, mainly related to the construction of Phase II of Yitai Zhundong Railway Line, our coal preparation plants, and the Suancigou Mine, the electrification of the Huzhun Railway Line, and technology upgrades at our other mines. The amount also reflected our investments in a jointly-controlled entity and associates and available-for-sale investments in an aggregate amount of RMB848.9 million, including primarily our investments in Mengji Railway Co., Ltd., Zhunshuo Railway Co., Ltd., Nanbu Railway Co., Ltd., Avic Liming Jinhua Petrochemical Equipment (Inner Mongolia) Co., Ltd. and Yizheng Fire-proof, partially offset by proceeds from disposals of property, plant and equipment and intangible assets of RMB436.6 million and the consideration we received in early 2010 for our transfer of an additional 9% equity interest in Yitai Suancigou to each of Jingneng Power and Shanxi Yudean respectively in 2009 and our disposal of equity interests in Inner Mongolia Yitai Solar Energy Co., Ltd. (內蒙古伊泰太陽能光熱有限責任公司), an associate of our Company, in an aggregate amount of RMB213.2 million.

Net cash used in investing activities was RMB3,741.1 million in 2009. The amount reflects the cash used in the purchase of property, plant and equipment in the amount of RMB3,971.4 million, mainly related to the construction of our coal-to-oil project, Phase II of Yitai Zhundong Railway Line, our coal preparation plants, the Suancigou Mine, the electrification of the Huzhun Railway Line, and technology upgrades at our other mines. The amount also reflected the acquisition of equity interest in Nanbu Railway Co., Ltd., Xin Baoshen Railway Co., Ltd., Tangshan Caofeidian Coal Port Co., Ltd., Mengji Railway Co., Ltd. and Mianyang Technology Property Investment Fund in an aggregate amount of RMB765.6 million, partially offset by proceeds we received from disposals of equity interest in Yitai Suancigou and Yitai Tiedong in an aggregate amount of RMB937.6 million.

### *Net cash flow from/used in financing activities*

Net cash used in financing activities was RMB2,152.5 million in 2011. The amount reflects primarily dividends paid of RMB2,196.0 million and repayment of loans of RMB1,510.9 million, partially offset by proceeds from bank borrowings of RMB1,905.0 million.

Net cash used in financing activities was RMB2,124.9 million in 2010. The amount reflects primarily repayment of loans in the amount of RMB3,091.6 million, dividends paid of RMB732.0 million, interest paid of RMB173.2 million and the consideration of RMB108.8 million we paid to acquire a 4% equity interest in Yitai Zhundong from Ruyi Company, partially offset by proceeds from bank borrowings in the amount of RMB1,911.0 million.

Net cash outflow from financing activities was RMB618.7 million in 2009. The amount reflects primarily repayment of loans in the amount of RMB3,910.7 million, dividends paid in the amount of RMB732.0 million and interest paid in the amount of RMB335.2 million, partially offset by proceeds from bank borrowings in the amount of RMB4,282.6 million and capital contributions from non-controlling shareholders in the amount of RMB76.7 million.

## TRADE RECEIVABLES, INVENTORIES AND TRADE PAYABLES

### Turnover

The following table sets forth the turnover days of our trade receivables, inventories and trade payables for the periods indicated:

|                                                             | Year ended<br>December 31, |      |      |
|-------------------------------------------------------------|----------------------------|------|------|
|                                                             | 2009                       | 2010 | 2011 |
| Turnover days of trade and bills receivables <sup>(1)</sup> | 26.4                       | 16.4 | 14.6 |
| Turnover days of inventories <sup>(2)</sup>                 | 24.2                       | 23.6 | 25.6 |
| Turnover days of trade and bills payables <sup>(3)</sup>    | 23.5                       | 16.7 | 18.5 |

(1) Turnover days of trade and bills receivables for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables by revenue for the relevant period and then multiplied by 365 days.

(2) Turnover days of inventories for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for the relevant period and then multiplied by 365 days.

(3) Turnover days of trade and bills payables for a certain period is derived by dividing the arithmetic mean of opening and closing balances of trade and bills payables by cost of sales for the relevant period and then multiplied by 365 days.

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The turnover days of trade and bills receivables decreased from 26.4 days in 2009 to 16.4 days in 2010, primarily due to improved recoverability of our trade receivables as our customers' financial condition generally improved, driven in part by the recovery of the PRC economy. The turnover days of trade and bills receivables decreased to 14.6 days in 2011, primarily due to the prompt collection of trade receivables and requests for more prepayments. The turnover days of inventory stayed relatively stable in 2009 and 2010 at 24.2 days and 23.6 days, respectively, and increased to 25.6 days in 2011, primarily due to an increase in the average balance of our inventory. The turnover days of trade and bills payables decreased from 23.5 days in 2009 to 16.7 days in 2010, primarily due to a decrease in our trade and bills payables as we purchased less coal from external suppliers. The turnover days of trade and bills payables increased to 18.5 days in 2011, primarily due to a significant increase in the average balance of our trade and bills payables as a result of increased purchase of coal from external suppliers which, among others, included imported coal.

### Subsequent settlement of trade receivables and trade payables and subsequent usage of inventories

The following table sets out information regarding the subsequent settlement of trade receivables and trade payables and subsequent usage of inventories:

|                                       | Balance as of<br>December 31, 2011 | Subsequent<br>settlement/usage<br>as of April 30,<br>2012 |
|---------------------------------------|------------------------------------|-----------------------------------------------------------|
|                                       | RMB'000                            | RMB'000                                                   |
| Trade and bills receivables . . . . . | 751,430                            | 725,724                                                   |
| Trade and bills payables . . . . .    | 543,485                            | 397,828                                                   |
| Inventories . . . . .                 | 676,716                            | 606,044                                                   |

### CAPITAL EXPENDITURES

We incurred capital expenditures for the construction, expansion and technology upgrade of our mines, coal preparation plants and railway lines. Our capital expenditures were RMB4,754.5 million, RMB3,208.2 million and RMB3,593.7 million in 2009, 2010 and 2011, respectively. Capital expenditures during these periods were primarily related to property, plant and equipment and intangible assets and were funded with cash from operating activities and bank borrowings.

The following table sets forth our capital expenditures during the periods indicated:

|                                            | Year ended December 31, |                |                |
|--------------------------------------------|-------------------------|----------------|----------------|
|                                            | 2009                    | 2010           | 2011           |
|                                            | RMB million             |                |                |
| Coal operations . . . . .                  | 2,408.0                 | 1,114.1        | 1,865.6        |
| Transportation operations . . . . .        | 1,496.4                 | 1,529.8        | 1,270.6        |
| Coal-related chemical operations . . . . . | 848.6                   | 558.6          | 452.1          |
| Other operations . . . . .                 | 1.5                     | 5.7            | 5.4            |
| <b>Total</b> . . . . .                     | <u>4,754.5</u>          | <u>3,208.2</u> | <u>3,593.7</u> |

Our expected capital expenditures for 2012 were approximately RMB3,244.9 million without taking into account the Proposed Acquisition as of December 31, 2011. The following table sets forth the estimated capital expenditures for our business segments for 2012:

|                | Coal<br>operations | Transportation<br>operations | Coal-related<br>chemical operations | Total   |
|----------------|--------------------|------------------------------|-------------------------------------|---------|
|                | RMB million        |                              |                                     |         |
| 2012 . . . . . | 1,067.8            | 1,636.5                      | 540.6                               | 3,244.9 |

The Target Business Group's expected capital expenditures for 2012 were approximately RMB135.8 million as of December 31, 2011. Assuming that the Proposed Acquisition is completed in 2012 and without taking into account the consideration for the Proposed Acquisition, our expected aggregate capital expenditure for 2012 would be RMB3,380.7 million. As of December 31, 2011, we had capital commitments for acquisition of property, plant and equipment of RMB1,497.1 million.



## CERTAIN STATEMENT OF FINANCIAL POSITION ITEMS

## Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables primarily comprise advances to suppliers and other receivables less provision for impairment. As of December 31, 2009, 2010 and 2011, advances to suppliers amounted to RMB365.7 million, RMB333.3 million and RMB627.3 million, respectively. Advances to suppliers are mainly prepayments for mine and other equipment. It is common practice for equipment suppliers to require customers to prepay a portion of the purchase price. We have not experienced any forfeiture of advances to suppliers.

As of December 31, 2009 and 2010 and 2011, provision for impairment of prepayments, deposits and other receivables was RMB66.9 million, RMB20.7 million and RMB22.8 million, respectively. The provision was mainly for receivables aged over one year without satisfactory evidence of full recovery.

## Other Non-current Liabilities

Other non-current liabilities comprise government loans and provisions for mine rehabilitation and reclamation. The government provided us with these government loans to assist us in constructing our railway lines, and these loans are interest-free and do not have a maturity date and we are not required to repay them at any specific date. As of December 31, 2009, 2010 and 2011, we had other non-current liabilities of RMB96.1 million, RMB100.6 million and RMB387.2 million, respectively.

According to the relevant PRC laws and regulations applicable to land rehabilitation, such as the *Land Rehabilitation Rules* (《土地復墾條例》), with respect to any damage caused to cultivated land, grassland or forest as a result of exploration or mining activities, mining enterprises shall restore the land to a state appropriate for use by reclamation, re-planting trees or grasses or such other measures as appropriate to the local conditions. In the event that the mining enterprise is unable to rehabilitate or the rehabilitation does not comply with the relevant requirements, the mining enterprise shall pay a fee for land rehabilitation. Therefore, most of the mining companies decide to provide for rehabilitation/reclamation fees. However, there is no prevailing industrial standard on how to calculate the rehabilitation/reclamation fees. Our Group engaged independent experts to conclude their valuation reports for the rehabilitation/reclamation expenditures. According to our accounting policy, we record the present value of estimated costs to restore operating locations in the period in which the obligation is incurred. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. The provisions for mine rehabilitation/reclamation for our operating mines as of December 31, 2009, 2010 and 2011 were RMB33.0 million, RMB34.4 million and RMB 36.0 million, respectively. Based on the recoverable reserves of our Group's operating mines as of December 31, 2011, the provision for mine rehabilitation and reclamation per tonne of coal reserve was approximately RMB 0.05.

## Available-for-sale Investments

Our available-for-sale investments comprise primarily equity securities issued by non-public railway companies in the PRC. They are measured at cost less impairment at the end of each reporting period as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

The following table sets forth certain information regarding our available-for-sale investments:

|                                                      | Percentage of equity interest<br>attributable to our Group | As of December 31, |                |                |
|------------------------------------------------------|------------------------------------------------------------|--------------------|----------------|----------------|
|                                                      |                                                            | 2009               | 2010           | 2011           |
|                                                      |                                                            | RMB million        |                |                |
| Mengji Railway Co., Ltd.<br>(蒙冀鐵路有限責任公司) .....       | 9.0%                                                       | 630.0              | 900.0          | 1,440.0        |
| Xin Baoshen Railway Co., Ltd.<br>(新包神鐵路有限責任公司) ..... | 15.0%                                                      | 382.8              | 382.8          | 382.8          |
| Zhunshuo Railway Co., Ltd.<br>(准朔鐵路有限責任公司) .....     | 19.0%                                                      | 142.2              | 521.4          | 675.8          |
| Nanbu Railway Co., Ltd.<br>(南部鐵路有限責任公司) .....        | 10.0%                                                      | 115.0              | 200.0          | 200.0          |
| Others .....                                         | —                                                          | 68.8               | 103.9          | 172.0          |
|                                                      |                                                            | <u>1,338.8</u>     | <u>2,108.1</u> | <u>2,870.6</u> |

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We invested in these railway companies to expand and upgrade our integrated transportation. Prior to our investments in them, these railway companies were independent third parties to us.

### NON-TRADE BALANCES WITH RELATED PARTIES AND GUARANTEES GRANTED FROM/TO RELATED PARTIES

As of December 31, 2011, we did not have any non-trade balances with related parties.

### INDEBTEDNESS

#### Borrowings

Our consolidated borrowings as of December 31, 2009, 2010 and 2011, March 31, 2012 and April 30, 2012, for the purpose of calculating the indebtedness of our Company, were as follows:

|                                               | As of December 31, |                |                | As of<br>March 31, | As of<br>April 30, |
|-----------------------------------------------|--------------------|----------------|----------------|--------------------|--------------------|
|                                               | 2009               | 2010           | 2011           | 2012               | 2012               |
|                                               |                    |                |                | (unaudited)        | (unaudited)        |
|                                               | RMB million        |                |                |                    |                    |
| Bank loans secured by<br>guarantees . . . . . | 7,253.1            | 7,090.4        | 6,996.8        | 7,019.5            | 6,801.5            |
| Unsecured bank loans . . . . .                | 1,867.3            | 840.0          | 1,310.0        | 620.0              | 688.0              |
| <b>Total</b> . . . . .                        | <u>9,120.4</u>     | <u>7,930.4</u> | <u>8,306.8</u> | <u>7,639.5</u>     | <u>7,489.5</u>     |

As our operations generated sufficient cash flows, we reduced our borrowings in 2010. The increase in borrowings as of December 31, 2011 was primarily related to our construction of the second track of phase I of the Yitai Zhundong Railway Line.

Our borrowings generally contain terms and conditions that are customary for commercial bank loans. Our borrowings during the Track Record Period, the three months ended March 31, 2012, and the four months ended April 30, 2012, bore the effective interest rates as follows:

|                                    | As of December 31, |           |           | As of<br>March 31, | As of<br>April 30, |
|------------------------------------|--------------------|-----------|-----------|--------------------|--------------------|
|                                    | 2009               | 2010      | 2011      | 2012               | 2012               |
|                                    |                    |           |           | (unaudited)        | (unaudited)        |
|                                    | %                  |           |           |                    |                    |
| Fixed-rate borrowings . . . . .    | 3.80-7.47          | 2.20-7.29 | 3.80-9.09 | 3.80-6.56          | 3.80-6.56          |
| Floating-rate borrowings . . . . . | 4.86-7.83          | 4.86-6.40 | 5.76-7.05 | 6.27-7.05          | 6.06-7.05          |

The maturity profile of our interest-bearing borrowings as of December 31, 2009, 2010 and 2011, March 31, 2012, and April 30, 2012, was as follows:

|                                                     | As of December 31, |                |                | As of<br>March 31, | As of<br>April 30, |
|-----------------------------------------------------|--------------------|----------------|----------------|--------------------|--------------------|
|                                                     | 2009               | 2010           | 2011           | 2012               | 2012               |
|                                                     |                    |                |                | (unaudited)        | (unaudited)        |
|                                                     | RMB million        |                |                |                    |                    |
| <b>Bank loans repayable:</b>                        |                    |                |                |                    |                    |
| Within one year or on demand . . . . .              | 1,752.6            | 918.6          | 2,206.2        | 2,070.0            | 1,855.0            |
| In the second year . . . . .                        | 521.1              | 1,107.3        | 1,131.2        | 649.0              | 614.0              |
| In the third to fifth years,<br>inclusive . . . . . | 2,416.7            | 2,256.1        | 2,204.3        | 2,126.4            | 2,086.5            |
| Beyond five years . . . . .                         | 4,430.0            | 3,648.4        | 2,765.1        | 2,794.1            | 2,934.0            |
|                                                     | <u>9,120.4</u>     | <u>7,930.4</u> | <u>8,306.8</u> | <u>7,639.5</u>     | <u>7,489.5</u>     |

Most of our borrowings are denominated in Renminbi. Our foreign-currency loans primarily comprise loans that Yitai Huzhun and Yitai Zhundong borrowed from the Kuwait Fund for Arab Economic Development, commonly known as the Kuwait Fund. The Kuwait Fund is Kuwait's agency for the provision and administration of financial and technical assistance to Arab and other developing countries in developing their economies. Yitai Zhundong raised a loan of 9.25 million Kuwait dinars from the Kuwait Fund in August 2000 for the construction of the Yitai Zhundong Railway Line. The loan bears interest at 3.8% per annum, has a term of 16 years, including a three-year grace period for repayment, and is repayable in 26 semi-annual equal

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installments over the term of the loan. Yitai Huzhun raised a loan of 10.8 million Kuwait dinars from the Kuwait Fund in April 2006 for the construction of the Huzhun Railway Line. The loan bears interest at 3.8% per annum, has a term of 18 years, including a four-year grace period, and is repayable in 28 semi-annual equal installments over the term of the loan. As required by the relevant PRC foreign exchange regulations, the loans were converted into U.S. dollars. As of December 31, 2011, the aggregate outstanding balance of these loans was approximately US\$44.0 million. Our Directors confirm that there has been no delay or default in repayment of bank and other borrowings and we have never experienced any difficulties in obtaining banking facilities.

Our gearing ratios were 0.86, 0.44 and 0.40 as of December 31, 2009, 2010 and 2011, respectively. The gearing ratio is net loans divided by capital. Net loans include interest-bearing bank loans, trade and bill payables and other payables and accruals (net of advances from customers) less cash and cash equivalents. Capital represents equity attributable to owners of our company. As of December 31, 2009, 2010, 2011 and April 30, 2012, RMB529.2 million, RMB60.0 million, RMB404.0 million, and RMB404.0 million respectively, of our total borrowings was guaranteed by Yitai Group and certain of its subsidiaries. Except for the guarantee provided by Yitai Group to Yitai Coal-to-oil according to equity proportion, all other guarantees provided by Yitai Group and its subsidiaries to us will be released or withdrawn prior to or upon the Listing Date. See "Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions."

As of April 30, 2012, which is the latest practicable date of our indebtedness statement, our total long-term and short-term borrowings were RMB7,489.5 million. As of December 31, 2011, we had RMB8,306.8 million of utilized bank credit facilities and RMB27,080.0 million of unutilized bank credit facilities. Our Directors confirm that there has been no material change in our indebtedness or contingencies since April 30, 2012 up to the date of the Prospectus. We have not had any material covenants related to our outstanding debt since April 30, 2012 to the date of this Prospectus, and we do not have any plan to raise material external debt financing as of the date of this Prospectus.

### CAPITAL COMMITMENTS

The table below sets forth a breakdown of our capital commitments as of the dates indicated:

|                                          | As of December 31, |                |                | As of<br>March 31, | As of<br>April 30, |
|------------------------------------------|--------------------|----------------|----------------|--------------------|--------------------|
|                                          | 2009               | 2010           | 2011           | 2012               | 2012               |
|                                          | RMB million        |                |                |                    |                    |
| Contracted, but not provided for         |                    |                |                |                    |                    |
| Property, plant and equipment . . . . .  | 1,574.1            | 2,295.0        | 1,497.1        | 1,539.1            | 1,365.2            |
| Available-for-sale investments . . . . . | 823.1              | 359.0          | 168.5          | 168.5              | 168.5              |
|                                          | <u>2,397.2</u>     | <u>2,654.0</u> | <u>1,665.6</u> | <u>1,707.6</u>     | <u>1,533.7</u>     |

The capital commitments described above primarily related to the construction, expansion and technology upgrade of our mines, coal preparation plants and railway lines. We intend to fund these commitments with cash generated from our operations and bank borrowings.

Our Directors confirm that there has been no material change in our capital commitments since April 30, 2012 up to the date of this Prospectus.

### CONTINGENT LIABILITIES

As of December 31, 2009, 2010, 2011 and April 30, 2012, the undiscounted maximum amount of potential future payments under guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

|                                               | As of December 31, |             |             | As of<br>April 30, |
|-----------------------------------------------|--------------------|-------------|-------------|--------------------|
|                                               | 2009               | 2010        | 2011        | 2012               |
|                                               | RMB million        |             |             |                    |
| Guarantees given to banks in connections with |                    |             |             |                    |
| loans granted to associates . . . . .         | 110.2              | 19.6        | 17.1        | 16.4               |
|                                               | <u>110.2</u>       | <u>19.6</u> | <u>17.1</u> | <u>16.4</u>        |

Our Directors confirm that there has been no material change in our contingent liabilities since April 30, 2012 up to the date of this Prospectus.

## LAWSUITS AND OTHER PROCEEDINGS

We are not currently involved in, and have not been involved in during the Track Record Period, any material legal or arbitration proceedings.

## OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2012, being the date of our most recent financial statements, we did not have any off-balance sheet arrangements.

## MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, mainly foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. As our exposure to these risks is kept to a minimum, we have not used any derivatives and other instruments for hedging purposes. We do not hold or issue derivative financial instruments for trading purposes. The board reviews and approves policies for managing each of these risks and they are summarized below.

### Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in Renminbi. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents denominated in U.S. dollars as a result of borrowings by Yitai Huzhun and Yitai Zhundong from the Kuwait Fund for Arab Economic Development, commonly known as the Kuwait Fund, and our dividend payments in U.S. dollars for Shareholders holding our B shares. As of December 31, 2011, the aggregate outstanding balance of our loans from the Kuwait Fund was approximately US\$44.0 million. See “— Indebtedness — Borrowings.” In addition, to the extent that we need to convert HK dollars we receive from this offering into Renminbi for our operations, appreciation of the Renminbi against the HK dollar would have an adverse effect on the Renminbi amount we receive from such conversion. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. As of the Latest Practicable Date, we had not entered into any hedging transactions to reduce our exposure to foreign currency exchange risk.

### Interest Rate Risk

Interest rate risk is the risk of fluctuations of fair values on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in us facing cash flow interest rate risk, and fixed interest rate instruments will result in us facing fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of our profit before tax (through the impact on floating rate borrowings).

|                                    | Increase/(Decrease)<br>in Basis Points | Increase/(Decrease)<br>in Profit Before Tax |
|------------------------------------|----------------------------------------|---------------------------------------------|
|                                    |                                        | RMB million                                 |
| Year ended December 31, 2011 ..... | 100                                    | (70.4)                                      |
|                                    | (100)                                  | 70.4                                        |
| Year ended December 31, 2010 ..... | 100                                    | (75.4)                                      |
|                                    | (100)                                  | 75.4                                        |
| Year ended December 31, 2009 ..... | 100                                    | (77.9)                                      |
|                                    | (100)                                  | 77.9                                        |

### Commodity Price Risk

We are exposed to commodity price risk through fluctuations in the price of coal as a substantial majority of our revenue and profit is generated from sales of thermal coal in China. For additional information regarding the average selling price of our coal products during the Track Record Period, please see “—Significant Factors Affecting Our Results of Operations — Pricing of Our Coal Products.” We do not enter into any derivative instruments or futures to hedge any price fluctuations of coal. Therefore, fluctuations of thermal coal prices could have a significant effect on our revenue and profit for a given period. See “Risk Factors—Risks Relating to China’s Coal Industry—Our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in coal prices.”

## Credit Risk

The credit risk of our other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, prepayments, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts has not been significant.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral.

## Liquidity Risk

We aim to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet our commitments. Our principal strategies include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that we have a reasonable level of capital to support our business.

## OPERATING COSTS

The following table sets forth our estimated average operating costs per tonne of run-of-mine coal, that is coal which comes from the mine prior to beneficiation or any other treatment, produced at our mines for the periods indicated:

| Category                     | Operating Costs (RMB/ROM tonne)* |           |           |           |           |           |
|------------------------------|----------------------------------|-----------|-----------|-----------|-----------|-----------|
|                              | 2009                             | 2010      | 2011      | 2012      | 2013      | 2014      |
| Cash operating costs         | 60                               | 75        | 78        | 79        | 84        | 86        |
| Non-cash operating costs     | 6                                | 7         | 7         | 9         | 10        | 11        |
| <b>Total operating costs</b> | <b>67</b>                        | <b>81</b> | <b>85</b> | <b>88</b> | <b>94</b> | <b>98</b> |

The estimated average operating costs include labor, benefits, materials, supplies, power, water, maintenance, engineering, development expenses, exploration, face moves, village moves, resource fees, coal management fees, administration and other miscellaneous expenses. A breakdown of average cash operating costs of our mines on a composite basis is as follows:

| Category                           | Cash Operating Costs (RMB/ROM tonne)* |           |           |           |           |           |
|------------------------------------|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
|                                    | 2009                                  | 2010      | 2011      | 2012      | 2013      | 2014      |
| Materials / Supplies / Maintenance | 7                                     | 7         | 7         | 8         | 11        | 13        |
| Power / Fuel                       | 3                                     | 3         | 3         | 2         | 3         | 4         |
| Salary & Welfare                   | 6                                     | 8         | 9         | 10        | 11        | 13        |
| Production Fees**                  | 45                                    | 57        | 59        | 58        | 58        | 57        |
| <b>Total cash operating costs</b>  | <b>60</b>                             | <b>75</b> | <b>78</b> | <b>79</b> | <b>84</b> | <b>86</b> |

\* Average composite costs include a weighted average of drill and blast with fully mechanized output achieved with fully mechanized longwall face methods.

\*\* Include coal washing expense where applicable.

Note: Figures may not add due to rounding.

The average cash operating costs of most of our operating mines increased from 2009 to 2010 primarily because the Inner Mongolia government required coal enterprises in Inner Mongolia to contribute to a coal price regulation fund that it managed since the second half of 2009. The average cash operating costs for Nalinmiao No.1 Mine and Yangwangou Mine decreased substantially from 2009 to 2010 primarily due to the decrease of the fees for moving from one working face to another. The average cash operating costs of most of our operating mines increased from 2010 to 2011 primarily due to the increase in relocation compensation.

For more information, see "Appendix V — Competent Person's Report."

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### DEPLETION RATES

The depletion rate represents the rate of exhaustion of reserves of a mine. In the context of this Prospectus, the depletion rate of a mine refers to the exhaustion rate of marketable reserves as of December 31, 2011, on the basis of aggregate projected output from 2012 to 2014. The following table sets forth the depletion rates of our mines:

| Mine                           | Marketable Reserves (Mt)<br>As of December 31, 2011* | 2012 to 2014               |                       |
|--------------------------------|------------------------------------------------------|----------------------------|-----------------------|
|                                |                                                      | Projected<br>Output (Mt)** | Depletion<br>Rate (%) |
| <i>Mines in operation</i>      |                                                      |                            |                       |
| Suancigou . . . . .            | 458.8                                                | 38.3                       | 8                     |
| Nalinmiao No.2*** . . . . .    | 63.9                                                 | 24.6                       | 39                    |
| Hongjingta No.1*** . . . . .   | 35.9                                                 | 22.6                       | 63                    |
| Nalinmiao No.1*** . . . . .    | 9.3                                                  | 11.8                       | 100                   |
| Yangwangou . . . . .           | 5.8                                                  | 4.2                        | 73                    |
| Fuhua . . . . .                | 2.5                                                  | 3.9                        | 100                   |
| Kaida*** . . . . .             | 4.2                                                  | 4.6                        | 100                   |
| <i>Mines under development</i> |                                                      |                            |                       |
| Talahao . . . . .              | 550.2                                                | 9.0                        | 2                     |
| Bulamao . . . . .              | 16.8                                                 | 3.2                        | 19                    |

\* Reflect BOYD's reserve estimation which only includes minable reserves suitable for the fully mechanized long wall mining method.

\*\* Reflect the Company's projections which include fully mechanized long wall mining and drill and blast mining operations where applicable.

\*\*\* Reserve and output from open pit mining operations excluded.

### WORKING CAPITAL CONFIRMATION

Taking into account our cash generated from operating activities, the net proceeds of the Global Offering and our credit facilities maintained with our banks and financial institutions, we are satisfied that our Group will have available sufficient working capital for 125% of the Group's present requirements, that is, for at least 12 months following the date of this Prospectus.

### PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2012

We believe that, on the bases and assumptions as set forth in Appendix IV and in the absence of unforeseen circumstances, our forecast consolidated profit attributable to the owners of our company for the six months ending June 30, 2012 under IFRS will not be less than RMB3,095.0 million. On the basis of the prospective financial information and the number of shares expected to be issued, our forecast consolidated profit attributable to the owners of our company per share for the six months ending June 30, 2012 would be approximately RMB1.90, on a pro forma fully diluted basis under IFRS.

### INTERIM REPORT

As the profit forecast appearing in this Prospectus covers a period which ends at a half year-end of our Company on June 30, 2012, our Company's interim report for the six months ending June 30, 2012 will be audited pursuant to Rule 11.18 of the Hong Kong Listing Rules if the H Shares are listed on the main board of the Hong Kong Stock Exchange.

### DIVIDEND POLICY

We distributed dividends in the aggregate amounts of RMB732.0 million and RMB2,196.0 million and declared dividends in the aggregate amount of RMB2,196.0 million for 2009, 2010 and 2011, respectively, representing RMB1.00, RMB1.50 and RMB1.50 per Share, respectively. The accumulated retained profits after the implementation of the 2011 profit distribution plan will be shared by new and existing shareholders of our Company. In addition to cash dividends, we distributed bonus shares as dividends to our Shareholders for 2009, which consisted of ten Shares for every ten Shares of our Company held by such Shareholder. Payment of such dividends was funded entirely out of cash generated from our operations.



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The following table sets out the dividend payout ratio (calculated based on dividend per share divided by earnings per share) for 2009, 2010 and 2011:

|                                 | Year ended December 31, |      |      |
|---------------------------------|-------------------------|------|------|
|                                 | 2009                    | 2010 | 2011 |
|                                 |                         | (%)  |      |
| Dividend payout ratio . . . . . | 24.1*                   | 43.8 | 40.2 |

\* The earnings per share for the Track Record Period are calculated based on the number of shares after the bonus shares were distributed in 2009.

We cannot guarantee dividends will be paid in the future. After the completion of the Global Offering, we will declare dividends, if any, denominated in RMB with respect to H Shares on a per Share basis and will pay such dividends in HK Dollars. Any final dividends for a financial year will be subject to the discretion of our Directors and our Shareholders' approval, as well as the applicable PRC laws and regulations. Under the PRC Company Law and our Articles of Association, all of our Shareholders have equal rights to dividends and distributions. The holders of our H Shares will share proportionately on a per Share basis in all dividends and other distributions we declare.

In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by special resolution of the Shareholders in accordance with our Articles of Association.

The declaration of dividends is subject to the discretion of our Board of Directors and the approval of our Shareholders, which we expect will take into account factors such as the following:

- our financial results;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our Shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board of Directors may deem relevant.

In accordance with the applicable requirements of the PRC Company Law, we may only distribute dividends after we have made allowance for:

- recovery of accumulated losses, if any;
- allocations to a statutory common reserve fund equivalent to 10% of our after-tax profit attributable to equity holders of our Company, as determined under PRC accounting rules and regulations; and
- allocations to a discretionary common reserve fund as approved by our Shareholders in a Shareholders' meeting.

Allocations to the statutory common reserve fund are currently 10% of our after-tax profit attributable to equity holders of our Company for the fiscal year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory common reserve fund reach 50% of our Company's registered capital, we will no longer be required to make allowances for allocation to the statutory common reserve fund.

Under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC accounting rules and regulations and IFRS, whichever is lower, less allocations to the statutory and discretionary common reserve fund. We will not ordinarily pay any dividends in a year in which we do not have any distributable profits.

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Subject to the above factors, we currently expect to distribute no less than 30% of our net distributable profit for the following two financial years ending December 31, 2012 and 2013.

### DISTRIBUTABLE RESERVES

As of December 31, 2011, our reserves available for distribution to our equity holders amounted to approximately RMB12,263.7 million.

### NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since December 31, 2011 (being the date to which our Company's latest consolidated financial results were prepared, as set forth in the Accountants' Report included as Appendix IA to this Prospectus) up to the date of the Prospectus.

### FINANCIAL INFORMATION OF TARGET BUSINESS GROUP

As part of our strategy to integrate internal and external resources, increase production volume and enhance our core competitiveness and market position, as well as eliminate competition with our Controlling Shareholders and reduce connected transactions, we have entered into an Assets Transfer Agreement dated May 29, 2012 with Yitai Group, pursuant to which we will purchase from Yitai Group the Target Business Group after the completion of the Global Offering for an aggregate purchase price of RMB8,446.5 million. The total payment made by our Company in connection with the Proposed Acquisition may be subject to adjustment. See "Business — the Proposed Acquisition and the Target Business Group" and "Relationship with our Controlling Shareholders — Proposed Acquisition."

The Target Business Group engages in the production and sale of coal and coal trading in China.

### Basis of Presentation

The Target Business Group is owned by Yitai Group. Yitai Group is principally engaged in the production and sale of coal and coal trading as well as coal chemical production and property development.

The Target Business Group had not been incorporated in the Track Record Period. The business of the Target Business Group was either carried out by the subsidiaries or the business divisions or branches controlled by Yitai Group. The combined financial information of the Target Business Group for the periods presented herein had been prepared as if the Target Business Group had been in place as a separate stand-alone entity throughout the periods presented.

While the Target Business Group has not operated as a separate entity, the financial statements are not necessarily indicative of results that would have occurred if the Target Business Group had been a separate stand-alone entity during the periods presented, nor is it indicative of future results of the Target Business Group. Income taxes have been determined as if the Target Business Group were a separate taxable entity for all the periods presented.

All intra-group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions are eliminated in full. Accounting policies of subsidiaries have been adjusted when necessary to ensure consistency with the policies adopted by the Target Business Group.

For more information about the Target Business Group, see "Business — The Proposed Acquisition And The Target Business Group—The Target Business Group."

### Significant Factors Affecting the Results of Operations of the Target Business Group

The Target Business Group is primarily engaged in coal production and sales, which are substantially similar to our coal operations. Accordingly, the results of operations of the Target Business Group are also primarily affected by the significant factors affecting our results of operations. For details regarding these factors, see "— Significant Factors Affecting Our Results of Operations."

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### Combined Results of Operations

The following table sets forth, for the periods indicated, information relating to certain income and expense items from the combined statements of comprehensive income of the Target Business Group:

|                                         | Year ended December 31, |                             |                |                             |                |                             |
|-----------------------------------------|-------------------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|
|                                         | 2009                    |                             | 2010           |                             | 2011           |                             |
|                                         | Amount                  | Percentage of total revenue | Amount         | Percentage of total revenue | Amount         | Percentage of total revenue |
| (RMB million, except percentage data)   |                         |                             |                |                             |                |                             |
| <b>Revenue</b> .....                    | 5,274.6                 | 100.0                       | 9,268.3        | 100.0                       | 10,848.9       | 100.0                       |
| Cost of goods sold .....                | (3,614.7)               | (68.5)                      | (6,358.9)      | (68.6)                      | (7,515.2)      | (69.3)                      |
| <b>Gross profit</b> .....               | 1,659.9                 | 31.5                        | 2,909.4        | 31.4                        | 3,333.7        | 30.7                        |
| Other income .....                      | 55.1                    | 1.0                         | 118.3          | 1.3                         | 128.5          | 1.2                         |
| Selling and distribution expenses ..... | (299.7)                 | (5.7)                       | (372.8)        | (4.0)                       | (423.4)        | (3.9)                       |
| Administrative expenses .....           | (120.2)                 | (2.3)                       | (122.7)        | (1.3)                       | (158.1)        | (1.5)                       |
| Other expenses .....                    | 12.3                    | 0.3                         | (20.6)         | (0.3)                       | 28.7           | 0.3                         |
| Finance income .....                    | 7.0                     | 0.1                         | 13.7           | 0.1                         | 4.2            | 0.0                         |
| Finance costs .....                     | (0.4)                   | (0.0)                       | (0.4)          | (0.0)                       | (0.4)          | (0.0)                       |
| <b>Profit before tax</b> .....          | 1,314.0                 | 24.9                        | 2,524.9        | 27.2                        | 2,913.2        | 26.8                        |
| Income tax expense .....                | (293.5)                 | (5.6)                       | (559.5)        | (6.0)                       | (617.6)        | (5.7)                       |
| <b>Profit for the year</b> .....        | <u>1,020.5</u>          | <u>19.3</u>                 | <u>1,965.4</u> | <u>21.2</u>                 | <u>2,295.6</u> | <u>21.1</u>                 |

### Description of Components of Results of Operations

#### Revenue

The Target Business Group generates revenue primarily from sales of coal produced at the Target Mines and resales of coal purchased from third-party coal companies. The following table shows selected historical operating data with respect to coal sales by the Target Business Group for the periods indicated:

|                                             | Year ended December 31, |         |          |
|---------------------------------------------|-------------------------|---------|----------|
|                                             | 2009                    | 2010    | 2011     |
| Sales volume (million tonnes) .....         | 13.6                    | 22.5    | 27.3     |
| Average selling price (RMB per tonne) ..... | 387.8                   | 411.9   | 397.4    |
| Revenue (RMB million) .....                 | 5,274.6                 | 9,268.3 | 10,848.9 |

#### Cost of goods sold

The cost of goods sold includes primarily transportation costs, cost of coal purchased from external suppliers, comprehensive mining cost, service fees and depreciation, etc. The following table sets forth a breakdown of the cost of goods sold for the Target Business Group for the periods indicated:

|                                                      | Year ended December 31, |              |                |              |                |              |
|------------------------------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|
|                                                      | 2009                    |              | 2010           |              | 2011           |              |
|                                                      | RMB million             | (%)          | RMB million    | (%)          | RMB million    | (%)          |
| Transportation costs .....                           | 2,014.1                 | 55.7         | 2,611.5        | 41.1         | 2,625.0        | 34.9         |
| Cost of coal purchased from external suppliers ..... | 747.2                   | 20.7         | 2,684.5        | 42.2         | 3,728.9        | 49.6         |
| Comprehensive mining cost .....                      | 304.9                   | 8.4          | 431.4          | 6.8          | 459.7          | 6.2          |
| Service fees .....                                   | 254.5                   | 7.0          | 300.7          | 4.7          | 295.4          | 3.9          |
| Labor cost .....                                     | 63.8                    | 1.8          | 85.9           | 1.4          | 107.5          | 1.4          |
| Repair and maintenance .....                         | 36.3                    | 1.0          | 27.2           | 0.4          | 67.5           | 0.9          |
| Depreciation & amortization .....                    | 118.3                   | 3.3          | 131.9          | 2.1          | 149.4          | 2.0          |
| Materials .....                                      | 43.1                    | 1.2          | 45.0           | 0.7          | 47.9           | 0.6          |
| Others .....                                         | 32.5                    | 0.9          | 40.8           | 0.6          | 33.9           | 0.5          |
| <b>Total</b> .....                                   | <u>3,614.7</u>          | <u>100.0</u> | <u>6,358.9</u> | <u>100.0</u> | <u>7,515.2</u> | <u>100.0</u> |

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Transportation costs are a major component of the cost of goods sold, representing approximately 55.7%, 41.1% and 34.9% respectively, of the total cost of goods sold for 2009, 2010 and 2011, respectively. Transportation costs mainly include railway and roadway transportation expenses charged by carriers who deliver the coal.

In addition to selling coal produced from the Target Mines, the Target Business Group purchases coal from external suppliers and resells the coal to its customers. The cost of coal purchased from external suppliers is another major component of the cost of goods sold, representing 20.7%, 42.2% and 49.6% in 2009, 2010 and 2011, respectively. Of the coal sold by the Target Business Group in 2009, 2010 and 2011, 3.1 million tonnes, 12.0 million tonnes and 13.2 million tonnes, respectively, was purchased from external suppliers. The amount of coal that the Target Business Group purchases and resells depends on a number of factors, such as market conditions and its production capacity.

Comprehensive mining costs represent mine resource taxes, mine safety fees, production maintenance fees, coal price-regulation fund contributions and other related tax surcharges, and generally grows in line with the production capacity and output of the Target Business Group. The Target Business Group produced 9.6 million tonnes, 11.5 million tonnes and 12.7 million tonnes of coal in 2009, 2010 and 2011, respectively. Comprehensive mining costs decreased to 6.8% as a percentage of the cost of goods sold in 2010 as the Target Business Group purchased and resold more coal from external suppliers to meet increased demand. The mandatory contributions to the coal price-regulation fund that came into effect in 2009 have also contributed to the increase in comprehensive mining costs. The Target Business Group is required to contribute RMB15 for each tonne of thermal coal it produces.

Service fees are fees paid to third-party service providers in relation to services rendered for assisting the Target Business Group in extracting coal at the Target Mines. Service fees increased generally in line with the increase in the output of the Target Mines during the Track Record Period.

### *Other income*

Other income mainly represents income from renting mining equipment to service providers that provide production services to the Target Business Group and income from platform services, such as coal storage and loading.

### *Selling and distribution expenses*

Selling and distribution expenses primarily consist of port expenses, transportation expenses, sales staff costs, office expenses and depreciation and amortization.

Port expenses, consisting of fees paid to port facilities for coal storage and handling, are the main component of selling and distribution expenses of the Target Business Group, representing 68.2%, 71.0% and 67.8% of total selling and distribution expenses for 2009, 2010 and 2011, respectively.

Transportation fees, including primarily fees charged by shipping companies that deliver coal at ports or by water, represented 20.3%, 14.6% and 18.0% of total selling and distribution expenses for 2009, 2010 and 2011, respectively.

### *Administrative expenses*

Administrative expenses primarily consist of administrative staff costs, office expenses, depreciation and amortization, environmental compensation expenditures and other miscellaneous expenses. Administrative staff costs comprised the single largest component of administrative expenses and represented 49.6%, 49.4% and 58.0% of the total administrative expenses for 2009, 2010 and 2011, respectively.

### *Other expenses*

Other expenses primarily consist of impairment provisions for accounts receivable and other receivables, bank charges and other expenses.

### *Finance income*

Finance income primarily consists of bank interest income from the Target Business Group's bank deposits.

### *Finance costs*

Finance costs represent interest expense for interest bearing debts.

### *Income tax expenses*

The Target Business Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Target Business Group are domiciled and operate.

Under the relevant PRC corporate income tax laws and regulations, the companies of the Target Business Group which are incorporated in the PRC, namely Yitai Baoshan and Yitai Tongda, were subject to a statutory corporate income tax rate of 25% for 2008. Yitai Baoshan and Yitai Tongda were both entitled to a preferential corporate income tax rate of 15% in 2009 and 2010 pursuant to preferential tax treatment granted by the Inner Mongolia Local Taxation Department, which is the appropriate competent authority to grant preferential tax treatment. Yitai Baoshan and Yitai Tongda believe that they are eligible to continue to enjoy preferential tax treatment according to the IMSTB Announcement and the SAT Notice, and are applying for the confirmation stipulated in the IMSTB Announcement. However, there is no assurance that they will obtain such confirmation in time, or at all.

No provision for Hong Kong profits tax has been made as the Target Business Group had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

The effective income tax rates applicable to the Target Business Group for 2009, 2010 and 2011 were 22.3%, 22.2% and 21.2%, respectively.

## **Year Ended December 31, 2011 Compared With Year Ended December 31, 2010**

### *Revenue*

Revenue increased by 17.1% from RMB9,268.3 million in 2010 to RMB10,848.9 million in 2011, primarily due to an increase in the sales volume of the Target Business Group's coal products from 22.5 million tonnes in 2010 to 27.3 million tonnes in 2011, representing an increase of 21.3%, partially offset by a slight decrease in average selling price. The average selling price of the Target Business Group's coal decreased slightly from RMB411.9 per tonne in 2010 to RMB397.4 per tonne in 2011, primarily due to an increase in the percentage of coal sold at the mine or loading stations, which had lower selling prices than coal shipped to ports.

### *Cost of goods sold*

Cost of goods sold increased by 18.2% from RMB6,358.9 million in 2010 to RMB7,515.2 million in 2011, primarily driven by the increase in the sales volume of the Target Business Group's coal products. Cost of coal purchased from external suppliers increased from RMB2,684.5 million in 2010 to RMB3,728.9 million in 2011, primarily due to an increase in the volume of coal sold by the Target Business Group that was purchased from external suppliers from 12.0 million tonnes in 2010 to approximately 13.2 million tonnes in 2011. The unit cost of coal purchased from external suppliers increased from RMB223.7 per tonne in 2010 to RMB282.5 per tonne in 2011. Transportation costs increased from RMB2,611.5 million in 2010 to RMB2,625.0 million in 2011, primarily due to the increase in the sales volume of the Target Business Group's coal products. However, transportation costs did not increase in proportion to the overall increase in sales volume as approximately half of the additional sales were to local customers and cost less to deliver. The Target Business Group's average transportation costs decreased from RMB116.3 per tonne in 2010 to RMB96.0 per tonne in 2011. Moreover, due to the increased output of the Target Business Group, comprehensive mining costs and service fees also increased in 2011, which further contributed to the increase in cost of goods sold. Comprehensive mining costs increased from RMB431.4 million in 2010 to RMB459.7 million in 2011. Service fees decreased from RMB300.7 million in 2010 to RMB295.4 million in 2011. Cost of goods sold as a percentage of revenue increased from 68.6% in 2010 to 69.3% in 2011.

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*Gross profit*

As a result of the foregoing, gross profit of the Target Business Group increased by 14.6% from RMB2,909.4 million in 2010 to RMB3,333.7 million in 2011. Gross profit margin decreased from 31.4% in 2010 to 30.7% in 2011.

*Other income*

Other income increased from RMB118.3 million in 2010 to RMB128.5 million in 2011, primarily due to an increase in platform services provided by the Target Business Group.

*Selling and distribution expenses*

Selling and distribution expenses increased by 13.6% from RMB372.8 million in 2010 to RMB423.4 million in 2011, mainly due to increased port expenses and transportation costs. Port expenses increased by 8.4% from RMB264.6 million in 2010 to RMB286.9 million in 2011, primarily due to an increase in the volume of coal shipped to and handled at ports from 14.0 million tonnes in 2010 to 14.2 million tonnes in 2011. Similarly, transportation costs increased from RMB54.3 million in 2010 to RMB76.4 million in 2011, primarily due to an increase in the volume of coal transported by water.

*Administrative expenses*

Administrative expenses increased by 28.9% from RMB122.7 million in 2010 to RMB158.1 million in 2011, primarily due to an increase in labor costs as a result of the growth of the Target Business Group's business.

*Other expenses*

Other expenses were RMB20.6 million in 2010, mainly attributable to impairment provisions for accounts receivable and other receivables, as compared to a gain of RMB28.7 million in 2011, which was primarily attributable to reversals of impairment provisions for accounts receivable and other receivables in 2011.

*Finance income*

Finance income decreased from RMB13.7 million in 2010 to RMB 4.2 million in 2011, primarily due to a decrease in the balance of bank deposits.

*Finance costs*

Finance costs remained stable at RMB0.4 million in 2010 and 2011.

*Income tax expense*

Income tax expense increased by 10.4% from RMB559.5 million in 2010 to RMB617.6 million in 2011, primarily due to an increase in the Target Business Group's profit before tax. The effective income tax rates applicable to the Target Business Group in 2010 and 2011 were 22.2% and 21.2%, respectively.

*Profit for the year*

As a result of the foregoing, profit for the year increased by 16.8% from RMB1,965.4 million in 2010 to RMB2,295.6 million in 2011. Profit margin remained stable at 21.2% in 2010 and 2011.

**Year Ended December 31, 2010 Compared With Year Ended December 31, 2009***Revenue*

Revenue increased by 75.7% from RMB5,274.6 million in 2009 to RMB9,268.3 million in 2010, primarily due to an increase in the sales volume of the Target Business Group's coal products and, to a lesser extent, an



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increase in its average selling price in 2010. In 2010, the Target Business Group sold approximately 22.5 million tonnes of coal, compared to approximately 13.6 million tonnes in 2009, representing an increase of 65.4%. The average selling price of the Target Business Group's coal increased slightly from RMB387.8 per tonne in 2009 to RMB411.9 per tonne in 2010.

#### *Cost of goods sold*

Cost of goods sold increased by 75.9% from RMB3,614.7 million in 2009 to RMB6,358.9 million in 2010 primarily due to the increase in the sales volume of the Target Business Group's coal products. Cost of coal purchased from external suppliers increased by 259.3% from RMB747.2 million in 2009 to RMB2,684.5 million in 2010 primarily due to a significant increase in the volume of coal sold by the Target Business Group that was purchased from external suppliers from approximately 3.1 million tonnes in 2009 to approximately 12.0 million tonnes in 2010. The unit cost of coal purchased from external suppliers, however, decreased slightly from RMB241.0 per tonne in 2009 to RMB223.7 per tonne in 2010. Transportation costs increased from RMB2,014.1 million in 2009 to RMB2,611.5 million in 2010 primarily due to the increase in the sales volume of the Target Business Group's coal products. However, transportation costs did not increase in proportion to the overall increase in sales volume as the increase was primarily attributable to increased sales to the Target Business Group's local customers in 2010 which incurred lower transportation costs. The Target Business Group's average transportation costs decreased from RMB148.1 per tonne in 2009 to RMB116.1 per tonne in 2010. Comprehensive mining costs and service fees increased significantly in 2010, which further contributed to the increase in cost of goods sold. Comprehensive mining costs increased from RMB304.9 million in 2009 to RMB431.4 million in 2010 primarily due to the increased output of the Target Business Group and the mandatory contributions to the coal price-regulation fund managed by the Inner Mongolia government. Service fees increased from RMB254.5 million in 2009 to RMB300.7 million in 2010, also due to the increased coal output of the Target Business Group.

#### *Gross profit*

As a result of the foregoing, gross profit of the Target Business Group increased by 75.3% from RMB1,659.9 million in 2009 to RMB2,909.4 million in 2010. Gross profit margin stayed relatively stable at 31.5% in 2009 and 31.4% in 2010.

#### *Other income*

Other income increased from RMB55.1 million in 2009 to RMB118.3 million in 2010, primarily due to an increase in platform services provided by the Target Business Group.

#### *Selling and distribution expenses*

Selling and distribution expenses increased by 24.4%, from RMB299.7 million in 2009 to RMB372.8 million in 2010, primarily due to the increase in the sales volume of the Target Business Group's coal.

#### *Administrative expenses*

Administrative expenses increased slightly from RMB120.2 million in 2009 to RMB122.7 million in 2010. As a percentage of revenue, administrative expenses decreased from 2.3% in 2009 to 1.3% in 2010.

#### *Other expenses*

Other expenses amounted to RMB20.6 million in 2010 as compared to a gain of RMB12.3 million in 2009, mainly attributable to increased impairment of assets.

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### *Finance income*

Finance income increased by 95.7% from RMB7.0 million in 2009 to RMB13.7 million in 2010, primarily due to increased bank deposits in 2010.

### *Finance costs*

Finance costs were RMB0.4 million in each of 2009 and 2010.

### *Income tax expense*

Income tax expense increased by 90.6% from RMB293.5 million in 2009 to RMB559.5 million in 2010, primarily due to an increase in the Target Business Group's profit before tax. The effective income tax rates applicable to the Target Business Group for in 2009 and 2010 were 22.3% and 22.2%, respectively.

### *Profit for the year*

As a result of the foregoing, profit for the year increased by 92.6% from RMB1,020.5 million in 2009 to RMB1,965.4 million in 2010. Profit margin increased from 19.3% in 2009 to 21.2% in 2010.

### **Net Current Assets**

|                                             | As of December 31, |              |                |
|---------------------------------------------|--------------------|--------------|----------------|
|                                             | 2009               | 2010         | 2011           |
|                                             | RMB million        |              |                |
| <b>Current assets</b>                       |                    |              |                |
| Inventories                                 | 157.8              | 181.9        | 338.5          |
| Trade and bills receivables                 | 209.7              | 549.0        | 675.7          |
| Prepayments, deposits and other receivables | 98.9               | 135.6        | 110.5          |
| Restricted bank deposits                    | 11.0               | 7.0          | 7.1            |
| Cash and cash equivalents                   | 760.6              | 1,122.5      | 917.2          |
| Total current assets                        | 1,238.0            | 1,996.0      | 2,049.0        |
| <b>Current liabilities</b>                  |                    |              |                |
| Trade and bills payables                    | 155.5              | 229.4        | 237.3          |
| Other payables and accruals                 | 755.5              | 820.3        | 542.6          |
| Taxes payable                               | 30.5               | 68.1         | 42.3           |
| Total current liabilities                   | 941.5              | 1,117.8      | 822.2          |
| <b>Net current assets</b>                   | <b>296.5</b>       | <b>878.2</b> | <b>1,226.8</b> |

As of December 31, 2011, the net current assets of the Target Business Group were RMB1,226.8 million, consisting of current assets of RMB2,049.0 million and current liabilities of RMB822.2 million. The current assets mainly included cash and cash equivalents of RMB917.2 million, trade and bills receivable of RMB675.7 million, inventories of RMB338.5 million and prepayments, deposits, other receivables of RMB110.5 million. The current liabilities mainly included other payables and accruals of RMB542.6 million and trade and bills payable of RMB237.3 million.

## FINANCIAL INFORMATION

### Cash Flows

The primary uses of cash of the Target Business Group are to invest in mines, production facilities and equipment, and fund working capital and recurring expenses in the ordinary course of business. As of December 31, 2011, the Target Business Group had cash and cash equivalents of RMB917.2 million. The following table sets forth the cash flows of the Target Business Group in 2009, 2010 and 2011:

|                                                                 | Year ended December 31, |                |              |
|-----------------------------------------------------------------|-------------------------|----------------|--------------|
|                                                                 | 2009                    | 2010           | 2011         |
|                                                                 | RMB million             |                |              |
| Net cash flows from operating activities . . . . .              | 1,980.3                 | 1,852.4        | 1,932.4      |
| Net cash flows used in investing activities . . . . .           | (413.8)                 | (1.5)          | (159.6)      |
| Net cash flows from/(used in) financing activities . . . . .    | (1,280.0)               | (1,489.0)      | (1,978.1)    |
| Net increase in cash and cash equivalents . . . . .             | 286.5                   | 361.9          | (205.3)      |
| Cash and cash equivalents at beginning of year/period . . . . . | 474.1                   | 760.6          | 1,122.5      |
| Cash and cash equivalents at end of year/period . . . . .       | <u>760.6</u>            | <u>1,122.5</u> | <u>917.2</u> |

#### *Net cash flows from operating activities*

In 2011, the Target Business Group generated net cash from operating activities of RMB1,932.4 million, primarily attributable to profit before tax of RMB2,913.2 million, an increase in trade and bills payables of RMB7.9 million, primarily due to the increase in the amount of coal that was purchased from external suppliers, partially offset by income tax paid of RMB633.2 million, a decrease in other payables and accruals of RMB254.6 million, primarily due to a decrease in value-added tax payable, a decrease in payables for equipment purchased and repayment of project construction fees, and an increase in inventories of RMB156.6 million, primarily due to the increased value of the inventories as a larger amount of the inventories were coal purchased from external suppliers.

In 2010, the Target Business Group generated net cash from operating activities of RMB1,852.4 million, primarily attributable to profit before tax of RMB2,524.9 million and an increase in trade and bills payables of RMB73.9 million, partially offset by an increase in trade and bills receivables of RMB357.2 million. The increase in trade and bills payables was primarily due to the increase in the amount of coal that was purchased from external suppliers. The increase in trade and bills receivables was primarily attributable to increased sales of coal by the Target Business Group.

In 2009, the Target Business Group generated net cash from operating activities of RMB1,980.3 million, primarily attributable to profit before tax of RMB1,314.0 million, an increase in other payables and accruals of RMB449.0 million, a decrease in trade and bills receivable of RMB244.7 million, and a decrease in inventories of RMB55.1 million. The increase in other payables and accruals was due mainly to deposits paid by contractors to the Target Business Group in connection with their services to prevent coal seams from self-igniting and/or extinguish coal seam fires. The decrease in trade and bills receivable was due mainly to decreased sales by the Target Business Group. The decrease in inventories was due mainly to increased sales in late 2009 mainly because of the generally colder weather in the winter of 2009.

#### *Net cash flows used in investing activities*

Net cash used in investing activities in 2011 was RMB159.6 million, primarily including cash paid for the purchase of property, plant and equipment and construction in progress of RMB163.7 million relating to the construction of the Target Mines.

Net cash used in investing activities in 2010 was RMB1.5 million and mainly reflected cash paid for the purchase of prepaid land lease payments of RMB23.9 million, partially offset by bank interest income of RMB13.7 million and proceeds from disposal of property, plant and equipment, intangible assets and other long term assets of RMB6.7 million.

Net cash used in investing activities in 2009 was RMB413.8 million and mainly reflected cash paid for the purchase of property, plant and equipment in the amount of RMB371.0 million primarily relating to the

## FINANCIAL INFORMATION

construction of the Target Mines and prepaid land lease payments of RMB39.0 million for land use rights for the Target Mines.

### *Net cash flows from/(used in) financing activities*

Net cash used in financing activities in 2011 was RMB1,978.1 million, primarily including the distribution to the owners of the Target Business Group, including Yitai Group, in the amount of RMB1,600.1 million.

Net cash used in financing activities in 2010 was RMB1,489.0 million. It reflects the distribution to the owners of the Target Business Group, including Yitai Group.

Net cash used in financing activities was RMB1,280.0 million in 2009. It mainly reflects the distribution to owners of the Target Business Group, including Yitai Group, in the amount of RMB1,275.9 million.

### *Trade receivables, inventories and trade payables turnover*

The following table sets forth the turnover days of the trade receivables, inventories and trade payables of the Target Business Group for the periods indicated:

|                                                                       | Year ended December 31, |      |      |
|-----------------------------------------------------------------------|-------------------------|------|------|
|                                                                       | 2009                    | 2010 | 2011 |
| Turnover days of trade and bills receivables <sup>(1)</sup> . . . . . | 22.6                    | 14.9 | 20.6 |
| Turnover days of inventories <sup>(2)</sup> . . . . .                 | 18.7                    | 9.7  | 12.6 |
| Turnover days of trade and bills payables <sup>(3)</sup> . . . . .    | 14.4                    | 11.0 | 11.3 |

- (1) Turnover days of trade and bills receivables for a certain period are derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables by revenue for the relevant period and then multiplying by 365 days.
- (2) Turnover days of inventories for a certain period are derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for the relevant period and then multiplying by 365 days.
- (3) Turnover days of trade and bills payables for a certain period are derived by dividing the arithmetic mean of opening and closing balances of trade and bills payables, by cost of sales for the relevant period and then multiplying by 365 days.

The turnover days of trade and bills receivables decreased from 22.6 days in 2009 to 14.9 days in 2010 primarily due to improved recoverability of the Target Business Group's trade and bills receivables as the financial condition of the Target Business Group's customers generally improved, driven in part by the recovery of the PRC economy. The turnover days of trade and bills receivables increased to 20.6 days in 2011, primarily due to the Target Business Group's large trade and bills receivables due to its increased sales of coal in 2011. The turnover days of inventories decreased from 18.7 days in 2009 to 9.7 days in 2010 primarily due to the strong demand for coal. The turnover days of inventories increased to 12.6 days in 2011 primarily due to the increased value of Target Business Group's inventories as a larger amount of its inventories was purchased from external suppliers in 2011. The turnover days of trade and bills payables decreased from 14.4 days in 2009 to 11.0 days in 2010 primarily because the Target Business Group paid for coal purchased from external suppliers more promptly due to the strong demand for coal. The turnover days of trade and bills payables increased to 11.3 days in 2011, primarily due to an increase in the value of the Target Business Group's inventories as a significant portion of the inventories was coal sourced from external suppliers.

### **Operating Costs**

The following table sets forth our estimated average operating costs per tonne of run-of-mine coal, that is, coal which comes from the mine prior to beneficiation or any other treatment, produced at Target Mines for the periods indicated:

| Category                               | Operating Costs (RMB/ROM tonne)* |           |           |           |           |            |
|----------------------------------------|----------------------------------|-----------|-----------|-----------|-----------|------------|
|                                        | 2009                             | 2010      | 2011      | 2012      | 2013      | 2014       |
| Cash operating costs . . . . .         | 75                               | 76        | 81        | 82        | 86        | 89         |
| Non-cash operating costs . . . . .     | 8                                | 9         | 8         | 9         | 10        | 11         |
| <b>Total operating costs . . . . .</b> | <b>82</b>                        | <b>85</b> | <b>89</b> | <b>91</b> | <b>96</b> | <b>100</b> |

## FINANCIAL INFORMATION

The estimated average operating costs include labor, benefits, materials, supplies, power, water, maintenance, engineering, development expenses, exploration, face moves, village moves, resource fees, coal management fees, administration and other miscellaneous expenses. A breakdown of average cash operating costs of Target Mines on a composite basis is as follows:

| Category                                 | Cash Operating Costs (RMB/ROM tonne)* |           |           |           |           |           |
|------------------------------------------|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
|                                          | 2009                                  | 2010      | 2011      | 2012      | 2013      | 2014      |
| Materials / Supplies / Maintenance ..... | 6                                     | 6         | 8         | 7         | 7         | 7         |
| Power / Fuel .....                       | 2                                     | 3         | 3         | 3         | 3         | 3         |
| Salary & Welfare .....                   | 7                                     | 8         | 9         | 10        | 10        | 10        |
| Production fees .....                    | 60                                    | 60        | 62        | 62        | 65        | 68        |
| <b>Total cash operating costs .....</b>  | <b>75</b>                             | <b>76</b> | <b>81</b> | <b>82</b> | <b>86</b> | <b>89</b> |

\* Average composite costs include a weighted average of drill and blast with fully mechanized output achieved with fully mechanized longwall face methods.

Note: Figures may not add up due to rounding.

For more information, see “Appendix V — Competent Person’s Report.”

### Depletion Rates

The depletion rate represents the rate of exhaustion of reserves of a mine. In the context of this Prospectus, depletion rate of a mine refers to the exhaustion rate of marketable reserves as of December 31, 2011 on the basis of aggregate projected output from 2012 to 2014. The following table sets forth the depletion rates of the Target Mines:

| Mine              | Marketable Reserves (Mt)<br>As of December 31, 2011* | 2012 to 2014            |                    |
|-------------------|------------------------------------------------------|-------------------------|--------------------|
|                   |                                                      | Projected Output (Mt)** | Depletion Rate (%) |
| Dadijing*** ..... | 51.8                                                 | 11.2                    | 22                 |
| Baoshan .....     | 14.6                                                 | 6.6                     | 45                 |
| Dingjiaqu .....   | 16.3                                                 | 9.0                     | 55                 |
| Chengyi .....     | 4.8                                                  | 3.6                     | 75                 |
| Baijialiang ..... | 0.5                                                  | 0.8                     | 100                |

\* Reflect BOYD’s reserve estimation which only includes minable reserves suitable for fully mechanized long wall mining method.

\*\* Reflect Yitai Group’s projections which include fully mechanized long wall mining and drill and blast mining operations where applicable.

\*\*\* Reserve and output from open pit mining operations excluded.

### PRO FORMA FINANCIAL INFORMATION

We have prepared certain unaudited pro forma combined financial statements as if the Proposed Acquisition had occurred on January 1, 2011. Our unaudited pro forma combined financial statements have been prepared using the procedures and adjustments described in the notes to the unaudited pro forma financial statements in Appendix IIA to this Prospectus. Neither these adjustments nor the resulting pro forma combined financial statements have been audited in accordance with the IFRS.

Our pro forma combined financial statements are not necessarily representative of our financial condition, results of operations and changes in liquidity and capital resources as they would have appeared in our financial statements had the Proposed Acquisition occurred during the periods indicated below. Our pro forma combined financial statements were prepared based on the assumption that the acquisition of the Target Business Group is deemed a business combination involving entities under common control since our Company and the Target Business Group have been ultimately controlled by Yitai Group both before and after the acquisition, and that control is not transitory. As a result, the acquisition is to be accounted for using merger accounting. The adjustments include (i) the recognition of the consideration of RMB8,446.5 million in cash, and such consideration eliminates the owner’s equity of the enlarged group and reflects the effect of the

## FINANCIAL INFORMATION

issue and listing of our H Shares on the Hong Kong Stock Exchange, which is one of the conditions precedent to the completion of the Proposed Acquisition; and (ii) our receipt of the estimated net proceeds from the Global Offering of approximately HK\$7,307.4 million (RMB5,933.6 million), after deducting the underwriting commissions and other estimated offering expenses payable by us, assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. The difference between the consideration of RMB8,446.5 million and the net assets of the Target Business Group is accounted for as a deemed distribution in our pro forma combined financial statements. Our pro forma net assets would have decreased by RMB5,865.4 million, which is the difference between the consideration of RMB8,446.5 million and the net assets of RMB2,581.1 million of the Target Business Group as of December 31, 2011, if the acquisition had taken place on January 1, 2011, without considering the net proceeds from the Global Offering and other pro forma adjustments.

In addition, these financial statements are not necessarily indicative of what our financial condition, results of operations and changes in liquidity and capital resources will be in future years. Investors should not place undue reliance on the pro forma financial information. This information should be read in conjunction with the section headed "Risk Factors," the other disclosure under this "Financial Information" section and our audited consolidated financial statements and the notes thereto and the audited combined financial statements of the Target Business Group and the notes thereto included elsewhere in this Prospectus.

The following tables present (i) our unaudited pro forma combined income statements for the year ended December 31, 2011 and (ii) our unaudited pro forma combined statement of financial position as of December 31, 2011 as if the Proposed Acquisition had occurred on January 1, 2011. Such pro forma financial information is more fully presented in Appendix IIA to this Prospectus and should be read in conjunction with the related notes thereto.

| Year ended December 31, 2011 |                        |                                          |                        |                         |
|------------------------------|------------------------|------------------------------------------|------------------------|-------------------------|
|                              | Company <sup>(1)</sup> | The Target Business Group <sup>(2)</sup> | Pro forma adjustment   | Pro forma enlarged      |
|                              | RMB million (A)        | RMB million (B)                          | RMB million (C)        | RMB million (A)+(B)+(C) |
| Revenue                      | 16,515.8               | 10,848.9                                 | (361.8) <sup>(3)</sup> | 27,002.9                |
| Gross profit                 | 8,414.9                | 3,333.7                                  | 519.3                  | 12,267.9                |
| Profit before tax            | 6,760.0                | 2,913.2                                  | 184.2                  | 9,857.4                 |
| Income tax expense           | (1,010.7)              | (617.6)                                  | —                      | (1,628.3)               |
| Profit for the year          | 5,749.3                | 2,295.6                                  | 184.2                  | 8,229.1                 |

- (1) The balances are extracted from the audited consolidated financial information of our Company as of the date or for the period presented as set out in Appendix IA to this Prospectus.
- (2) The balances are extracted from the audited financial information of the Target Business Group as of the date or for the period presented as set out in Appendix IB to this Prospectus.
- (3) The adjustment represents the elimination of transactions or balances between our Company and the Target Business Group.

| As of December 31, 2011 |                        |                                          |                                |                         |
|-------------------------|------------------------|------------------------------------------|--------------------------------|-------------------------|
|                         | Company <sup>(1)</sup> | The Target Business Group <sup>(2)</sup> | Pro forma adjustment           | Pro forma enlarged      |
|                         | RMB million (A)        | RMB million (B)                          | RMB million (C)                | RMB million (A)+(B)+(C) |
| Non-current assets      | 24,248.7               | 1,360.7                                  | 184.2                          | 25,793.6                |
| Current assets          | 5,819.9                | 2,049.0                                  | (2,544.7) <sup>(3)(4)(5)</sup> | 5,324.2                 |
| Current liabilities     | 4,797.4                | 822.2                                    | (31.7) <sup>(3)</sup>          | 5,587.9                 |
| Non-current liabilities | 6,487.8                | 6.4                                      | —                              | 6,494.2                 |
| Net assets              | 18,783.4               | 2,581.1                                  | (2,328.8)                      | 19,035.7                |

- (1) The balances are extracted from the audited consolidated financial information of our Company as of the date or for the period presented as set out in Appendix IA to this Prospectus.
- (2) The balances are extracted from the audited financial information of the Target Business Group as of the date or for the period presented as set out in Appendix IB to this Prospectus.
- (3) The adjustment represents the elimination of transactions or balances between the Group and the Target Business Group.
- (4) The adjustment reflects the effect of the issue and listing of our H Shares on the Hong Kong Stock Exchange, which is one of the conditions precedent to the completion of the Proposed Acquisition, and our receipt of the estimated net proceeds from the Global Offering of approximately HK\$7,307.4 million (equivalent to approximately RMB5,933.6 million), after deducting the underwriting commissions and other estimated offering expenses payable by us, assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. The estimated net proceeds from the Global Offering are translated from HK dollars into Renminbi at the PBOC Rate



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prevailing on the Latest Practicable Date of RMB0.8120 to HK\$1.00. This adjustment is based on the assumption of the Directors and, because of its hypothetical nature, it does not provide any assurance that the issue and listing of our H Shares will take place or that the amount of net proceeds from the Global Offering will be equal to HK\$7,307.4 million.

- (5) The acquisition of the Target Business Group is considered as a business combination involving entities under common control because our Company and the Target Business Group are ultimately controlled by Yitai Group both before and after the acquisition, and that control is not transitory. As a result, the acquisition is to be accounted for using merger accounting. The adjustment represents the recognition of the acquisition consideration of RMB8,446.5 million in cash, and such consideration reduces the owner's equity in the enlarged group.

### Revenue

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma revenue of our Company would have increased by 63.5% to RMB27,002.9 million for 2011. The increase reflects the inclusion of revenue of the Target Business Group after eliminating transactions and balances between our Company and the Target Business Group.

### Gross Profit

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma gross profit of our Company would have increased by 45.8% to RMB12,267.9 million for 2011. The increase reflects the inclusion of gross profits of the Target Business Group. The pro forma gross profit margin of our Company, however, would have decreased from 51.0% to 45.4% for 2011 due to the Target Business Group's lower gross profit margin during the period. The Target Business Group's gross profit margin was lower than our gross profit margin primarily because a larger portion of the coal sold by the Target Business Group was originally purchased from external suppliers, which has a significantly higher unit cost than that of coal produced at our mines and the Target Mines.

### Profit Before Tax

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma profit before tax of our Company would have increased by 45.8% to RMB9,857.4 million for 2011. The increase reflects the inclusion of profit before tax of the Target Business Group.

### Taxation

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma tax expense of our Company would have increased by 61.1% to RMB1,628.3 million for 2011. This increase reflects the inclusion of tax expenses of the Target Business Group. Our pro forma effective tax rate would have increased from 15.0% to 16.5% for 2011.

### Profit for the Year

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma profit of our Company would have increased by 43.1% to RMB8,229.1 million for 2011. The pro forma profit margin, however, would have decreased from 34.8% to 30.5% in 2011 due to the Target Business Group's lower profit margin during the period. The Target Business Group's profit margin was lower than our profit margin primarily because a larger portion of the coal sold by the Target Business Group was originally purchased from external suppliers, which has a significantly higher unit cost than that of coal produced at our mines and the Target Mines.

### Non-current Assets

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma non-current assets of our Company would have increased by RMB1,544.9 million to RMB25,793.6 million as of December 31, 2011 as a result of the inclusion of non-current assets of the Target Business Group.

### Current Assets

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma current assets of our Company would have decreased by RMB495.7 million to RMB5,324.2 million as of December 31, 2011 as

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a result of the inclusion of (i) the current assets of the Target Business Group after eliminating balances between our Company and the Target Business Group and (ii) the estimated net proceeds from the Global Offering.

### Current Liabilities

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma current liabilities of our Company would have increased by RMB790.5 million to RMB5,587.9 million as of December 31, 2011 as a result of the inclusion of current liabilities of the Target Business Group after eliminating the balances between our Company and the Target Business Group.

### Non-current Liabilities

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma non-current liabilities of our Company would have increased by RMB6.4 million to RMB6,494.2 million as of December 31, 2011 as a result of the inclusion of non-current liabilities of the Target Business Group.

### Net Assets

Assuming the Proposed Acquisition had occurred on January 1, 2011, the pro forma net assets of our Company would have increased by RMB252.3 million to RMB19,035.7 million as of December 31, 2011, as a result of the inclusion of (i) the net assets of the Target Business Group after eliminating balances between our Company and the Target Business Group and (ii) the estimated net proceeds from the Global Offering.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of our Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2011. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of our Company had the Global Offering been completed as of December 31, 2011 or at any future dates.

|                    | Adjusted consolidated<br>net tangible assets<br>of our Company<br>attributable to<br>the equity holders of<br>our Company as<br>of December 31, 2011 <sup>(1)</sup> | Estimated net<br>proceeds from<br>the Global<br>Offering <sup>(2)</sup> | Unaudited pro<br>forma adjusted net<br>tangible assets | Unaudited pro forma adjusted<br>net tangible assets per Share <sup>(3)</sup> |       |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------|-------|
|                    | RMB million                                                                                                                                                         | RMB million                                                             | RMB million                                            | RMB                                                                          | HK\$  |
| Based on the Offer |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| Price of           |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| HK\$43.00 for      |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| each Offer         |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| Share . . . . .    | 16,998                                                                                                                                                              | 5,273                                                                   | 22,271                                                 | 13.69                                                                        | 16.86 |
| Based on the Offer |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| Price of           |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| HK\$53.00 for      |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| each Offer         |                                                                                                                                                                     |                                                                         |                                                        |                                                                              |       |
| Share . . . . .    | 16,998                                                                                                                                                              | 6,594                                                                   | 23,592                                                 | 14.50                                                                        | 17.86 |

(1) The adjusted consolidated net tangible assets of our Company attributable to the equity holders of our Company as of December 31, 2011 are extracted from the Accountants' Report set out in Appendix IA to this Prospectus, which is based on the audited consolidated net assets of our Company attributable to the equity holders of our Company as of December 31, 2011 of RMB17,015.6 million with an adjustment for intangible assets as of December 31, 2011 of RMB17.5 million.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$43.00 (equivalent to RMB34.92) and HK\$53.00 (equivalent to RMB43.04) per H Share, respectively (after deducting the underwriting fees and other related expenses), and does not take into account any H Shares which may be issued pursuant to the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the conversion of Renminbi into HK dollars was made at the rate of RMB0.8120 to HK\$1.00, the exchange rate prevailing on June 20, 2012 set by PBOC for foreign exchange transactions.

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| <b>FINANCIAL INFORMATION</b> |
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- (3) The unaudited pro forma net tangible assets per Share are arrived at by dividing the unaudited pro forma adjusted net tangible assets by 1,626,667,000 Shares, being the number of shares in issue assuming that the Global Offering has been completed on December 31, 2011, but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

**DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the H Shares been listed on the Hong Kong Stock Exchange on that date.

## FUTURE PLANS

See “Business — Our Business Strategies” for a detailed description of our Company’s future plans.

## USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$7,307.4 million assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an Offer Price of HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus.

We intend to apply the net proceeds from the Global Offering as the consideration of RMB8,446.5 million (approximately HK\$10,402.1 million) to be paid to Yitai Group for the Proposed Acquisition. As the net proceeds from the Global Offering are less than the consideration of RMB8,446.5 million as set out in the Assets Transfer Agreement, we intend to pay the shortfall with our internal funds and/or seek other appropriate forms of financing which may include additional bank borrowings.

To the extent that the net proceeds are not immediately applied for the above purposes, and to the extent permitted by PRC law and regulations, we intend to deposit the net proceeds into short-term deposits with licensed banks or financial institutions in Hong Kong and/or the PRC. In the highly unlikely event that the Proposed Acquisition will not be completed, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 27.3% of the net proceeds, or approximately HK\$1,994.9 million, will be used for expanding our railway transportation capacity;
- approximately 8.4% of the net proceeds, or approximately HK\$613.8 million, will be used for carrying out further technology upgrades at our mines;
- approximately 23.8% of the net proceeds, or approximately HK\$1,739.2 million, will be used for funding the construction of the Talahao Mine and the Bulamao Mine;
- approximately 10.5% of the net proceeds, or approximately HK\$767.3 million, will be used for expanding our coal production. Since we are still in the process of screening potential target mines besides the Target Business Group for expanding our coal production, we do not have any committed plan for expenditures as of the Latest Practicable Date;
- approximately 20.0% of the net proceeds, or approximately HK\$1,461.5 million, will be used for repaying our bank loans, a summary of such loans is set out below:

| Outstanding amount as of March 31, 2012 (RMB million) | Interest rate (%) | Maturity date |
|-------------------------------------------------------|-------------------|---------------|
| 860 .....                                             | 7.05              | July 2021     |
| 610 .....                                             | 7.05              | July 2018     |
| 200 .....                                             | 6.21              | November 2020 |

- approximately 10% of the net proceeds, or approximately HK\$730.7 million, will be used for working capital and general corporate purposes.

In the event that the Offer Price is set at HK\$43.00 (being the low end of the indicative Offer Price range of HK\$43.00 to HK\$53.00 per Share as stated in this Prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds received by us will be reduced by approximately HK\$813.3 million (when compared to the net proceeds to our Company with the Offer Price being determined at the mid-point of the stated range and without exercising the Over-allotment Option). In the event that the Offer Price is set at HK\$53.00 (being the high end of the indicative Offer Price range of HK\$43.00 to HK\$53.00 per Share as stated in this Prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds received by us will be increased by approximately HK\$813.3 million (when compared to the net proceeds to our Company with the Offer Price being determined at the mid-point of the stated range and without exercising the Over-allotment Option). In the event that the Over-allotment Option is exercised in full and based on an Offer Price of HK\$48.00 (being the mid-point of the indicative Offer Price range of HK\$43.00 to HK\$53.00 per Share as

|                                         |
|-----------------------------------------|
| <b>FUTURE PLANS AND USE OF PROCEEDS</b> |
|-----------------------------------------|

stated in this Prospectus), the net proceeds received by us will be increased by approximately HK\$1,171.2 million (when compared to the net proceeds to our Company with the Offer Price being determined at the mid-point of the stated range and without exercising the Over-allotment Option).

## HONG KONG UNDERWRITERS

### Joint Lead Managers:

China International Capital Corporation Hong Kong Securities Limited  
 BOCI Asia Limited  
 ICBC International Securities Limited  
 Merrill Lynch Far East Limited  
 Credit Suisse (Hong Kong) Limited  
 UBS AG, Hong Kong Branch  
 BNP Paribas Capital (Asia Pacific) Limited  
 China Merchants Securities (HK) Co., Limited  
 Macquarie Capital Securities Limited

## HONG KONG PUBLIC OFFERING

### Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions of this Prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on, and subject to, the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

### Grounds for Termination

The Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - (i) any event, or circumstance, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union as a whole or Japan (collectively, the "Relevant Jurisdictions"); or
  - (ii) any change or development involving a prospective change, or any event or series of events likely to result in or representing any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
  - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the SEHK, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange or the Shanghai Stock Exchange; or



## UNDERWRITING

- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at Federal or New York State level or other competent Authority), London, the PRC, the European Union as a whole, Japan, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or
- (v) any new Law, or any change or development involving a prospective change in existing Laws in the interpretation or application thereof by any court or other competent Authority, in each case, in or affecting any of the Relevant Jurisdictions; or
- (vi) a change or development involving a prospective change in Taxation, exchange control, currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (vii) any materialisation of any of the risks set out in the section headed “Risk Factors” of this Prospectus; or
- (viii) any Actions of any third party being threatened or instigated against any member of the Group or of the Target Business Group; or
- (ix) a contravention by any member of the Group of the Listing Rules or applicable Laws or any statement of the Prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering; or
- (x) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the H Shares (including the additional Shares issued pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xi) an order or petition for the winding up of any member of the Group or of the Target Business Group or any composition or arrangement made by any member of the Group or of the Target Business Group with its creditors or a scheme of arrangement entered into by any member of the Group or of the Target Business Group or any resolution for the winding-up of any member of the Group or of the Target Business Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or of the Target Business Group or anything analogous thereto occurring in respect of any member of the Group or of the Target Business Group,

which, individually or in the aggregate, in the sole opinion of Joint Bookrunners (for themselves or on behalf of the Hong Kong Underwriters) after reasonable prior consultation with the Company:

- (A) has or will result or may result in a material adverse change; or
  - (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
  - (C) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
  - (D) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Joint Bookrunners:
- (i) that any statement contained in any of the Prospectus and the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect

or misleading in any material respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of the Prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest in any material respect and based on reasonable assumptions; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Prospectus, result in a misstatement in, or constitute a material omission from any of the Prospectus and the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (iii) any material breach on the part of the Company of any of the obligations imposed upon it under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the Hong Kong Underwriting Agreement; or
- (v) any material adverse change, or any development involving a prospective material adverse change, in or affecting the business, management, shareholders' equity, results of operations, position or condition, or financial of the Company and the other members of the Group, taken as a whole, or
- (vi) any breach of, or any event rendering untrue or incorrect in any material respect, any of the warranties set out in the Hong Kong Underwriting Agreement; or
- (vii) the Company withdraws any of the Prospectus and the Application Forms or the Global Offering.; or
- (viii) any person (other than the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in any of the Prospectus and Application Forms or to the issue of any of the Prospectus and the Application Forms.

## **Undertakings to the Hong Kong Stock Exchange**

### *By Us*

Pursuant to Rule 10.08 of the Listing Rules, no further shares or other securities convertible into equity securities of our Company may be issued by us or form the subject of any agreement to an issue by us within six months from the date on which our H Shares first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing), except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering.

### *By our Controlling Shareholders*

Our Controlling Shareholders, Yitai Investment and Yitai Group have undertaken to the Hong Kong Stock Exchange and us that, save as permitted under the Listing Rules, will not:

- (a) in the period commencing on the date by reference to which disclosure of their shareholding in the Company is made in the Prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares of our Company in respect of which they are shown by this Prospectus to be the beneficial owner; and
- (b) during the period of six months commencing on the date on which the period referred to in paragraph (a) expires, dispose of, and will procure Yitai HK will not dispose of, nor enter into any

agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the shares referred to in the immediately preceding paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be controlling shareholders of our Company.

Our Controlling Shareholders have further undertaken to the Hong Kong Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this Prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when they pledge or charge any Shares of our Company in respect of which they are the beneficial owners in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), for a bona fide commercial loan, immediately inform us of any such pledge or charge and the number of shares or other securities of our Company so pledged or charged; and
- (b) when they receive any indication, either verbal or written, from any such pledgee or chargee of Shares of our Company that such Shares will be disposed of, immediately inform us of any such indication.

### **Undertakings to the Hong Kong Underwriters**

#### *By Us*

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "First Six-Month Period"), we will not without the Joint Bookrunners' prior written consent and unless in compliance with the requirements of the Listing Rules (and only after the consent of any relevant PRC authority (if so required) has been obtained):

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any H Shares), or deposit any H Shares or other securities of the Company with a depository in connection with the issue of depository receipts); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraphs (i) or (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraphs (i) or (ii) or (iii) above is to be settled by delivery of H Shares or other securities of the Company, or in cash or otherwise (whether or not the

allotment or issue of such H Shares or other securities of the Company, will be completed within the First Six-month Period). In the event that, at any time during the period of six months immediately following the expiry of the First Six-month Period (the "Second Six-Month Period"), the Company enters into any of the transactions specified in sub-paragraphs (i) or (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the H Shares or any other securities of the Company. For the avoidance of doubt, the requirements specified above will not affect the Company to transfer, dispose or acquire, or agree to transfer, dispose or acquire, directly or indirectly, any shares of any subsidiary and other member of the Group.

*By our Controlling Shareholders*

Each of the Controlling Shareholders has jointly and severally agreed to undertake to the Company, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them that, without the prior written consent of the Joint Lead Managers and the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (and only after the consent of any relevant PRC authority (if so required) has been obtained),

- (a) it will not, at any time during the First Six-Month Period,
  - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares, as applicable), or deposit any H Shares or any other securities of the Company with a depositary in connection with the issue of depositary receipts, or
  - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of H Shares or any other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares), or
  - (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above, or
  - (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of H Shares or such other securities of the Company, or in cash or otherwise (whether or not the issue of H Shares or other securities will be completed within the First Six-Month Period);
- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in sub-paragraph (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.
- (d) for the avoidance of doubt, the above undertakings given by the Controlling Shareholders shall not prevent any of the Controlling Shareholders from using securities of the Company beneficially owned by it as security (including a charge or a pledge) in favour of an authorised institution (as defined in Bank Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the matters mentioned in clause (d) above, and will disclose such matters as soon as possible thereafter by way of an announcement published in accordance with Rule 2.07 of the Listing Rules.

## Indemnity

We have agreed to indemnify the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

## Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commissions. In addition, the Company agrees in its sole discretion to pay to any one or more of the Hong Kong Underwriters for a total incentive fee of up to but not exceeding 0.9% of the aggregate Offer Price payable for the Hong Kong Offer Shares as the Company may determine. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

Assuming an Offer Price of HK\$48.00 per share (being the midpoint of the indicative offer price range of HK\$43.00 to HK\$53.00 per share), the aggregate commission and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fees (collectively, the "Commission and Fees"), legal and other professional fees and printing and other expenses relating to the Global Offering payable by us are estimated to be approximately HK\$500.6 million in aggregate (assuming the Over-allotment Option is not exercised).

## Hong Kong Underwriters' Interest in our Company

Save as disclosed in this Prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Company.

## Underwriting Arrangement with CMS HK

On June 22, 2012, CMS HK entered into an agreement with our Company (the "**CMS HK Underwriting Agreement**") pursuant to which, subject to the conditions as set out below, CMS HK agreed to procure purchasers to purchase, or failing which it is committed to purchase, such number of Offer Shares equivalent to US\$100.0 million (the "**CMS HK Underwriting Commitment**"). The CMS HK Underwriting Commitment is conditional upon, among others:

- the Offer Price being set at the low end of the indicative Offer Price range;
- As of the date of the application lists of the Hong Kong Public Offering closes, the total amount of the Offer Shares that CMS HK and other Underwriters committed to purchase to fulfill their respective hard underwriting obligation does not exceed US\$200 million; and
- CMS HK will be entitled to the same level of rights and bear the same level of obligations based on a fair basis as other Underwriters who are also committed to purchase pursuant to similar underwriting agreements.

Since CMS HK is the only Underwriter which entered into such underwriting arrangement as described above, the total underwriting commitment under such underwriting arrangement will be US\$100.0 million. Based on the low end of the indicative Offer Price range of HK\$43.00 and an exchange rate of US\$1.00 to HK\$7.7591, the total number of Offer Shares pursuant to the CMS HK Underwriting Commitment would be approximately 18,044,400 Offer Shares, representing approximately (i) 11.1% of the total number of the Offer Shares and (ii) 1.1% of our issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Our Company has agreed to pay CMS HK a fee representing 5% of the CMS HK Underwriting Commitment. The obligations of CMS HK under the CMS HK Underwriting Agreement are subject to the same

grounds for termination as those included under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement. The clauses of CMS HK Underwriting Agreement have been duly included in the Hong Kong Underwriting Agreement.

As at June 25, 2012, CMS HK (including its affiliates) held approximately 1.68% of the Company's total issued B share capital and approximately 0.76% of the Company's total issued share capital.

## THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters on or about Friday, July 6, 2012, shortly after the determination of the Offer Price. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to procure subscribers to subscribe for or purchasers to purchase, or failing which to subscribe for or purchase themselves, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering which are not taken up under the International Offering.

## RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make an offer or invitation.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

## STABILIZATION AND OVER-ALLOTMENT

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Merrill Lynch Far East, as stabilizing manager, and/or its affiliates or any person acting for it (the "Stabilizing Manager"), on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares. Any market purchases of our H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager and/or its affiliates or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of our H Shares that may be over-allocated will not exceed the number of our H Shares that may be sold under the Over-allotment Option, namely, 24,400,000 H Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.



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| <b>UNDERWRITING</b> |
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In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing action permitted pursuant to the Securities and Futures (Price Stabilizing) Rules includes:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) selling or agreeing to sell our H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price;
- (c) subscribing, or agreeing to subscribe, for our H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, our H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling our H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, and/or its affiliates or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of our H Shares, the Stabilizing Manager, and/or its affiliates or any person acting for it, may maintain a long position in our H Shares. The size of the long position, and the period for which the Stabilizing Manager, and/or its affiliates or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our H Shares.

Stabilizing action by the Stabilizing Manager, and/or its affiliates or any person acting for it, is not permitted to support the price of our H Shares for longer than the stabilizing period, which begins on the day on which trading of our H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on August 4, 2012. As a result, demand for our H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise might exist in the open market. Any stabilizing action taken by the Stabilizing Manager, and/or its affiliates or any person acting for it, may not necessarily result in the market price of our H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of our H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

## PRICING AND ALLOCATION

### Offer Price Range

The Offer Price will be not more than HK\$53.00 per Offer Share and is expected to be not less than HK\$43.00 per Offer Share.

### Price Payable on Application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$53.00 for each Hong Kong Offer Share (plus 1% brokerage, 0.003% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee). If the Offer Price is less than HK\$53.00, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications. See “Further Terms and Conditions of the Hong Kong Public Offering — 8. Refund of Application Monies.”

### Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring our H Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of H Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, July 6, 2012.

**If, for any reason, we and the Joint Bookrunners (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Tuesday, July 10, 2012, the Global Offering will not proceed and will lapse.**

### Allocation

The H Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

Allocation of our H Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell H Shares after the listing of our H Shares on the Hong Kong Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our H Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### Announcement of Offer Price and Basis of Allocations

The Offer Price for H Shares under the Global Offering is expected to be announced on Wednesday, July 11, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in

Chinese). The level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Wednesday, July 11, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

## **THE GLOBAL OFFERING**

The Global Offering comprises the Hong Kong Public Offering and the International Offering. We will initially make available 162,667,000 H Shares under the Global Offering. Of the H Shares made available by us under the Global Offering, 146,400,000 H Shares will initially be conditionally placed pursuant to the International Offering and the remaining 16,267,000 H Shares will initially be offered to the public in Hong Kong under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under “— The Hong Kong Public Offering”). The H Shares included in the International Offering will be conditionally placed pursuant to the International Offering with professional, institutional, corporate and other investors whom we anticipate to have a sizeable demand for the H Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S, and in the United States with QIBs in reliance on Rule 144A.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters in each case on a several basis, each being subject to the conditions set out under “Underwriting.” The Hong Kong Underwriting Agreement was entered into on June 28, 2012 and, subject to an agreement on the Offer Price between us and the Joint Bookrunners (on behalf of the Underwriters), the International Underwriting Agreement is expected to be entered into on or about the Price Determination Date. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be inter-conditional upon each other.

The requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering have been obtained.

Investors may apply for the H Shares under the Hong Kong Public Offering or indicate an interest for the H Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve selective marketing of the H Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such H Shares. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

## **Conditions of the Global Offering**

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option) subject only to, where applicable, allotment and the dispatch of share certificates in respect thereof, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;
- the Offer Price having been duly agreed between us and the Joint Bookrunners (on behalf of the Underwriters) and the execution and delivery of the price determination agreement on or around the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become and remained unconditional (including, if relevant, as a result of the waiver of any conditions by the Underwriters) and not having been

terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in such agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this Prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "Further Terms and Conditions of the Hong Kong Public Offering — 8. Refund of Application Monies." In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Hong Kong Banking Ordinance.

**H Share certificates for the Offer Shares are expected to be issued on Wednesday, July 11, 2012 but will only become valid certificates of title at 8:00 a.m. on Thursday, July 12, 2012, provided that (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in "Underwriting — Hong Kong Public Offering — Grounds for Termination" has not been exercised.**

### **Over-allotment Option**

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by Joint Bookrunners on behalf of the International Underwriters. Pursuant to the Over-allotment Option, Joint Bookrunners will have the right, exercisable at any time from the date of the International Underwriting Agreement up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to allot and issue up to an aggregate of 24,400,000 additional H Shares, representing approximately 15% of the initial Offer Shares, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional H Shares will represent approximately 1.5% of our enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

The 162,667,000 H Shares initially being offered in the Global Offering will represent approximately 10% of our enlarged share capital immediately after completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the number of H Shares being offered under the Global Offering will increase to 187,067,000, representing approximately 11.33% of our enlarged share capital after completion of the Global Offering and the exercise of the Over-allotment Option.

### **THE HONG KONG PUBLIC OFFERING**

We are initially offering 16,267,000 Hong Kong Offer Shares at the Offer Price, representing approximately 10% of the Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- *Pool A:* The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK\$5 million or less; and
- *Pool B:* The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of more than HK\$5 million and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 8,133,500 Hong Kong Offer Shares will be rejected. Applicants are required to give an undertaking and confirmation in the Application Form submitted by them that Applicants and any person(s) for whose benefit Applicants are making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and the application will be rejected if such undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have indicated interest in or have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for or have received Offer Shares in the Hong Kong Public Offering.

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. In the event of over-subscription under the Hong Kong Public Offering, the Joint Bookrunners, after consultation with us, shall apply a clawback mechanism following the closing of the application lists on the following basis:

- If the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 48,801,000 H Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering.
- If the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the H Shares available under the Hong Kong Public Offering will be 65,067,000 H Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering.
- If the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the H Shares available under the Hong Kong Public Offering will be 81,334,000 H Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

## **THE INTERNATIONAL OFFERING**

The International Offering will initially consist of 146,400,000 H Shares to be offered by us: (a) in the United States to QIBs in reliance on Rule 144A or another exemption for, a transaction not subject to,

registration under the Securities Act, and (b) outside of the United States in reliance on Regulation S, including to professional and institutional investors in Hong Kong.

We are expected to grant to the International Underwriters the Over-allotment Option, which is exercisable by the Joint Bookrunners on behalf of the International Underwriters at any time from the date the International Underwriting Agreement is signed until 30 days after the last day for the lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 24,400,000 additional H Shares, representing in aggregate approximately 15% of the Offer Shares initially available under the Global Offering. These shares will be issued or sold at the same price per share under the International Offering to cover over-allocations in the International Offering, if any.

#### **SHARES WILL BE ELIGIBLE FOR CCASS**

All necessary arrangements have been made enabling the H Shares to be admitted into the CCASS established and operated by the HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

#### **DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, July 12, 2012, it is expected that dealings in our H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, July 12, 2012.

Our H Shares will be traded in board lots of 100 H Shares each.

#### **UNDERWRITING ARRANGEMENTS**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement. The International Offering is expected to be fully underwritten by the International Underwriters. The Hong Kong Public Offering and the International Offering are subject to the conditions set out in "Underwriting." In particular, the Joint Bookrunners (on behalf of the Underwriters) and we must agree on the Offer Price. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are inter-conditional upon each other.

We expect on or about Friday, July 6, 2012, shortly after determination of the Offer Price, to enter into the International Underwriting Agreement relating to the International Offering.

For details of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, see "Underwriting."



## 1. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a United States person (as defined in Regulation S), or a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk), referred to herein as the “**White Form eIPO**” service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made through a duly authorized attorney under a valid power of attorney, we and the Bookrunners (or their respective agents and nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We and the Joint Bookrunners in its capacity as our agent, or the designated White Form eIPO Service Provider (where applicable) or its agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of shares in our Company, the Directors, supervisors or chief executive of our Company or any of its subsidiaries or their respective associates (as “associate” is defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become connected persons of our Company immediately upon completion of the Global Offering.

You may apply for H Shares under the Hong Kong Public Offering or indicate an interest for H Shares under the International Offering, but may not do both.

## 2. CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are four channels to make an application for the Hong Kong Offer Shares:

- You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name;
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** by submitting applications online through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). Use the **White Form eIPO** if you want the Hong Kong Offer Shares to be issued in your own name;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

You may only apply through one of the above four ways. You may not apply both on a **WHITE** or **YELLOW** application form and give electronic application instructions to HKSCC or to the designated White Form eIPO Service Provider through White Form eIPO services ([www.eipo.com.hk](http://www.eipo.com.hk)).

### 3. WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **WHITE** Application Form and a Prospectus from:

Any of the following addresses of the Hong Kong Underwriters:

China International Capital Corporation  
Hong Kong Securities Limited  
29th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

BOCI Asia Limited  
26th Floor, Bank of China Tower  
1 Garden Road  
Central, Hong Kong

ICBC International Securities Limited  
37/F, ICBC Tower  
3 Garden Road, Hong Kong

Merrill Lynch Far East Limited  
15/F, Citibank Tower  
3 Garden Road  
Central, Hong Kong

Credit Suisse (Hong Kong) Limited  
Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

UBS AG, Hong Kong Branch  
52nd Floor, Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

BNP Paribas Capital (Asia Pacific) Limited  
59/F, Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

China Merchants Securities (HK) Co., Limited  
48th Floor, One Exchange Square  
Central, Hong Kong

Macquarie Capital Securities Limited  
18th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

or any of the following branches of:

(a) Bank of China (Hong Kong) Limited

|                         | <u>Branch Name</u>                 | <u>Address</u>                                                |
|-------------------------|------------------------------------|---------------------------------------------------------------|
| <b>Hong Kong Island</b> | Bank of China Tower Branch         | 3/F, 1 Garden Road                                            |
|                         | Chai Wan Branch                    | Block B, Walton Estate,<br>341-343 Chai Wan Road,<br>Chai Wan |
| <b>Kowloon</b>          | Humphrey's Avenue Branch           | 4-4A Humphrey's Avenue,<br>Tsim Sha Tsui                      |
|                         | Wong Tai Sin Branch                | Shop G13, Wong Tai Sin Plaza,<br>Wong Tai Sin                 |
|                         | Mei Foo Mount Sterling Mall Branch | Shop N47-49 Mount Sterling Mall,<br>Mei Foo Sun Chuen         |
| <b>New Territories</b>  | Tai Po Branch                      | 68-70 Po Heung Street, Tai Po Market                          |

(b) Bank of Communications Co., Ltd. Hong Kong Branch

|                         | <u>Branch Name</u>              | <u>Address</u>                                                                            |
|-------------------------|---------------------------------|-------------------------------------------------------------------------------------------|
| <b>Hong Kong Island</b> | Wanchai Sub-Branch              | G/F., 32-34 Johnston Road                                                                 |
|                         | Taikoo Shing Sub-Branch         | Shop 38, G/F., CityPlaza 2,<br>18 Taikoo Shing Road                                       |
| <b>Kowloon</b>          | Cheung Sha Wan Plaza Sub-Branch | Unit G04, Cheung Sha Wan Plaza,<br>833 Cheung Sha Wan Road                                |
| <b>New Territories</b>  | Tsuen Wan Sub-Branch            | G/F., Shop G9B-G11,<br>Pacific Commercial Plaza,<br>Bo Shek Mansion,<br>328 Sha Tsui Road |
|                         | Tuen Mun Sub-Branch             | Shop 7-8, G/F.,<br>Castle Peak Lin Won Building,<br>2-4 Yan Ching Street                  |
|                         | Sheung Shui Sub-Branch          | Shops 10-14, G/F.,<br>Sheung Shui Centre Shopping Arcade                                  |

(c) Wing Lung Bank Limited

|                         | <u>Branch Name</u>  | <u>Address</u>                                |
|-------------------------|---------------------|-----------------------------------------------|
| <b>Hong Kong Island</b> | Head Office         | 45 Des Voeux Road Central                     |
|                         | North Point Branch  | 361 King's Road                               |
|                         | Kennedy Town Branch | 28 Catchick Street                            |
| <b>Kowloon</b>          | Mongkok Branch      | B/F Wing Lung Bank Centre,<br>636 Nathan Road |
|                         | San Po Kong Branch  | 8 Shung Ling Street                           |
|                         | To Kwa Wan Branch   | 64 To Kwa Wan Road                            |

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Prospectus and **WHITE** Application Form will be available for collection at the above places during the following times:

Friday, June 29, 2012 — 9:00 a.m. to 5:00 p.m.

Saturday, June 30, 2012 — 9:00 a.m. to 1:00 p.m.

Tuesday, July 3, 2012 — 9:00 a.m. to 5:00 p.m.

Wednesday, July 4, 2012 — 9:00 a.m. to 5:00 p.m.

Thursday, July 5, 2012 — 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Friday, June 29, 2012 until 12:00 noon on Thursday, July 5, 2012, from the **Depository Counter of HKSCC** at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have Application Forms and this Prospectus available.

### 4. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain an Application Form as described in “— 3. Where to Collect the Prospectus and Application Forms.”
- (b) Complete the Application Form in English using blue or black ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address given on the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the special collection boxes by the time and at one of the locations as described in “— 7. When May Applications be Made — (a) Applications on **WHITE** or **YELLOW** Application Forms” below.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
  - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
  - the form must contain your NAME and Hong Kong I.D. Card number;
  - your participant I.D. must be inserted in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
  - the form must contain all joint CCASS Investor Participants’ NAMES and the Hong Kong I.D. Card number of all joint CCASS Investor Participants;
  - your participant I.D. must be inserted in the appropriate box.

- If you are applying as a corporate CCASS Investor Participant:
  - the form must contain your company NAME and Hong Kong Business Registration number;
  - your participant I.D. and your company chop (bearing your company name) must be inserted in the appropriate box.

Signature(s), number of signatures and form of company chop, where appropriate, should match the records kept by HKSCC. Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or the omission or inadequacy of authorized signatory/(ies) (if applicable) or other similar matters may render your application invalid.

## **5. HOW TO APPLY THROUGH WHITE FORM eIPO**

- (a) If you are an individual and meet the criteria set out in “— 1. Who Can Apply for the Hong Kong Offer Shares,” you may apply through **White Form eIPO** by submitting an application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). If you apply through **White Form eIPO**, the Hong Kong Offer Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) If you give **electronic application instructions** to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk), you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (d) In addition to the terms and conditions set out in this Prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (e) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our H Share Registrar.
- (f) You may submit an application through the **White Form eIPO** service in respect of a minimum of 100 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).
- (g) You should give electronic application instructions through **White Form eIPO** at the times set out in “—7. When May Applications be Made — (b) Electronic Application Instructions to White Form eIPO Service Provider via White Form eIPO Service.”
- (h) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, July 5, 2012, or such later time as described under “— 7. When May Applications be Made — (e) Effects of Bad Weather Conditions on the Opening of the Application Lists,” the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).
- (i) Once you have completed payment in respect of any **electric application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the

avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

- (j) Warning: The application for HongKong Public Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. **Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

## Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-served and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “INNER MONGOLIA YITAI COAL CO., LTD.” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of the “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** or **YELLOW** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS.

## Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Otherwise, any monies payable to you due to a refund for any of the reasons set out in the section headed “Further Terms and Conditions of the Hong Kong Public Offering — 8. Refund of Application Monies” shall be made pursuant to the arrangements described below in the section headed “— 8. How Many Applications may be Made.”

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

### (a) General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).



HKSCC can also input electronic application instructions for you if you go to:

HKSCC's Customer Service Counter  
2/F., Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong  
and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our H Share Registrar.

#### **(b) Minimum Subscription Amount and Permitted Numbers**

You may give **electronic application instructions** in respect of a minimum of 100 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.

#### **(c) Warning**

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their electronic application instructions. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their electronic application instructions, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form or make an application by **White Form eIPO**; or
- (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, July 5, 2012, or such later time as described under "— 7. When May Applications be Made — (e) Effects of Bad Weather Conditions on the Opening of the Application Lists."

### **7. WHEN MAY APPLICATIONS BE MADE**

#### **(a) Applications on WHITE or YELLOW Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be lodged in one of the special collection boxes at any of the branches of the receiving bankers listed under "— 3. Where to Collect the Prospectus and Application Forms" at the following times:

Friday, June 29, 2012 — 9:00 a.m. to 5:00 p.m.

Saturday, June 30, 2012 — 9:00 a.m. to 1:00 p.m.

Tuesday, July 3, 2012 — 9:00 a.m. to 5:00 p.m.

Wednesday, July 4, 2012 — 9:00 a.m. to 5:00 p.m.

Thursday, July 5, 2012 — 9:00 a.m. to 12:00 noon

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by **12:00 noon on Thursday, July 5, 2012**, or, if the application lists are not open on that day, then by the time and date stated in “— (e) Effects of Bad Weather Conditions on the Opening of the Application Lists.”

**(b) Electronic Application Instructions to White Form eIPO Service Provider via White Form eIPO Service**

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Friday, June 29, 2012 until 11:30 a.m. on Thursday, July 5, 2012 or such later time as described under “— (e) Effects of Bad Weather Conditions on the Opening of the Application Lists” (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, July 5, 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “— (e) Effects of Bad Weather Conditions on the Opening of the Application Lists.”

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

**(c) Electronic Application Instructions to HKSCC via CCASS**

CCASS Clearing/Custodian Participants should input electronic application instructions at the following times on the following dates:

**Friday, June 29, 2012 — 9:00 a.m. to 8:30 p.m.**<sup>(Note 1)</sup>

**Saturday, June 30, 2012 — 8:00 a.m. to 1:00 p.m.**<sup>(Note 1)</sup>

**Tuesday, July 3, 2012 — 8:00 a.m. to 8:30 p.m.**<sup>(Note 1)</sup>

**Wednesday, July 4, 2012 — 8:00 a.m. to 8:30 p.m.**<sup>(Note 1)</sup>

**Thursday, July 5, 2012 — 8:00 a.m.**<sup>(Note 1)</sup> **to 12:00 noon**

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants or CCASS Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Friday, June 29, 2012 until 12:00 noon on Thursday, July 5, 2012 (24 hours daily, except the last application day).

The latest time for inputting electronic application instructions will be 12:00 noon on Thursday, July 5, 2012, the last application day, or if the application lists are not open on that day, by the time and date stated in “— (e) Effects of Bad Weather Conditions on the Opening of the Application Lists.”

**(d) Application Lists**

The application lists will be open between 11:45 a.m. and 12:00 noon on Thursday, July 5, 2012, subject only to the weather conditions as provided in “—(e) Effects of Bad Weather Conditions on the Opening of the Application Lists.”

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

### (e) Effects of Bad Weather Conditions on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number eight or above, or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 5, 2012. Instead the last application day will be postponed and the application lists will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon. For this purpose, “Business Day” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

## 8. HOW MANY APPLICATIONS MAY BE MADE

Multiple applications or suspect multiple applications are liable to be rejected.

**You may make more than one application for the HongKong Public Offer Shares if and only if you are a nominee**, in which case you may make an application as a nominee by (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant) or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)) or; (ii) using a **WHITE** or **YELLOW** Application Form, and lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code.

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

**Otherwise, multiple applications are not allowed.**

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

For further information, see “Further Terms and Conditions of the Hong Kong Public Offering — 5. Multiple Applications.”

## 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$53.00 per H Share. You must also pay a brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 100 H Shares you will pay HK\$5,353.43. The Application Forms have tables showing the exact amount payable for certain numbers of H Shares up to 8,133,500 H Shares.

The Offer Price is expected to be determined on or before Friday, July 6, 2012, and announced in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Wednesday, July 11, 2012. If the Offer Price as finally determined is less than HK\$53.00 per H Share, appropriate refund payments (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refunds are set out below in “— 11. Dispatch/Collection of H Share Certificates and Refunds of Application Monies.”

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange (or the Hong Kong Stock Exchange, as the case may be), the Hong Kong Stock Exchange trading fee is paid to the Hong Kong Stock Exchange, and the SFC transaction levy is paid to the SFC.

## 10. RESULTS OF ALLOCATIONS

Results of allocations in the Hong Kong Public Offering, including the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offer, the basis of allotment of Hong Kong Offer Shares and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or the designated **White Form eIPO** Service Provider through the designated White Form eIPO website, will be made available in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Wednesday, July 11, 2012:

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offer will be made available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering can be found in our announcement to be posted on the website of our Company at [www.yitaicoal.com](http://www.yitaicoal.com) and on the website of the Hong Kong Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) on Wednesday, July 11, 2012;
- Results of allocations will be made available from our Hong Kong Public Offering website at [www.iporesults.com.hk](http://www.iporesults.com.hk) on a 24-hour basis from 8:00 a.m. on Wednesday, July 11, 2012 to 12:00 midnight on Tuesday, July 17, 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be made available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, July 11, 2012 to Saturday, July 14, 2012;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, July 11, 2012 to Friday, July 13, 2012 at all the receiving bank branches and sub-branches at the addresses set out in “— 3. Where to Collect the Prospectus and Application Forms.”

## 11. DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

e-Refund payment instructions/refund cheques for surplus application monies (if any) under **WHITE** or **YELLOW** Application Forms or **White Form eIPO** and H Share certificates for successful applicants under **WHITE** Application Forms and **White Form eIPO** are expected to be despatched and/or available for collection (as the case may be) on or around Wednesday, July 11, 2012.

H Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, July 12, 2012 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in “Underwriting — Hong Kong Public Offering — Grounds for Termination” has not been exercised.

For further information on arrangements for the dispatch/collection of H Share certificates and refunds of application monies, see “Further Terms and Conditions of the Hong Kong Public Offering — 7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part)” and “Further Terms and Conditions of the Hong Kong Public Offering — 8. Refund of Application Monies.”

## **12. COMMENCEMENT OF DEALINGS IN THE H SHARES**

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on July 12, 2012.

The H Shares will be traded in board lots of 100 H Shares each. The stock code of the H Shares is 3948.

## **13. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

Necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

## **1. GENERAL**

- (a) If you apply for Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with our Company and the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you give electronic application instructions to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) If you give electronic application instructions to the White Form eIPO Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk), you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the White Form eIPO service.
- (d) In this section, references to “you,” “applicants,” joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees or the White Form eIPO Service Provider is applying for Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC or by submitting an application to the designated White Form eIPO Service Provider through the designated website for the White Form eIPO service.
- (e) Applicants should read this Prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC and/or the White Form eIPO Service Provider prior to making any application for Hong Kong Offer Shares.

## **2. Offer to Purchase the Hong Kong Offer Shares**

- (a) You offer to purchase from us at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this Prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form on or before Wednesday, July 11, 2012.

Details of the procedure for refunds relating to each of the Hong Kong Public Offering methods are contained below in “—7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part),” “—8. Refund of Application Monies” and “— 10. Additional Information for Applicants Applying by Giving Electronic Application Instructions to HKSCC.”

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Hong Kong Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

## **3. Acceptance of Your Offer**

- (a) The Hong Kong Offer Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Wednesday, July 11, 2012.



- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on Wednesday, July 11, 2012 in the manner described in “How to Apply for Hong Kong Offer Shares—10. Results of Allocations.”
- (c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering.”
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other rights you may have.

#### 4. Effect of Making any Application

- (a) By completing and submitting any Application Form you:
  - **instruct and authorize** our Company and/or the Joint Bookrunners (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our Articles of Association and otherwise to give effect to the arrangements described in this Prospectus and the relevant Application Form;
  - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by our Articles of Association;
  - **represent, warrant and undertake** that the H Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form and are not a United States person (as defined in Regulation S under the U.S. Securities Act);
  - **confirm** that you have received and/or read a copy of this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application, and will not rely on any other information or representation save as set out in any supplement to this Prospectus;
  - **confirm** that you understand entirely that our registered share capital comprises B Shares and H Shares and that holders of H Shares shall have the same right as holders of B Shares save as to the differences due to the listing rules requirements of the stock exchange where the Shares are listed;
  - **agree** (without prejudice to any other rights which you may have) that, once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
  - (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk));
  - (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
  - (if you are an agent for another person) **warrant** that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)), and that you are duly authorized to sign the Application Form or to **give electronic application instructions** as that other person’s agent;

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- **undertake** and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Offer Shares in the International Offering, nor otherwise participate in the International Offering;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the H Shares applied for, or any lesser number allocated to you under the application;
- **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any H Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the application by ordinary post at your own risk to the address stated on your application (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your application your wish to collect your refund cheque and H Share certificates (where applicable) in person);
- **authorize** our Company to despatch e-Refund payment instructions to your application payment account if you have completed payment of the **White Form eIPO** application monies from a single bank account; or authorize our Company to issue and despatch refund cheque(s) to the address given on the **White Form eIPO** application if you have completed payment of the application monies from multi-bank accounts;
- **understand** that these declarations and representations will be relied upon by our Company, the Joint Bookrunners and the Joint Lead Managers in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the Underwriters, nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus;
- **agree** with our Company and each shareholder of our Company, and our Company agrees with each of our shareholders, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- **agree** with our Company, and each shareholder, Director, Supervisor, the senior management of our Company, and our Company acting for itself and for each Director, Supervisor, and the senior management agrees with each shareholder of our Company to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- **agree** with our Company and each shareholder of our Company that the H Shares in our Company are freely transferable by the holder thereof;
- **authorize** our Company to enter into a contract on your behalf with each of the Directors, Supervisors and the senior management of our Company whereby each such Director, Supervisor and member of senior management undertakes to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- **agree** that our Company, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of their respective directors, senior management, employees, agents or advisors

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and any other parties involved in the Global Offering are liable only for, and that you have only relied upon, the information and representations contained in this Prospectus and any supplement to this Prospectus;

- **agree** to disclose to our Company, the H Share Registrar, the receiving bankers, the Joint Bookrunners, the Joint Lead Managers and their respective advisors and agents any personal data or other information which they require about you or the person(s) for whose benefit you have made the application; and
  - **confirm** that you agree to be bound by the terms and conditions in this Prospectus.
- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) **agree** that:
- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;
  - each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the first-named applicant) at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and, in such a case, to post the H Share certificates for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
  - each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
  - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this Prospectus and the Application Form; and
  - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
  - instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the offer price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account;
  - instruct and authorize HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.
  - (where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Hong Kong Offer Shares) (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus; (ii) in addition to the confirmations and agreements set out in paragraph (a) above, you have instructed and authorized

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HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:

- **agree** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted electronic application instructions on your behalf or your CCASS Investor Participant stock account;
- **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given electronic application instructions or any lesser number;
- (if the electronic application instructions are given for your own benefit) **declare** that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) **declare** that you have only given one set of electronic application instructions for the benefit of that other person and that you are duly authorized to give those instructions as that other person's agent;
- **understand** that the above declaration will be relied upon by our Company, the Directors and the Joint Bookrunners in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the electronic application instructions given by you and that you may be prosecuted if you make a false declaration;
- **authorize** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of your electronic application instructions and to send H Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
- **confirm** that you have only relied on the information and representations in this Prospectus in giving your electronic application instructions or instructing your broker or custodian to give electronic application instructions on your behalf;
- **agree** (without prejudice to any other rights which you may have) that, once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on your behalf pursuant to the electronic application instructions given by you is irrevocable before Sunday, July 29, 2012, such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before July 5, 2012, except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to Hong Kong Offer Shares;
- **agree** with our Company, for itself and for the benefit of each of the shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the

application by HKSCC Nominees to have agreed, for itself and on behalf of each of the shareholders of our Company, with each CCASS Participant giving electronic application instructions) to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

- **agree** with our Company, for itself and for the benefit of each of the shareholders of our Company and each Director, Supervisor, member of senior management (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the shareholders of our Company and each Director, Supervisor, member of senior management, with each CCASS Participant giving electronic application instructions):
    - (i) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the Articles of Association; and
    - (ii) that any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive; and
  - **agree** that the section of the application form headed “Personal Data” applies to any personal data held by our Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.
  - **agree** with our Company, for itself and for the benefit of each of the shareholders of our Company) that H shares in our Company are freely transferable by their holders; and
  - **authorize** our Company to enter into a contract on its behalf with each of the Directors and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.
- (d) Our Company, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, the White Form eIPO Service Provider and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.
- (e) All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

## 5. Multiple Applications

- (a) It will be a term and condition of all applications that by completing and delivering an Application Form or giving electronic application instructions, you:
- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the White Form eIPO service ([www.eipo.com.hk](http://www.eipo.com.hk));
  - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated White Form eIPO Service Provider through the White Form eIPO service ([www.eipo.com.hk](http://www.eipo.com.hk)), and that you are duly authorized to sign the Application Form as that other person’s agent.

- (b) Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:
- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk));
  - both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk));
  - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** ([www.eipo.com.hk](http://www.eipo.com.hk)), for more than 8,133,500 H Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in "Structure of the Global Offering — The Hong Kong Public Offering;" or
  - have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Offering.
- (c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and
- the principal business of that company is dealing in securities; and
  - you exercise statutory control over that company,

then the application will be treated as being for your benefit.

**Unlisted company** means a company with no equity securities listed on the Hong Kong Stock Exchange.

**Statutory control** means you:

- control the composition of the board of directors of our Company; or
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our Company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## **6. Circumstances in which you will not be Allotted Hong Kong Offer Shares**

You should note the following situations in which Hong Kong Offer Shares will not be allotted to you or your application is liable to be rejected:

- (a) If your application is revoked:

By completing and submitting an Application Form or electronic application instructions to HKSCC or to the designated White Form eIPO Service Provider through the White Form eIPO service ([www.eipo.com.hk](http://www.eipo.com.hk)) you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before Sunday, July 29, 2012. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the designated White Form eIPO Service Provider. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before July 5, 2012 except by means of one of the procedures referred to in this Prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked on or before Sunday, July 29, 2012 if a person responsible for this Prospectus under section 40 of the Hong



Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If any supplement to this Prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this Prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- (b) If our Company, the Joint Bookrunners or the White Form eIPO Service Provider (where applicable) or their respective agents exercise their discretion to reject your application: We and the Joint Bookrunners (as agent for our Company) and the White Form eIPO Service Provider, or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

- (c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give electronic application instructions or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

- (d) In the following circumstances:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you apply have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Offering. By filling in any of the Application Forms or giving electronic instructions to HKSCC or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)), you agree not to apply for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Offering;
- you apply for more than 8,133,500 Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed correctly and in accordance with the instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
- either of the Hong Kong Underwriting Agreement or the International Underwriting Agreement does not become unconditional;

## FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- either of the Hong Kong Underwriting Agreement or the International Underwriting Agreement is terminated in accordance with their respective terms; or
- our Company or the Joint Bookrunners believe that, by accepting your application, they would violate applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed or signed.

### 7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part)

No temporary document of title will be issued in respect of the H Shares.

No receipt will be issued for sums paid on application.

You will receive one H share certificate for all of the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on YELLOW Application Forms or by electronic application instructions to HKSCC via CCASS, in which case H share certificates will be deposited in CCASS).

H Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, July 12, 2012 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in "Underwriting —Hong Kong Public Offering — Grounds for Termination" has not been exercised.

#### (a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your H Share certificate(s) and/or refund cheque (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect it/them in person from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, July 11, 2012 or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to H Share Registrar, Computershare Hong Kong Investor Services Limited.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) and/or H Share certificate(s) (where applicable) in person, your refund cheque(s) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, July 11, 2012, by ordinary post and at your own risk.

#### (b) If you apply using a YELLOW Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, July 11, 2012, or in the event of a contingency, on any other date as shall be determined by HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Wednesday, July 11, 2012 in the manner described in "How to Apply for the Hong Kong Offer Shares—10. Results of Allocations." You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, July 11, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same procedure, as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Wednesday, July 11, 2012, by ordinary post and at your own risk.

(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) and your application is wholly or partially successful, you may collect your H Share certificate(s) in person from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, July 11, 2012, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) on Wednesday, July 11, 2012 by ordinary post and at your own risk.

If you paid the application monies from a single bank account and your application is wholly or partially unsuccessful and/or the Offer Price being different from the initial price paid on your application, e-Refund payment instructions (if any) will be despatched to your application payment account on or around Wednesday, July 11, 2012.

If you used multi-bank accounts to pay the application monies and your application is wholly or partially unsuccessful and/or the Offer Price being different from the initial price paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on or around Wednesday, July 11, 2012, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in "—9. Additional Information for Applicants Applying through **White Form eIPO**."

## 8. REFUND OF APPLICATION MONIES

Your application monies, or the appropriate portion thereof, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be refunded if:

- your application is rejected, not accepted or accepted in part only or if you do not receive any Hong Kong Offer Shares for any of the reasons set out above in “— 6. Circumstances in Which You will not be Allotted Hong Kong Offer Shares;”
- the Offer Price as finally determined is less than the Offer Price of HK\$53.00 per H Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application;
- the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering;”
- any application is revoked or any allotment pursuant thereto has become void.

No interest will be paid thereon. All interest accrued on such monies prior to the date of refund will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Bookrunners, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful and reserved applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, July 11, 2012 in accordance with the various arrangements as described above. Refund cheques will be crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first-named applicant. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate your refund cheque. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

## 9. Additional Information for Applicants Applying Through White Form eIPO

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Otherwise, any monies payable to you due to a refund for any of the reasons set out in “—8. Refund of Application Monies” shall be made pursuant to the arrangements described in “—7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part)—(c) If you apply through White Form eIPO.”

## 10. Additional Information for Applicants Applying by Giving Electronic Application Instructions to HKSCC

### (a) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

(b) Deposit of H Share Certificates into CCASS and Refund of Application Monies

- No temporary document of title will be issued. No receipt will be issued for sums on paid application.
- If your application is wholly or partially successful, your H share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant stock account on Wednesday, July 11, 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering on Wednesday, July 11, 2012 in the manner described in “How to Apply for the Hong Kong Offer Shares — 10. Results of Allocations.” You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, July 11, 2012 or any other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, July 11, 2012. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or the difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, July 11, 2012. No interest will be paid thereon.

## **11. Personal Data**

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on December 20, 1996. This Personal Information Collection Statement informs the applicant for and holder of the H Shares of the policies and practices of our Company and the H Share Registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the H Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the registrars.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of H Share Certificate(s), and/or the despatch of e-Refund payment instructions/refund cheque(s) to which you are entitled.

It is important that holders of securities inform our Company and the H Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Refund payment instructions/refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this Prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registrars of holders of securities of our Company;
- conducting or assisting in the conduct of signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and the H Share Registrar to discharge our Company's obligations to holders of securities and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by our Company and the H Share Registrar relating to the applicants and the holders of securities will be kept confidential, but our Company and the H Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and, in particular, they may disclose, obtain and/or transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or its respective appointed agents such as financial advisors, receiving bankers and oversea principal registrars;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or the H Share Registrar in connection with the operation of their business;
- the Hong Kong Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.



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|---------------------------------------------------------------|
| FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING |
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By signing an Application Form or by giving electronic application instructions to HKSCC or to the designated White Form eIPO Service Provider via **White Form eIPO** service, you agree to all of the above.

(d) Access to and correction of personal data

The Ordinance provides the holders of securities with rights to ascertain whether our Company or the H Share Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Ordinance, our Company and the H Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our Company's registered address disclosed in the "Corporate Information" section in this Prospectus or as notified from time to time in accordance with applicable law, for the attention of our company secretary, or the H Share Registrar for the attention of the privacy compliance officer.



22nd Floor CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

29 June 2012

The Directors  
Inner Mongolia Yitai Coal Company Limited  
China International Capital Corporation Hong Kong Securities Limited  
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Inner Mongolia Yitai Coal Company Limited (內蒙古伊泰煤炭股份有限公司, the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2009, 2010 and 2011 (the "Relevant Periods"), prepared on the basis set out in note 2.1, for inclusion in the Prospectus of the Company dated 29 June 2012 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company was incorporated on 23 September 1997 in Inner Mongolia with limited liability under the Company Law of the People's Republic of China (the "PRC"). All companies now comprising the Group have adopted 31 December as their financial year end for financial reporting purposes. The financial statements of these companies were prepared in accordance with the relevant accounting principles and financial regulations in the PRC applicable to these companies and all of which were not audited by us. Particulars of the Company and its subsidiaries, jointly-controlled entity and associates are set out in note 1 below.

The Directors of the Company (the "Directors") have prepared the consolidated financial statements which include the consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of the Group for the Relevant Periods, and the consolidated statements of financial position of the Group and the statements of financial position of the Company as of 31 December 2009, 2010 and 2011, and a summary of significant accounting policies and other explanatory information, in accordance with the relevant accounting principles and financial regulations in the PRC (the "PRC Financial Statements"), for which the Directors are solely responsible. The PRC Financial Statements have been audited by Da Hua Certified Public Accountants (大華會計師事務所, "Dahua"), a certified public accounting firm registered in the PRC.

The financial information set out in this report, including the consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of the Group for the Relevant Periods, and the consolidated statements of financial position of the Group and the statements of financial position of the Company as of 31 December 2009, 2010 and 2011, and a summary of significant accounting policies and other explanatory information, (collectively referred to as the "Financial Information") has been prepared, based on the PRC Financial Statements after making such adjustments as appropriate to comply with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB").

The Directors are responsible for the preparation of the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

It is our responsibility to form an independent opinion, based on our examination, of the Financial Information and to report our opinion thereon. For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong

Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, for the purpose of this report, the Financial Information during the Relevant Periods gives a true and fair view of the consolidated results and cash flows of the Group for each of the years ended 31 December 2009, 2010 and 2011 and of the state of affairs of the Company and of the Group as of 31 December 2009, 2010 and 2011 in accordance with IFRSs.

*Consolidated statements of comprehensive income*

|                                                                                       | Notes | Year ended 31 December |                  |                  |
|---------------------------------------------------------------------------------------|-------|------------------------|------------------|------------------|
|                                                                                       |       | 2009                   | 2010             | 2011             |
|                                                                                       |       | RMB '000               | RMB '000         | RMB '000         |
| REVENUE .....                                                                         | 6     | 10,252,164             | 13,853,824       | 16,515,775       |
| Cost of sales .....                                                                   |       | (5,235,013)            | (5,998,736)      | (8,100,906)      |
| Gross profit .....                                                                    |       | 5,017,151              | 7,855,088        | 8,414,869        |
| Other income .....                                                                    | 6     | 132,032                | 152,180          | 349,929          |
| Selling and distribution costs .....                                                  |       | (627,316)              | (705,181)        | (717,676)        |
| Administrative expenses .....                                                         |       | (524,926)              | (790,163)        | (1,009,022)      |
| Other expenses .....                                                                  |       | (65,319)               | (99,911)         | (64,376)         |
| Finance income .....                                                                  | 7     | 36,309                 | 25,540           | 34,090           |
| Finance costs .....                                                                   | 8     | (279,646)              | (171,853)        | (285,327)        |
| Exchange gains, net .....                                                             |       | 25,187                 | 6,813            | 17,740           |
| Share of losses of a jointly controlled entity .....                                  |       | (312)                  | (23)             | —                |
| Share of profits of associates .....                                                  |       | 558                    | 2,599            | 19,799           |
| PROFIT BEFORE TAX .....                                                               | 9     | 3,713,718              | 6,275,089        | 6,760,026        |
| Income tax expense .....                                                              | 11    | (565,330)              | (959,085)        | (1,010,762)      |
| PROFIT FOR THE YEAR .....                                                             |       | <u>3,148,388</u>       | <u>5,316,004</u> | <u>5,749,264</u> |
| Other comprehensive income .....                                                      |       | —                      | —                | —                |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR .....                                         |       | <u>3,148,388</u>       | <u>5,316,004</u> | <u>5,749,264</u> |
| Profit and total comprehensive income attributable to:                                |       |                        |                  |                  |
| Owners of the company .....                                                           | 13    | 3,042,888              | 5,014,647        | 5,463,964        |
| Non-controlling interests .....                                                       |       | 105,500                | 301,357          | 285,300          |
|                                                                                       |       | <u>3,148,388</u>       | <u>5,316,004</u> | <u>5,749,264</u> |
| Basic earnings per share attributable to ordinary equity holders of the Company (RMB) |       |                        |                  |                  |
| —For profit for the year .....                                                        | 13    | <u>2.08</u>            | <u>3.43</u>      | <u>3.73</u>      |

*Consolidated statements of financial position*

|                                              |       | As of 31 December |             |             |
|----------------------------------------------|-------|-------------------|-------------|-------------|
|                                              | Notes | 2009              | 2010        | 2011        |
|                                              |       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| NON-CURRENT ASSETS                           |       |                   |             |             |
| Property, plant and equipment                | 15    | 15,623,305        | 17,698,215  | 20,371,039  |
| Investment properties                        | 14    | 38,004            | 36,068      | 33,725      |
| Prepaid land lease payments                  | 16    | 158,349           | 228,628     | 265,806     |
| Mining rights                                | 17    | 235,306           | 226,435     | 218,130     |
| Other Intangible assets                      | 18    | 19,142            | 16,861      | 17,467      |
| Investments in a jointly-controlled entity   | 21    | 4,942             | 4,918       | —           |
| Investments in associates                    | 22    | 200,782           | 279,636     | 353,026     |
| Available-for-sale investments               | 23    | 1,338,839         | 2,108,132   | 2,870,590   |
| Other non-current assets                     | 19    | 20,460            | 18,025      | 17,597      |
| Deferred tax assets                          | 24    | 47,417            | 27,398      | 101,317     |
| Total non-current assets                     |       | 17,686,546        | 20,644,316  | 24,248,697  |
| CURRENT ASSETS                               |       |                   |             |             |
| Inventories                                  | 25    | 316,368           | 460,117     | 676,716     |
| Trade and bills receivables                  | 26    | 668,527           | 573,247     | 751,430     |
| Prepayments, deposits and other receivables  | 27    | 659,948           | 454,043     | 835,994     |
| Restricted cash                              | 28    | 15,039            | 27,124      | 20,305      |
| Cash and short-term deposits                 | 28    | 3,275,435         | 3,715,161   | 3,535,470   |
| Total current assets                         |       | 4,935,317         | 5,229,692   | 5,819,915   |
| CURRENT LIABILITIES                          |       |                   |             |             |
| Trade and bills payables                     | 29    | 269,855           | 279,434     | 543,485     |
| Other payables and accruals                  | 30    | 2,147,287         | 1,946,256   | 1,886,382   |
| Interest-bearing loans and borrowings        | 31    | 1,752,622         | 918,596     | 2,206,190   |
| Income tax payable                           |       | 236,615           | 320,825     | 161,345     |
| Total current liabilities                    |       | 4,406,379         | 3,465,111   | 4,797,402   |
| NET CURRENT ASSETS                           |       | 528,938           | 1,764,581   | 1,022,513   |
| TOTAL ASSETS LESS CURRENT LIABILITIES        |       | 18,215,484        | 22,408,897  | 25,271,210  |
| NON-CURRENT LIABILITIES                      |       |                   |             |             |
| Interest-bearing loans and borrowings        | 31    | 7,367,786         | 7,011,811   | 6,100,594   |
| Other non-current liabilities                |       | 96,144            | 100,570     | 387,236     |
| Total non-current liabilities                |       | 7,463,930         | 7,112,381   | 6,487,830   |
| NET ASSETS                                   |       | 10,751,554        | 15,296,516  | 18,783,380  |
| EQUITY                                       |       |                   |             |             |
| Issued capital                               | 32    | 732,000           | 1,464,000   | 1,464,000   |
| Reserves                                     |       | 8,042,584         | 10,085,474  | 13,355,636  |
| Proposed final dividends                     | 12    | 732,000           | 2,196,000   | 2,196,000   |
| Equity attributable to owners of the company |       | 9,506,584         | 13,745,474  | 17,015,636  |
| Non-controlling interests                    |       | 1,244,970         | 1,551,042   | 1,767,744   |
| Total Equity                                 |       | 10,751,554        | 15,296,516  | 18,783,380  |

*Consolidated statements of changes in equity*

|                                                                | Attributable to owners of the company |                  |                            |                              |                    |                                    | Non-controlling interests | Total      | Total equity |
|----------------------------------------------------------------|---------------------------------------|------------------|----------------------------|------------------------------|--------------------|------------------------------------|---------------------------|------------|--------------|
|                                                                | Issued capital                        | Capital Reserve* | Statutory Surplus reserve* | Safety and maintenance fund* | Retained earnings* | Proposed final dividends (note 12) |                           |            |              |
|                                                                | RMB '000                              | RMB '000         | RMB '000                   | RMB '000                     | RMB '000           | RMB '000                           | RMB '000                  | RMB '000   | RMB '000     |
| At 1 January 2009 .....                                        | 732,000                               | 792,764*         | 705,899*                   | 342,930*                     | 3,322,651*         | 732,000                            | 817,490                   | 6,628,244  | 7,445,734    |
| Total comprehensive income for the year .....                  | —                                     | —                | —                          | —                            | 3,042,888          | —                                  | 105,500                   | 3,042,888  | 3,148,388    |
| Disposal of non-controlling interests .....                    | —                                     | 568,505          | —                          | —                            | —                  | —                                  | 244,091                   | 568,505    | 812,596      |
| Capital contributions from non- controlling shareholders ..... | —                                     | —                | —                          | —                            | —                  | —                                  | 76,690                    | —          | 76,690       |
| Transfer from retained earnings .....                          | —                                     | —                | 342,556                    | —                            | (342,556)          | —                                  | —                         | —          | —            |
| Appropriation to safety and maintenance fund ..                | —                                     | —                | —                          | (342,930)                    | 342,930            | —                                  | —                         | —          | —            |
| Proposed 2009 final dividends .....                            | —                                     | —                | —                          | —                            | (732,000)          | 732,000                            | —                         | —          | —            |
| 2008 final dividends declared .....                            | —                                     | —                | —                          | —                            | —                  | (732,000)                          | —                         | (732,000)  | (732,000)    |
| Others .....                                                   | —                                     | (1,053)          | —                          | —                            | —                  | —                                  | 1,199                     | (1,053)    | 146          |
| At 31 December 2009 and 1 January 2010 .....                   | 732,000                               | 1,360,216*       | 1,048,455*                 | —*                           | 5,633,913*         | 732,000                            | 1,244,970                 | 9,506,584  | 10,751,554   |
| Profit for the year .....                                      | —                                     | —                | —                          | —                            | 5,014,647          | —                                  | 301,357                   | 5,014,647  | 5,316,004    |
| Acquisition of non-controlling interests .....                 | —                                     | (43,757)         | —                          | —                            | —                  | —                                  | (64,993)                  | (43,757)   | (108,750)    |
| 2009 final dividends conversion to share capital .....         | 732,000                               | —                | —                          | —                            | (732,000)          | —                                  | —                         | —          | —            |
| Capital contributions from non-controlling shareholders .....  | —                                     | —                | —                          | —                            | —                  | —                                  | 69,708                    | —          | 69,708       |
| Transfer from retained earnings .....                          | —                                     | —                | 460,794                    | —                            | (460,794)          | —                                  | —                         | —          | —            |
| Proposed 2010 final dividends .....                            | —                                     | —                | —                          | —                            | (2,196,000)        | 2,196,000                          | —                         | —          | —            |
| 2009 final dividends declared .....                            | —                                     | —                | —                          | —                            | —                  | (732,000)                          | —                         | (732,000)  | (732,000)    |
| At 31 December 2010 .....                                      | 1,464,000                             | 1,316,459*       | 1,509,249*                 | —*                           | 7,259,766*         | 2,196,000                          | 1,551,042                 | 13,745,474 | 15,296,516   |

\* These reserve accounts comprise the consolidated reserves of RMB8,042,584,000 as of 31 December 2009 and RMB10,085,474,000 as of 31 December 2010 in the consolidated statements of financial position.



*Consolidated statements of changes in equity (continued)*

|                                                               | Attributable to owners of the company |                  |                            |                              |                    |                                    | Non-controlling interests | Total equity |
|---------------------------------------------------------------|---------------------------------------|------------------|----------------------------|------------------------------|--------------------|------------------------------------|---------------------------|--------------|
|                                                               | Issued capital                        | Capital reserve* | Statutory surplus reserve* | Safety and maintenance fund* | Retained earnings* | Proposed final dividends (note 12) |                           |              |
|                                                               | RMB '000                              | RMB '000         | RMB '000                   | RMB '000                     | RMB '000           | RMB '000                           | RMB '000                  | RMB '000     |
| At 31 December 2010 and 1 January 2011 .....                  | 1,464,000                             | 1,316,459*       | 1,509,249*                 | —*                           | 7,259,766*         | 2,196,000                          | 1,551,042                 | 15,296,516   |
| Total comprehensive income for the year .....                 | —                                     | —                | —                          | —                            | 5,463,964          | —                                  | 285,300                   | 5,749,264    |
| Capital contributions from non-controlling shareholders ..... | —                                     | 2,740            | —                          | —                            | —                  | —                                  | 164,682                   | 167,422      |
| Appropriation to safety and maintenance fund .....            | —                                     | —                | —                          | 4,795                        | (4,795)            | —                                  | —                         | —            |
| Dividend paid to non-controlling interests .....              | —                                     | —                | —                          | —                            | —                  | —                                  | (233,280)                 | (233,280)    |
| Transfer from retained earnings .....                         | —                                     | —                | 513,587                    | —                            | (513,587)          | —                                  | —                         | —            |
| Proposed 2011 final dividends .....                           | —                                     | —                | —                          | —                            | (2,196,000)        | 2,196,000                          | —                         | —            |
| 2010 final dividends declared .....                           | —                                     | —                | —                          | —                            | —                  | (2,196,000)                        | —                         | (2,196,000)  |
| Others .....                                                  | —                                     | (542)            | —                          | —                            | —                  | —                                  | (542)                     | (542)        |
| At 31 December 2011 .....                                     | 1,464,000                             | 1,318,657*       | 2,022,836*                 | 4,795*                       | 10,009,348*        | 2,196,000                          | 1,767,744                 | 18,783,380   |

\* These reserve accounts comprise the consolidated reserves of RMB13,355,636,000 as of 31 December 2011 in the consolidated statements of financial position.

*Consolidated statements of cash flows*

|                                                                           |       | Year ended 31 December |           |             |
|---------------------------------------------------------------------------|-------|------------------------|-----------|-------------|
|                                                                           | Notes | 2009                   | 2010      | 2011        |
|                                                                           |       | RMB '000               | RMB '000  | RMB '000    |
| CASH FLOWS FROM OPERATING ACTIVITIES                                      |       |                        |           |             |
| Profit before tax                                                         |       | 3,713,718              | 6,275,089 | 6,760,026   |
| Adjustments for:                                                          |       |                        |           |             |
| Finance costs                                                             | 8     | 279,646                | 171,853   | 285,327     |
| Exchange gains                                                            |       | (25,187)               | (6,813)   | (17,740)    |
| Finance income                                                            | 7     | (36,309)               | (25,540)  | (34,090)    |
| Share of profits and losses of associates and a jointly-controlled entity |       | (246)                  | (2,576)   | (19,799)    |
| Depreciation of property, plant and equipment                             | 15    | 513,135                | 602,401   | 789,366     |
| Depreciation of investment properties                                     | 14    | 1,876                  | 2,312     | 2,343       |
| Amortisation of prepaid land lease payments                               | 16    | 14,645                 | 11,991    | 10,611      |
| Amortisation of mining rights                                             | 17    | 8,005                  | 8,871     | 8,305       |
| Amortisation of intangible assets                                         | 18    | 2,839                  | 2,835     | 4,599       |
| Amortisation of other non-current financial assets                        | 19    | 2,499                  | 3,191     | 3,672       |
| Impairment/(reversal of impairment) of trade and bills receivables        | 26    | (9,571)                | (6,303)   | (29,062)    |
| Impairment/(reversal of impairment) of other receivables                  | 27    | 26,866                 | (46,200)  | 2,136       |
| Reversal of Impairment of inventories                                     |       | —                      | —         | (55)        |
| Reversal of impairment of property, plant and equipment                   | 15    | (345)                  | —         | —           |
| Gain on disposal of property, plant and equipment, and intangible assets  |       | (9,281)                | (23,680)  | (7,794)     |
| Gain on disposal of unlisted investments                                  | 6     | (1,170)                | —         | (1,589)     |
| (Increase)/decrease in inventories                                        |       | 60,245                 | (143,749) | (216,544)   |
| Decrease in trade and bills receivables                                   |       | 153,703                | 101,583   | (149,121)   |
| (Increase)/decrease in prepayments, deposits and other receivables        |       | (25,540)               | 35,290    | (91,365)    |
| Increase/(decrease) in trade and bills payables                           |       | (135,747)              | 9,579     | 264,051     |
| Increase in other payables and accruals                                   |       | 4,219                  | 246,009   | 392,955     |
| Cash generated from operations                                            |       | 4,538,000              | 7,216,143 | 7,956,232   |
| Income taxes paid                                                         |       | (813,405)              | (854,856) | (1,244,162) |
| Net cash flows from operating activities                                  |       | 3,724,595              | 6,361,287 | 6,712,070   |

*Consolidated statements of cash flows (continued)*

|                                                                                                      |       | Year ended 31 December |                    |                    |
|------------------------------------------------------------------------------------------------------|-------|------------------------|--------------------|--------------------|
|                                                                                                      | Notes | 2009                   | 2010               | 2011               |
|                                                                                                      |       | RMB '000               | RMB '000           | RMB '000           |
| CASH FLOWS FROM INVESTING ACTIVITIES                                                                 |       |                        |                    |                    |
| Purchases of property, plant and equipment . . . . .                                                 |       | (3,971,434)            | (3,524,215)        | (4,027,573)        |
| Additions to prepaid land lease payments . . . . .                                                   | 16    | (58,669)               | (85,551)           | (54,416)           |
| Additions to intangible assets . . . . .                                                             | 18    | (118)                  | (554)              | (5,205)            |
| Additions to other non-current financial assets . . . . .                                            | 19    | —                      | (756)              | (3,244)            |
| Proceeds from disposals of items of property, plant and equipment and intangible assets . . . . .    |       | 98,431                 | 436,567            | 119,802            |
| Investments in a jointly- controlled entity, associates and available-for-sale investments . . . . . |       | (765,630)              | (848,893)          | (819,524)          |
| Interest received . . . . .                                                                          | 7     | 36,309                 | 25,540             | 34,090             |
| Proceeds from disposal of shares in subsidiaries, associates, a jointly-controlled entity . . . . .  |       | 937,558                | 213,193            | 9,940              |
| Decrease/(increase) in cash in restricted bank deposits . . . . .                                    | 28(a) | (15,039)               | (12,085)           | 6,819              |
| Movement in fixed deposits . . . . .                                                                 | 28    | (1,913)                | (3,401)            | (13,541)           |
| Dividends received from an associate . . . . .                                                       |       | —                      | 522                | —                  |
| Others . . . . .                                                                                     |       | (634)                  | (499)              | —                  |
| Net cash flows used in investing activities . . . . .                                                |       | <u>(3,741,139)</u>     | <u>(3,800,132)</u> | <u>(4,752,852)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES                                                                 |       |                        |                    |                    |
| Capital contribution from non- controlling shareholders . . . . .                                    |       | 76,690                 | 69,708             | 167,421            |
| Acquisition of non-controlling interests . . . . .                                                   | 34    | —                      | (108,750)          | (500)              |
| Proceeds from loans . . . . .                                                                        |       | 4,282,550              | 1,911,011          | 1,905,000          |
| Repayment of loans . . . . .                                                                         |       | (3,910,719)            | (3,091,619)        | (1,510,882)        |
| Interest paid . . . . .                                                                              |       | (335,229)              | (173,233)          | (284,208)          |
| Dividends paid to non-controlling interests . . . . .                                                |       | —                      | —                  | (233,280)          |
| Dividends paid . . . . .                                                                             |       | (732,000)              | (732,000)          | (2,196,000)        |
| Net cash flows from/(used in) financing activities . . . . .                                         |       | <u>(618,708)</u>       | <u>(2,124,883)</u> | <u>(2,152,449)</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .                                       |       |                        |                    |                    |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES, net . . . . .                                               |       | (635,252)              | 436,272            | (193,231)          |
| Cash and cash equivalents at beginning of year . . . . .                                             | 28    | <u>3,905,687</u>       | <u>3,270,435</u>   | <u>3,706,760</u>   |
| CASH AND CASH EQUIVALENTS AT END OF YEAR . . . . .                                                   | 28    | <u>3,270,435</u>       | <u>3,706,760</u>   | <u>3,513,529</u>   |

*Statements of financial position*

|                                             |       | As of 31 December |             |             |
|---------------------------------------------|-------|-------------------|-------------|-------------|
|                                             | Notes | 2009              | 2010        | 2011        |
|                                             |       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| NON-CURRENT ASSETS                          |       |                   |             |             |
| Property, plant and equipment               | 15    | 3,532,529         | 3,635,778   | 4,795,857   |
| Investment properties                       | 14    | 38,004            | 36,068      | 33,725      |
| Prepaid land lease payments                 | 16    | 95,543            | 88,704      | 137,448     |
| Mining rights                               | 17    | 79,602            | 72,161      | 66,610      |
| Intangible assets                           | 18    | 10,342            | 9,049       | 12,287      |
| Investments in subsidiaries                 | 20    | 3,913,071         | 4,315,840   | 5,117,704   |
| Investments in a jointly-controlled entity  | 21    | 6,400             | 6,377       | —           |
| Investments in associates                   | 22    | 185,790           | 217,643     | 242,109     |
| Available-for-sale investments              | 23    | 1,318,514         | 2,033,607   | 2,771,675   |
| Deferred tax assets                         | 24    | 35,437            | 9,425       | 3,426       |
| Total non-current assets                    |       | 9,215,232         | 10,424,652  | 13,180,841  |
| CURRENT ASSETS                              |       |                   |             |             |
| Inventories                                 | 25    | 319,057           | 437,864     | 541,598     |
| Trade and bills receivables                 | 26    | 590,078           | 510,542     | 669,445     |
| Prepayments, deposits and other receivables | 27    | 477,201           | 1,183,990   | 1,188,877   |
| Restricted cash                             | 28    | 11,842            | 8,658       | 17,076      |
| Cash and short-term deposits                | 28    | 1,865,385         | 2,176,065   | 2,272,541   |
| Total current assets                        |       | 3,263,563         | 4,317,119   | 4,689,537   |
| CURRENT LIABILITIES                         |       |                   |             |             |
| Trade and bills payables                    | 29    | 145,188           | 173,123     | 375,472     |
| Other payables and accruals                 | 30    | 837,412           | 931,498     | 1,151,126   |
| Interest-bearing loans and borrowings       | 31    | 834,950           | 20,000      | 80,000      |
| Income tax payable                          |       | 187,863           | 334,186     | 152,148     |
| Total current liabilities                   |       | 2,005,413         | 1,458,807   | 1,758,746   |
| NET CURRENT ASSETS                          |       | 1,258,150         | 2,858,312   | 2,930,791   |
| TOTAL ASSETS LESS CURRENT LIABILITIES       |       | 10,473,382        | 13,282,964  | 16,111,632  |
| NON-CURRENT LIABILITIES                     |       |                   |             |             |
| Interest bearing loans and borrowings       | 31    | 992,300           | 120,000     | 80,000      |
| Financial guarantee contract                | 20    | 288,745           | 127,205     | 88,945      |
| Other non-current liabilities               |       | 15,274            | 19,192      | 18,977      |
| Total non-current liabilities               |       | 1,296,319         | 266,397     | 187,922     |
| NET ASSETS                                  |       | 9,177,063         | 13,016,567  | 15,923,710  |
| EQUITY                                      |       |                   |             |             |
| Issued capital                              | 32    | 732,000           | 1,464,000   | 1,464,000   |
| Reserves                                    | 33    | 7,713,063         | 9,356,567   | 12,263,710  |
| Proposed final dividends                    | 12    | 732,000           | 2,196,000   | 2,196,000   |
| Total Equity                                |       | 9,177,063         | 13,016,567  | 15,923,710  |

## NOTES TO THE FINANCIAL INFORMATION

## 1. CORPORATE INFORMATION

The Company conducted initial public offering of domestic listed foreign shares (the "B shares") in the Shanghai Stock Exchange on 8 August 1997. Upon the completion of the B shares offering, the Company was incorporated as a joint stock company with limited liability on 23 September 1997, with a registered capital of RMB366,000,000, 54.64% of which was held by Inner Mongolia Yitai Group Co., Ltd. ("Yitai Group") and 45.36% of which was held by the public investors of the B shares. On 16 September 2007, the Company increased the issued share capital to RMB732,000,000 through the conversion of capital reserve and proposed dividends. On 5 May 2010, the Company increased the issued share capital to RMB1,464,000,000 through the conversion of proposed dividends.

The registered office of the Company is located at Yitai Building, Tianjiao North Road, Dongsheng District, Ordos City, Inner Mongolia, the PRC. The Group is principally engaged in the production and sale of coal, the provision of railway and road transportation services, the production and sale of coal-related chemical, and development, production and sales of traditional Chinese medicine.

In the opinion of the Directors, the parent company of the Company is Yitai Group and the ultimate holding company is Inner Mongolia Yitai Investment Co., Ltd., an enterprise incorporated in Inner Mongolia, the PRC, which equity interests are held via a trust agreement by 31 individuals, comprising the senior management members and key technicians of Yitai Group, on behalf of a group of employees of Yitai Group.

## Particulars of principal subsidiaries, jointly-controlled entity and associates

As of the date of this report, the Company had investments in the following principal subsidiaries, jointly-controlled entity and associates, all of which are private companies with limited liability, the particulars of which are set out below:

| Company name                                                                         | Notes | Place and date of incorporation/<br>operations | Nominal value of issued and fully paid-up capital | Percentage of equity interest attributable to the Company |       |       | Principal activities   |
|--------------------------------------------------------------------------------------|-------|------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|-------|-------|------------------------|
|                                                                                      |       |                                                |                                                   | 31 December                                               |       |       |                        |
|                                                                                      |       |                                                |                                                   | 2009                                                      | 2010  | 2011  |                        |
|                                                                                      |       |                                                | RMB'000                                           | %                                                         | %     | %     |                        |
| <b>Subsidiaries</b>                                                                  |       |                                                |                                                   |                                                           |       |       |                        |
| Inner Mongolia Yitai Zhundong Railway Co., Ltd.<br>(內蒙古伊泰准東鐵路有限責任公司) .....           | (1)   | Inner Mongolia, the PRC<br>5 October 1998      | 1,496,000                                         | 96.0                                                      | 100.0 | 100.0 | Railway transportation |
| Inner Mongolia Yitai Pharmaceutical Co., Ltd.<br>(內蒙古伊泰藥業有限責任公司) .....               | (1)   | Inner Mongolia, the PRC<br>20 May 1998         | 358,400                                           | 95.9                                                      | 95.9  | 100.0 | Pharmaceuticals        |
| Inner Mongolia Yitai Coal-to-oil Co., Ltd.<br>(內蒙古伊泰煤製油有限責任公司) .....                 | (1)   | Inner Mongolia, the PRC<br>17 March 2006       | 1,500,000                                         | 80.0                                                      | 80.0  | 80.0  | Coal-to-oil production |
| Inner Mongolia Yitai Jingyue Suancang Mining Co., Ltd.<br>(內蒙古伊泰京粵酸刺溝礦業有限責任公司) ..... | (1)   | Inner Mongolia, the PRC<br>18 September 2007   | 1,080,000                                         | 52.0                                                      | 52.0  | 52.0  | Coal mining            |
| Inner Mongolia Yitai Huzhun Railway Co., Ltd.<br>(內蒙古伊泰呼准鐵路有限公司) ..                  | (1)   | Inner Mongolia, the PRC<br>26 February 2003    | 1,360,000                                         | 75.7                                                      | 75.7  | 76.5  | Railway transportation |
| Ordos Yitai Motor Transport Co., Ltd.<br>(鄂爾多斯市伊泰汽車運輸有限公司) ..                        | (1)   | Inner Mongolia, the PRC<br>1 December 2004     | 38,560                                            | 100.0                                                     | 100.0 | 100.0 | Motor transportation   |
| Inner Mongolia Yitai Motor Transport Co., Ltd.<br>(內蒙古伊泰汽車運輸有限責任公司) .....            | (1)   | Inner Mongolia, the PRC<br>20 March 2007       | 5,000                                             | 100.0                                                     | 100.0 | 100.0 | Motor transportation   |

|                                                                                                          |       |                                                |                                                   | Percentage of equity interest attributable to the Company |       |       |                                                                           |
|----------------------------------------------------------------------------------------------------------|-------|------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|-------|-------|---------------------------------------------------------------------------|
| Company name                                                                                             | Notes | Place and date of incorporation/<br>operations | Nominal value of issued and fully paid-up capital | 31 December                                               |       |       | Principal activities                                                      |
|                                                                                                          |       |                                                |                                                   | 2009                                                      | 2010  | 2011  |                                                                           |
|                                                                                                          |       |                                                | RMB'000                                           | %                                                         | %     | %     |                                                                           |
| Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd.<br>(內蒙古伊泰鐵東儲運有限責任公司) .....             | (1)   | Inner Mongolia, the PRC<br>3 September 2008    | 123,000                                           | 51.0                                                      | 51.0  | 51.0  | Storage and transportation                                                |
| Huhhot Yitai Coal Sales Co., Ltd.<br>(呼和浩特市伊泰煤炭銷售有限公司) .....                                             | (1)   | Inner Mongolia, the PRC<br>3 September 2009    | 50,000                                            | 100.0                                                     | 100.0 | 100.0 | Coal wholesale                                                            |
| Yitai Yili Energy Co., Ltd. (伊泰伊犁能源有限公司) .....                                                           | (1)   | Xinjiang, the PRC<br>24 September 2009         | 100,000                                           | 100.0                                                     | 100.0 | 100.0 | Coal technology development and consulting                                |
| Inner Mongolia Yitai Chemical Co., Ltd.<br>(內蒙古伊泰化工有限責任公司) .....                                         | (1)   | Inner Mongolia, the PRC<br>29 October 2009     | 100,000                                           | 100.0                                                     | 100.0 | 100.0 | Chemical production and sale                                              |
| Yitai Xinjiang Zhundong Energy Co., Ltd.<br>(伊泰新疆准東能源有限公司) .....                                         | (1)   | Xinjiang, the PRC<br>9 August 2010             | 100,000                                           | —                                                         | 100.0 | 100.0 | Coal technology development and consulting                                |
| Yitai Share (Hong Kong) Co., Ltd.<br>(伊泰（股份）香港有限公司) .....                                                |       | Hong Kong<br>The PRC<br>27 June 2011           | 18,903                                            | —                                                         | —     | 100.0 | Coal imports and international trade                                      |
| <u>Jointly-controlled entity</u>                                                                         |       |                                                |                                                   |                                                           |       |       |                                                                           |
| Inner Mongolia Taihe Energy Co., Ltd.<br>(內蒙古泰河能源有限責任公司) .....                                           | (4)   | Inner Mongolia, the PRC<br>17 April 2006       | 16,000                                            | 40.0                                                      | 40.0  | —     | Oil shale sale and production                                             |
| <u>Associates</u>                                                                                        |       |                                                |                                                   |                                                           |       |       |                                                                           |
| Inner Mongolia Xinnuo Eco-Heating Technology Development Co., Ltd. (內蒙古新諾生態供暖科技發展有限公司) .....             | (8)   | Inner Mongolia, the PRC<br>3 September 2002    | 15,000                                            | 26.7                                                      | 26.7  | —     | Eco-heating equipment sale and production                                 |
| Inner Mongolia Yitai Solar Energy Co., Ltd.<br>(內蒙古伊泰太陽能光熱有限責任公司) .....                                  | (8)   | Inner Mongolia, the PRC<br>3 April 2006        | 8,300                                             | 40.0                                                      | —     | —     | Solar energy                                                              |
| Ordos Tiandi Huarun Mine Equipment Co., Ltd. (鄂爾多斯市天地華潤煤礦裝備有限責任公司) .....                                 | (2)   | Inner Mongolia, the PRC<br>5 February 2007     | 100,000                                           | 24.0                                                      | 31.5  | 31.5  | Mine equipment production and sale                                        |
| Inner Mongolia Jingtai Electric Power Generation Co., Ltd.<br>(內蒙古京泰發電有限責任公司) .....                      | (3)   | Inner Mongolia, the PRC<br>29 November 2007    | 570,000                                           | 29.0                                                      | 29.0  | 29.0  | Gangue Power Plant construction                                           |
| Avic Liming Jinhuaaji Petrochemical Equipment (Inner Mongolia) Co., Ltd.<br>(中航黎明錦化機石化裝備（內蒙古）有限公司) ..... | (5)   | Inner Mongolia, the PRC<br>12 October 2006     | 218,300                                           | 30.0                                                      | 39.0  | 39.0  | Chemical equipment production and sale                                    |
| Ordos Yizheng Coal Mine Fire-proof Project Co., Ltd.<br>(鄂爾多斯市伊政煤田滅火工程有限責任公司) .....                      | (6)   | Inner Mongolia, the PRC<br>14 July 2010        | 50,000                                            | —                                                         | 30.0  | 30.0  | Coal mine fire-proof project, land restoration, and ecological treatment. |
| Ordos Lianke Qingjie Energy Technology Co., Ltd.<br>(鄂爾多斯市聯科清潔能源技術有限公司) .....                            | (7)   | Inner Mongolia, the PRC<br>27 January 2011     | 150,000                                           | —                                                         | —     | 20.0  | Research and development of coal-related chemical technology              |

All the above subsidiaries are directly held by the Company.

The English names of certain companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.



All the above companies are limited liability companies.

Notes:

- (1) The statutory accounts of these subsidiaries for the years ended 31 December 2009, 2010 and 2011 were audited by 大華會計師事務所, a certified public accounting firm registered in the PRC.
- (2) The statutory accounts of this associate for the year ended 31 December 2009 and 2010 were audited by 中審亞太會計師事務所有限公司, a certified public accounting firm registered in the PRC. While the statutory accounts of this associate for the years ended 31 December 2011 were audited by 德勤華永會計師事務所有限公司, a certified public accounting firm registered in PRC.
- (3) The statutory accounts of this associate for the years ended 31 December 2009, 2010 and 2011 were audited by 北京興華會計師事務所有限責任公司, a certified public accounting firm registered in the PRC.
- (4) The statutory accounts of this Joint-controlled entity for the year ended 31 December 2009 and 2010 was audited by 烏拉特後旗烏拉特邊城聯合會計師事務所, a certified public accounting firm registered in the PRC.
- (5) The statutory accounts of this associate for the year ended 31 December 2009 was audited by 內蒙古東審會計師事務所有限責任公司, a certified public accounting firm registered in the PRC. While the statutory accounts of this associate for the years ended 31 December 2010 and 2011 were audited by 中瑞嶽華會計師事務所, a certified public accounting firm registered in PRC.
- (6) The statutory accounts of this associate for the year ended 31 December 2010 was audited by 內蒙古東審會計師事務所有限責任公司, a certified public accounting firm registered in the PRC. While the statutory accounts of this associate for the years ended 31 December 2011 were audited by 鄂爾多斯市金天平聯合會計師事務所, a certified public accounting firm registered in PRC.
- (7) The statutory accounts of this associate for the year ended 31 December 2011 was audited by 中瑞嶽華會計師事務所, a certified public accounting firm registered in PRC.
- (8) No audited financial statements were issued for these companies as they are not required to issue audited accounts under the statutory requirements of their place of incorporation.

## 2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB, and the International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The Financial Information has been prepared on the historical cost basis, except for the revaluation of certain financial assets at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

## 2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

|                   |                                                                                                                                      |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 9            | <i>Financial Instruments</i> <sup>4</sup>                                                                                            |
| IFRS 7 Amendments | <i>Amendments to IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>  |
| IFRS 10           | <i>Consolidated Financial Statements</i> <sup>1</sup>                                                                                |
| IFRS 11           | <i>Joint Arrangements</i> <sup>1</sup>                                                                                               |
| IFRS 12           | <i>Disclosure of Interests in Other Entities</i> <sup>1</sup>                                                                        |
| IFRS 13           | <i>Fair Value Measurement</i> <sup>1</sup>                                                                                           |
| IAS 1 Amendments  | Amendments to IAS 1:<br><i>Changes to the Presentation of Other Comprehensive Income</i> <sup>2</sup>                                |
| IAS 27(Revised)   | <i>Separate Financial Statements</i> <sup>1</sup>                                                                                    |
| IAS 28(Revised)   | <i>Investments in Associates</i> <sup>1</sup>                                                                                        |
| IAS 12 Amendments | <i>Income Taxes</i> <sup>3</sup>                                                                                                     |
| IAS 19 Amendments | <i>Employee Benefits</i> <sup>1</sup>                                                                                                |
| IAS 32 Amendments | <i>Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>5</sup> |
| IFRIC-Int 20      | <i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>1</sup>                                                        |

1 Effective for annual periods beginning on or after 1 January 2013

2 Effective for annual periods beginning on or after 1 July 2012

3 Effective for annual periods beginning on or after 1 January 2012

4 Effective for annual periods beginning on or after 1 January 2015

5 Effective for annual periods beginning on or after 1 January 2014

The Group is in the process of making an assessment of the impact of these new, revised and amended IFRSs and IFRIC upon initial application. So far, these new and revised IFRS are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The business combinations involving entities or businesses under common control are accounted for using merger accounting. Merger accounting involves incorporating the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The acquisition method is used to account for the acquisition of subsidiaries by the Group.

***Basis of consolidation from 1 January 2010***

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

***Basis of consolidation prior to 31 December 2009***

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduces to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

**Business combinations and goodwill**

***Business combinations from 1 January 2010***

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the

proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### ***Business combinations prior to 31 December 2009***

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

### **Subsidiaries**

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. The Group's investments in jointly-controlled entities are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in profit or loss and reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in profit or loss and reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

### **Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to other expenses in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### **Related parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements.

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).



## Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Except for mining structures, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, as follows:

|                             |               |
|-----------------------------|---------------|
| Buildings                   | 5 to 20 years |
| Plant and machinery         | 3 to 20 years |
| Motor vehicles              | 4 to 8 years  |
| Railway                     | 8 to 45 years |
| Road                        | 20 years      |
| Office equipment and others | 3 to 5 years  |

Where parts of an item of property, plant and equipment, other than mining structures, have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing buildings and other assets under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

## Exploration and evaluation expenditure

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralization in existing coal bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. They are subsequently stated at cost less accumulated impairment. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life of 20 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

### Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

### Intangible assets

Intangible assets, primarily comprising computer software, acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. The useful lives of intangible assets are assessed to be finite and are amortised over the useful economic lives. The amortisation period and the amortisation method are reviewed at least at each financial year end.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments represent upfront prepayments made for the land use rights. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms ranging from 40 to 70 years.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instrument in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable and unquoted financial instruments.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income. The loss arising from impairment is recognised in other expenses.

***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. They are included in current assets if they mature within 12 months of the end of the reporting period. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income. The loss arising from impairment is recognised in other expenses.

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in other expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividends income, respectively and are recognised in other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the

various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flow is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in other expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses.

***Assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that the investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

## Financial liabilities

### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing loans and borrowings.

### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortisation cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs.

#### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.



***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs.

## Rehabilitation provision

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related coals. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

## Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and investments in jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and investments in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the Group;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the loan costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **Dividends**

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

## Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## Employee benefits

### *Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. Contributions to these plans are expensed as incurred.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

## Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

### *Impairment provision of receivables*

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

### *Impairment of non-financial assets*

The Group has to exercise judgements in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continuing use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates and the growth rate assumptions in the cash flow projections, could materially affect the net present value result in the impairment test.

*Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

*Production start date*

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and is reclassified from 'Construction in progress' to 'Mining structures'. Some of the criteria will include, but are not limited, to the following:

- The level of capital expenditure compared to the construction cost estimates
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce coals in saleable form (within specifications)
- Ability to sustain ongoing production of coals

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Current income tax*

The Group is subject to income taxes in numerous jurisdictions in the PRC. Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

*Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

*Useful lives and residual values of items of property, plant and equipment*

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of items of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at least at the end of each reporting period, based on changes in circumstances.

*Mine rehabilitation provision*

The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates (3.24%), and changes in discount rates (10%). Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

*Coal reserve and resource estimates*

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its coal reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and this require complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

*Units-of-production depreciation for mine specific assets*

Estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

**5. OPERATING SEGMENT INFORMATION**

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the coal segment is the mining and sale of coal products;
- (b) the transportation segment provides road and railway transportation services to coal companies;
- (c) the coal-related chemical segment is to produce and sell coal-based synthetic fuel;
- (d) the "others" segment comprises, principally, the development, production and sale of traditional Chinese medicine.

Management monitors the results of its operating segments separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit and is measured consistently with the Group's profit in the consolidated financial statements.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



Year ended  
31 December 2009

|                                                                          | Coal        | Transportation | Coal-related<br>chemical | Others      | Consolidated |
|--------------------------------------------------------------------------|-------------|----------------|--------------------------|-------------|--------------|
|                                                                          | RMB<br>'000 | RMB<br>'000    | RMB<br>'000              | RMB<br>'000 | RMB<br>'000  |
| <b>Segment revenue:</b>                                                  |             |                |                          |             |              |
| External customers .....                                                 | 9,676,001   | 534,446        | —                        | 41,717      | 10,252,164   |
| Intersegment .....                                                       | 47,807      | 625,922        | —                        | —           | 673,729      |
|                                                                          | 9,723,808   | 1,160,368      | —                        | 41,717      | 10,925,893   |
| <i>Reconciliation</i>                                                    |             |                |                          |             |              |
| Elimination of intersegment sales .....                                  |             |                |                          |             | (673,729)    |
| Total revenue .....                                                      |             |                |                          |             | 10,252,164   |
| <b>Segment results:</b>                                                  |             |                |                          |             |              |
| Profit/(loss) before tax .....                                           | 3,585,258   | 178,517        | (1,278)                  | (21,059)    | 3,741,438    |
| Income tax expense .....                                                 | (534,548)   | (31,394)       | 603                      | 9           | (565,330)    |
|                                                                          | 3,050,710   | 147,123        | (675)                    | (21,050)    | 3,176,108    |
| <i>Reconciliation</i>                                                    |             |                |                          |             |              |
| Elimination of intersegment results .....                                |             |                |                          |             | (27,720)     |
| Net profit for the year .....                                            |             |                |                          |             | 3,148,388    |
| <b>Segment assets</b> .....                                              | 12,565,634  | 6,346,302      | 3,765,829                | 101,230     | 22,778,995   |
| Elimination of intersegment<br>receivables .....                         |             |                |                          |             | (129,412)    |
| Unrealized profit included in assets .....                               |             |                |                          |             | (27,720)     |
| Total assets .....                                                       |             |                |                          |             | 22,621,863   |
| <b>Segment liabilities</b> .....                                         | 5,432,326   | 3,784,196      | 2,695,017                | 88,182      | 11,999,721   |
| Elimination of intersegment payables .....                               |             |                |                          |             | (129,412)    |
| Total liabilities .....                                                  |             |                |                          |             | 11,870,309   |
| <b>Other segment information:</b>                                        |             |                |                          |             |              |
| Interest income .....                                                    | 33,206      | 3,083          | —                        | 20          | 36,309       |
| Interest expense .....                                                   | (243,988)   | (35,634)       | —                        | (24)        | (279,646)    |
| Depreciation and amortisation .....                                      | (444,554)   | (88,979)       | —                        | (9,466)     | (542,999)    |
| Share of losses of a jointly-controlled<br>entity .....                  | (312)       | —              | —                        | —           | (312)        |
| Share of profits and (losses) of<br>associates .....                     | (636)       | —              | 1,194                    | —           | 558          |
| Reversal/(provision) of impairment<br>recognised in profit or loss ..... | (10,255)    | (5,506)        | (2,413)                  | 1,224       | (16,950)     |
| Investments in associates .....                                          | 183,609     | —              | 17,173                   | —           | 200,782      |
| Investment in a jointly-controlled<br>entity .....                       | 4,942       | —              | —                        | —           | 4,942        |
| Capital expenditure* .....                                               | 2,407,952   | 1,496,435      | 848,583                  | 1,491       | 4,754,461    |

\* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

Year ended  
31 December 2010

|                                                                          | Coal        | Transportation | Coal-related<br>chemical | Others      | Consolidated |
|--------------------------------------------------------------------------|-------------|----------------|--------------------------|-------------|--------------|
|                                                                          | RMB<br>'000 | RMB<br>'000    | RMB<br>'000              | RMB<br>'000 | RMB<br>'000  |
| <b>Segment revenue:</b>                                                  |             |                |                          |             |              |
| External customers .....                                                 | 13,360,091  | 435,287        | —                        | 58,446      | 13,853,824   |
| Intersegment .....                                                       | 58,797      | 585,531        | —                        | —           | 644,328      |
|                                                                          | 13,418,888  | 1,020,818      | —                        | 58,446      | 14,498,152   |
| <i>Reconciliation</i>                                                    |             |                |                          |             |              |
| Elimination of intersegment sales .....                                  |             |                |                          |             | (644,328)    |
| Total revenue .....                                                      |             |                |                          |             | 13,853,824   |
| <b>Segment results:</b>                                                  |             |                |                          |             |              |
| Profit/(loss) before tax .....                                           | 6,119,734   | 229,500        | 1,570                    | (16,918)    | 6,333,886    |
| Income tax expense .....                                                 | (915,992)   | (43,488)       | 395                      | —           | (959,085)    |
|                                                                          | 5,203,742   | 186,012        | 1,965                    | (16,918)    | 5,374,801    |
| <i>Reconciliation</i>                                                    |             |                |                          |             |              |
| Elimination of intersegment results .....                                |             |                |                          |             | (58,797)     |
| Net profit for the period .....                                          |             |                |                          |             | 5,316,004    |
| <b>Segment assets</b> .....                                              | 14,209,052  | 7,709,871      | 4,348,577                | 131,525     | 26,399,025   |
| Elimination of intersegment<br>receivables .....                         |             |                |                          |             | (466,220)    |
| Unrealized profit included in assets .....                               |             |                |                          |             | (58,797)     |
| Total assets .....                                                       |             |                |                          |             | 25,874,008   |
| <b>Segment liabilities</b> .....                                         | 3,190,747   | 4,854,061      | 2,863,543                | 135,361     | 11,043,712   |
| Elimination of intersegment payables .....                               |             |                |                          |             | (466,220)    |
| Total liabilities .....                                                  |             |                |                          |             | 10,577,492   |
| <b>Other segment information:</b>                                        |             |                |                          |             |              |
| Interest income .....                                                    | 24,816      | 565            | 142                      | 17          | 25,540       |
| Interest expense .....                                                   | (111,387)   | (60,466)       | —                        | —           | (171,853)    |
| Depreciation and amortisation .....                                      | (452,657)   | (158,481)      | (14,084)                 | (6,379)     | (631,601)    |
| Share of losses of a jointly-controlled<br>entity .....                  | (23)        | —              | —                        | —           | (23)         |
| Share of profits and (losses) of<br>associates .....                     | 4,806       | —              | (2,207)                  | —           | 2,599        |
| Reversal/(provision) of impairment<br>recognised in profit or loss ..... | 52,361      | 2,358          | (1,580)                  | (636)       | 52,503       |
| Investments in associates .....                                          | 215,175     | —              | 64,461                   | —           | 279,636      |
| Investment in a jointly-controlled<br>entity .....                       | 4,918       | —              | —                        | —           | 4,918        |
| Capital expenditure* .....                                               | 1,114,118   | 1,529,779      | 558,572                  | 5,745       | 3,208,214    |

\* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

Year ended  
31 December 2011

|                                                                          | Coal        | Transportation | Coal-related<br>chemical | Others      | Consolidated |
|--------------------------------------------------------------------------|-------------|----------------|--------------------------|-------------|--------------|
|                                                                          | RMB<br>'000 | RMB<br>'000    | RMB<br>'000              | RMB<br>'000 | RMB<br>'000  |
| <b>Segment revenue:</b>                                                  |             |                |                          |             |              |
| External customers .....                                                 | 15,197,276  | 604,369        | 677,848                  | 36,282      | 16,515,775   |
| Intersegment .....                                                       | 220,253     | 536,672        | —                        | —           | 756,925      |
|                                                                          | 15,417,529  | 1,141,041      | 677,848                  | 36,282      | 17,272,700   |
| <i>Reconciliation</i>                                                    |             |                |                          |             |              |
| Elimination of intersegment sales .....                                  |             |                |                          |             | (756,925)    |
| Total revenue .....                                                      |             |                |                          |             | 16,515,775   |
| <b>Segment results:</b>                                                  |             |                |                          |             |              |
| Profit/(loss) before tax .....                                           | 6,404,417   | 371,746        | 29,052                   | (31,572)    | 6,773,643    |
| Income tax expense .....                                                 | (979,458)   | (29,749)       | (1,555)                  | —           | (1,010,762)  |
|                                                                          | 5,424,959   | 341,997        | 27,497                   | (31,572)    | 5,762,881    |
| <i>Reconciliation</i>                                                    |             |                |                          |             |              |
| Elimination of intersegment results .....                                |             |                |                          |             | (13,617)     |
| Net profit for the year .....                                            |             |                |                          |             | 5,749,264    |
| <b>Segment assets</b> .....                                              | 16,714,552  | 9,067,339      | 4,949,052                | 111,001     | 30,841,944   |
| Elimination of intersegment<br>receivables .....                         |             |                |                          |             | (759,715)    |
| Unrealized profit included in assets .....                               |             |                |                          |             | (13,617)     |
| Total assets .....                                                       |             |                |                          |             | 30,068,612   |
| <b>Segment liabilities</b> .....                                         | 3,585,595   | 5,217,260      | 3,188,684                | 53,408      | 12,044,947   |
| Elimination of intersegment payables .....                               |             |                |                          |             | (759,715)    |
| Total liabilities .....                                                  |             |                |                          |             | 11,285,232   |
| <b>Other segment information:</b>                                        |             |                |                          |             |              |
| Interest income .....                                                    | 31,009      | 2,099          | 937                      | 45          | 34,090       |
| Interest expense .....                                                   | (99,344)    | (104,661)      | (81,322)                 | —           | (285,327)    |
| Depreciation and amortisation .....                                      | (552,212)   | (195,397)      | (65,714)                 | (5,573)     | (818,896)    |
| Share of profits and (losses) of<br>associates .....                     | 20,428      | —              | (629)                    | —           | 19,799       |
| Reversal/(provision) of impairment<br>recognised in profit or loss ..... | 14,269      | 6,051          | 5,040                    | 1,621       | 26,981       |
| Investments in associates .....                                          | 235,060     | —              | 117,966                  | —           | 353,026      |
| Investment in a jointly-controlled<br>entity .....                       | —           | —              | —                        | —           | —            |
| Capital expenditure* .....                                               | 1,865,566   | 1,270,568      | 452,123                  | 5,426       | 3,593,683    |

\* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

The Group's revenue from external customers is derived solely from its operation in mainland China, and no non-current assets of the Group are located outside mainland China.

During the year ended 31 December 2009, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for that year.

During the year ended 31 December 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for that year.

During the year ended 31 December 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for that year.

## 6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts.

|                                                                                    | Group                  |                   |                   |
|------------------------------------------------------------------------------------|------------------------|-------------------|-------------------|
|                                                                                    | Year ended 31 December |                   |                   |
|                                                                                    | 2009                   | 2010              | 2011              |
|                                                                                    | RMB '000               | RMB '000          | RMB '000          |
| <b>Revenue</b>                                                                     |                        |                   |                   |
| Sale of goods . . . . .                                                            | 9,717,718              | 13,418,537        | 15,911,406        |
| Rendering of services . . . . .                                                    | 534,446                | 435,287           | 604,369           |
|                                                                                    | <u>10,252,164</u>      | <u>13,853,824</u> | <u>16,515,775</u> |
| <b>Other income</b>                                                                |                        |                   |                   |
| Gain on disposal of unlisted investments . . . . .                                 | 1,170                  | —                 | 1,589             |
| Gain on disposal of property, plant and equipment, and intangible assets . . . . . | 9,281                  | 23,680            | 7,794             |
| Income from the sale of other materials . . . . .                                  | 39,046                 | 931               | 463               |
| Income from the rendering of other services . . . . .                              | 70,851                 | 105,197           | 138,810           |
| Payables waived . . . . .                                                          | 2,455                  | —                 | —                 |
| Government grants . . . . .                                                        | 6,579                  | 15,759            | 14,863            |
| Indemnities received . . . . .                                                     | 2,650                  | 350               | 903               |
| Compensation received* . . . . .                                                   | —                      | —                 | 180,919           |
| Others . . . . .                                                                   | —                      | 6,263             | 4,588             |
|                                                                                    | <u>132,032</u>         | <u>152,180</u>    | <u>349,929</u>    |

\* It represents the amount received from an unrelated, third-party coal mining company in 2011 as compensation for the dismantlement of certain mining properties and the consequent business disruption caused to us arising from the agreed construction of a railway and other related facilities by this company on one of the Group's mines.

## 7. FINANCE INCOME

The Group's finance income is as follows:

|                           | Group                  |               |               |
|---------------------------|------------------------|---------------|---------------|
|                           | Year ended 31 December |               |               |
|                           | 2009                   | 2010          | 2011          |
|                           | RMB '000               | RMB '000      | RMB '000      |
| Interest income . . . . . | <u>36,309</u>          | <u>25,540</u> | <u>34,090</u> |

## 8. FINANCE COSTS

The Group's finance costs are as follows:

|                                      | Group                  |                |                |
|--------------------------------------|------------------------|----------------|----------------|
|                                      | Year ended 31 December |                |                |
|                                      | 2009                   | 2010           | 2011           |
|                                      | RMB '000               | RMB '000       | RMB '000       |
| Interest on bank loans . . . . .     | 563,686                | 495,487        | 540,626        |
| Less: Interest capitalised . . . . . | (284,040)              | (323,634)      | (255,299)      |
|                                      | <u>279,646</u>         | <u>171,853</u> | <u>285,327</u> |

## 9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

|                                                                                         | Notes | Group                  |           |           |
|-----------------------------------------------------------------------------------------|-------|------------------------|-----------|-----------|
|                                                                                         |       | Year ended 31 December |           |           |
|                                                                                         |       | 2009                   | 2010      | 2011      |
|                                                                                         |       | RMB '000               | RMB '000  | RMB '000  |
| Cost of inventories sold                                                                |       | 4,855,789              | 5,741,439 | 7,809,976 |
| Cost of services provided                                                               |       | 379,224                | 257,297   | 290,930   |
| Depreciation of investment properties                                                   | 14    | 1,876                  | 2,312     | 2,343     |
| Depreciation of property, plant and equipment                                           | 15    | 513,135                | 602,401   | 789,366   |
| Amortisation of prepaid land lease payments                                             | 16    | 14,645                 | 11,991    | 10,611    |
| Amortisation of mining rights                                                           | 17    | 8,005                  | 8,871     | 8,305     |
| Amortisation of intangible assets                                                       | 18    | 2,839                  | 2,835     | 4,599     |
| Amortisation of other non-current assets                                                | 19    | 2,499                  | 3,191     | 3,672     |
| Total depreciation and amortisation                                                     |       | 542,999                | 631,601   | 818,896   |
| Reversal of impairment of trade and bills receivables                                   | 26    | (9,571)                | (6,303)   | (29,062)  |
| Impairment/(reversal of impairment) of other receivables                                | 27    | 26,866                 | (46,200)  | 2,136     |
| Reversal of impairment of property, plant and equipment                                 | 15    | (345)                  | —         | —         |
| Reversal of impairment of inventories                                                   |       | —                      | —         | (55)      |
| Gain on disposal of unlisted investments                                                |       | 1,170                  | —         | 1,589     |
| Gain on disposal of property, plant and equipment and intangible assets                 |       | 9,281                  | 23,680    | 7,794     |
| Employee benefit expense (including directors' and supervisors' remuneration — note 10) |       |                        |           |           |
| Wages, salaries and other employees' benefits                                           |       | 489,630                | 720,838   | 888,663   |
| Pension scheme contributions (defined contribution scheme)                              |       | 23,132                 | 43,541    | 43,735    |
| Auditors' remuneration                                                                  |       | 9,900                  | 8,970     | 8,024     |

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

## (a) Directors' remuneration

Details of Directors' remuneration are as follows:

|                         | Group                  |          |          |
|-------------------------|------------------------|----------|----------|
|                         | Year ended 31 December |          |          |
|                         | 2009                   | 2010     | 2011     |
|                         | RMB '000               | RMB '000 | RMB '000 |
| Salaries and allowances | 8,435                  | 8,594    | 8,991    |
| Discretionary bonuses   | 1,933                  | 2,078    | 2,267    |
| Pension                 | 211                    | 242      | 400      |
| Total                   | 10,579                 | 10,914   | 11,658   |

The names of the Directors and their remuneration for the Relevant Periods are as follows:

|                                    | Salaries and<br>allowances | Discretionary<br>bonuses | Pension<br>scheme<br>contributions | Total         |
|------------------------------------|----------------------------|--------------------------|------------------------------------|---------------|
|                                    | RMB<br>'000                | RMB<br>'000              | RMB<br>'000                        | RMB<br>'000   |
| <b>Year ended 31 December 2009</b> |                            |                          |                                    |               |
| <b>Directors:</b>                  |                            |                          |                                    |               |
| Zhang Donghai                      | 1,785                      | 527                      | 27                                 | 2,339         |
| Qi Wenbin                          | 1,185                      | 403                      | 27                                 | 1,615         |
| Liu Chunlin                        | 1,185                      | 414                      | 27                                 | 1,626         |
| Li Chengcai                        | 1,185                      | 403                      | 27                                 | 1,615         |
| Ge Yaoyong                         | 885                        | 100                      | 27                                 | 1,012         |
| Zhang Dongsheng                    | 908                        | —                        | —                                  | 908           |
| Liu Huaikuan                       | 29                         | —                        | —                                  | 29            |
| Xie Xianghua                       | 50                         | —                        | —                                  | 50            |
| Lian Junhai                        | 50                         | —                        | —                                  | 50            |
| Song Jianzhong                     | 21                         | —                        | —                                  | 21            |
| <b>Supervisors:</b>                |                            |                          |                                    |               |
| Li Wenshan                         | 1,001                      | —                        | 27                                 | 1,028         |
| Bai Zailiang                       | 7                          | —                        | —                                  | 7             |
| Sui Guoqing                        | 7                          | —                        | —                                  | 7             |
| Zhang Ruilian                      | 29                         | 17                       | 15                                 | 61            |
| Zhang Mingliang                    | 33                         | 22                       | 19                                 | 74            |
| Deng Yuxin                         | 68                         | 47                       | 15                                 | 130           |
| Yuan Bin                           | 7                          | —                        | —                                  | 7             |
|                                    | <u>8,435</u>               | <u>1,933</u>             | <u>211</u>                         | <u>10,579</u> |

|                                    | Salaries and<br>allowances | Discretionary<br>bonuses | Pension<br>scheme<br>contributions | Total         |
|------------------------------------|----------------------------|--------------------------|------------------------------------|---------------|
|                                    | RMB<br>'000                | RMB<br>'000              | RMB<br>'000                        | RMB<br>'000   |
| <b>Year ended 31 December 2010</b> |                            |                          |                                    |               |
| <b>Directors:</b>                  |                            |                          |                                    |               |
| Zhang Donghai                      | 1,812                      | 562                      | 32                                 | 2,406         |
| Qi Wenbin                          | 1,212                      | 435                      | 32                                 | 1,679         |
| Liu Chunlin                        | 1,212                      | 446                      | 32                                 | 1,690         |
| Li Chengcai                        | 1,212                      | 435                      | 32                                 | 1,679         |
| Ge Yaoyong                         | 912                        | 131                      | 32                                 | 1,075         |
| Xie Xianghua                       | 50                         | —                        | —                                  | 50            |
| Lian Junhai                        | 50                         | —                        | —                                  | 50            |
| Zhang Dongsheng                    | 912                        | —                        | 32                                 | 944           |
| Song Jianzhong                     | 50                         | —                        | —                                  | 50            |
| <b>Supervisors:</b>                |                            |                          |                                    |               |
| Li Wenshan                         | 1,027                      | —                        | 32                                 | 1,059         |
| Bai Zailiang                       | 7                          | —                        | —                                  | 7             |
| Sui Guoqing                        | 7                          | —                        | —                                  | 7             |
| Zhang Ruilian                      | 29                         | 8                        | —                                  | 37            |
| Zhang Mingliang                    | 7                          | —                        | —                                  | 7             |
| Deng Yuxin                         | 88                         | 61                       | 18                                 | 167           |
| Yuan Bin                           | 7                          | —                        | —                                  | 7             |
|                                    | <u>8,594</u>               | <u>2,078</u>             | <u>242</u>                         | <u>10,914</u> |



|                                    | Salaries and<br>allowances | Discretionary<br>bonuses | Pension<br>scheme<br>contributions | Total         |
|------------------------------------|----------------------------|--------------------------|------------------------------------|---------------|
|                                    | RMB<br>'000                | RMB<br>'000              | RMB<br>'000                        | RMB<br>'000   |
| <b>Year ended 31 December 2011</b> |                            |                          |                                    |               |
| <b>Directors:</b>                  |                            |                          |                                    |               |
| Zhang Donghai .....                | 1,830                      | 523                      | 41                                 | 2,394         |
| Qi Wenbin .....                    | 120                        | 2                        | 6                                  | 128           |
| Liu Chunlin .....                  | 1,220                      | 402                      | 41                                 | 1,663         |
| Zhang Dongsheng .....              | 927                        | 12                       | 41                                 | 980           |
| Ge Yaoyong .....                   | 1,077                      | 98                       | 41                                 | 1,216         |
| Kang Zhi .....                     | 695                        | 122                      | 34                                 | 851           |
| Zhang Xinrong .....                | 635                        | 427                      | 34                                 | 1,096         |
| Lv Guiliang .....                  | 635                        | 39                       | 34                                 | 708           |
| Li Chengcai .....                  | 120                        | 2                        | 6                                  | 128           |
| Tan Guoming .....                  | —                          | 120                      | —                                  | 120           |
| Song Jianzhong .....               | —                          | 68                       | —                                  | 68            |
| Xie Xianghua .....                 | —                          | 68                       | —                                  | 68            |
| Lian Junhai .....                  | —                          | 68                       | —                                  | 68            |
| <b>Supervisors:</b>                |                            |                          |                                    |               |
| Bai Zailiang .....                 | —                          | 1                        | —                                  | 1             |
| Li Wenshan .....                   | 1,139                      | 7                        | 41                                 | 1,187         |
| Yuan Bin .....                     | —                          | 1                        | —                                  | 1             |
| Sui Guoqing .....                  | —                          | 1                        | —                                  | 1             |
| Zhang Mingliang .....              | 125                        | 7                        | 16                                 | 148           |
| Deng Yuxin .....                   | 13                         | 1                        | 3                                  | 17            |
| Zhang Ruilian .....                | 4                          | 1                        | 3                                  | 8             |
| Wang Sanmin .....                  | 164                        | 77                       | 22                                 | 263           |
| Ji Zhifu .....                     | 154                        | 82                       | 19                                 | 255           |
| Han Zhanchun .....                 | 133                        | 78                       | 18                                 | 229           |
| Wang Yongliang .....               | —                          | 30                       | —                                  | 30            |
| Wu Qu .....                        | —                          | 30                       | —                                  | 30            |
|                                    | <u>8,991</u>               | <u>2,267</u>             | <u>400</u>                         | <u>11,658</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

**(b) Five highest paid employees**

The five highest paid employees during the year ended 2009, 2010 and 2011, were all the directors or supervisors.

No emoluments were paid by the Company to the Directors, supervisors or the five highest paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.

## 11. INCOME TAX EXPENSE

|                               | Note | Group                  |                |                  |
|-------------------------------|------|------------------------|----------------|------------------|
|                               |      | Year ended 31 December |                |                  |
|                               |      | 2009                   | 2010           | 2011             |
|                               |      | RMB '000               | RMB '000       | RMB '000         |
| Income tax                    |      |                        |                |                  |
| Current tax — mainland China  |      | 599,274                | 939,066        | 1,084,681        |
| Deferred income tax           | 24   | (33,944)               | 20,019         | (73,919)         |
| Total tax charge for the year |      | <u>565,330</u>         | <u>959,085</u> | <u>1,010,762</u> |

PRC corporate income tax ("CIT") was provided at a rate of 25% on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

The Company and its certain subsidiaries are entitled to a preferential CIT rate of 15% for the 10 years ended 31 December 2010 based on the following issued documents:

- i) Caishui (2001) No. 202 issued by the Treasury Department of the National Taxation Department, which was related to the notice of the preferential tax rate in the Western Development.
- ii) Guonei Shuiwai (2003) No. 11 issued by the Inner Mongolia Taxation Department, which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development.
- iii) Ordos Guoshui (2003) No. 57 issued by the Ordos National Taxation Department, which was related to the approval given to the Company to enjoy tax benefits resulted from the Western Development.

According to Caishui (2011) No. 58 issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation, selected entities in Western China that falling into Catalogue of Encouraged Industries in Western China (西部地區鼓勵類產業目錄, "CEIWC") can enjoy the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

According to the notice (2011) No. 2 issued by Inner Mongolia State Administration Taxation of China, selected entities in Inner Mongolia that had enjoyed the preferential tax rate before 2010 in the Western Development and falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (產業結構調整指導目錄 (2011)) are entitled to a preferential tax rate of 15% to prepay tax in the year ending 31 December 2011.

By the date of the report, CEIWC has not been promulgated. According to Caishui (2012) No.12 issued by State Administration of Taxation, before CEIWC is promulgated, selected entities falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (2011) are entitled to a preferential tax rate of 15%. If CEIWC is promulgated and the Companies mentioned above are not meet the condition of CEIWC, then income tax should be redeclared according to the applicable tax rate.

No provision for Hong Kong profits tax has been made in the Financial Information as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates to the tax expense at the Group's effective income tax rates for each of the Relevant Periods is as follows:

|                                                                                                | Group                  |           |           |
|------------------------------------------------------------------------------------------------|------------------------|-----------|-----------|
|                                                                                                | Year ended 31 December |           |           |
|                                                                                                | 2009                   | 2010      | 2011      |
|                                                                                                | RMB '000               | RMB '000  | RMB '000  |
| Profit before tax                                                                              | 3,713,718              | 6,275,089 | 6,760,026 |
| Tax at the statutory income tax rate of 25% for the year ended 31 December 2009, 2010 and 2011 | 928,430                | 1,568,772 | 1,690,007 |
| Effect of lower tax rate                                                                       | (340,157)              | (626,032) | (663,893) |
| Entertainment expenses not deductible for tax purposes                                         | 1,977                  | 10,254    | 10,366    |
| Tax losses not recognised                                                                      | 17,331                 | 8,983     | 11,136    |
| Tax losses utilised from previous years                                                        | —                      | (11,866)  | (45,151)  |
| Others                                                                                         | (42,251)               | 8,974     | 8,297     |
| Tax charge at the Group's effective rate                                                       | 565,330                | 959,085   | 1,010,762 |

## 12. PROPOSED FINAL DIVIDENDS

|                          | Group/Company          |           |           |
|--------------------------|------------------------|-----------|-----------|
|                          | Year ended 31 December |           |           |
|                          | 2009                   | 2010      | 2011      |
|                          | RMB '000               | RMB '000  | RMB '000  |
| Proposed final dividends | 732,000                | 2,196,000 | 2,196,000 |

The proposed final cash dividends for the year ended 31 December 2009 were based on RMB1.0 per ordinary share, and has been declared in March 2010, and paid in May 2010. The proposed final dividends for the year ended 31 December 2010 were based on RMB1.5 per ordinary share, and has been declared in February 2011, and paid in June 2011. The proposed final dividends for the year ended 31 December 2011 were based on RMB1.5 per ordinary share, and has been declared in May 2012.

## 13. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

|                                                                                   | Note | Group                  |           |           |
|-----------------------------------------------------------------------------------|------|------------------------|-----------|-----------|
|                                                                                   |      | Year ended 31 December |           |           |
|                                                                                   |      | 2009                   | 2010      | 2011      |
|                                                                                   |      | RMB '000               | RMB '000  | RMB '000  |
| <i>Earnings</i>                                                                   |      |                        |           |           |
| Profit for the year attributable to ordinary equity holders of the Company        |      | 3,042,888              | 5,014,647 | 5,463,964 |
| <i>Shares</i>                                                                     |      |                        |           |           |
| Weighted average number of ordinary shares in issue during the year (in thousand) | 32   | 1,464,000              | 1,464,000 | 1,464,000 |

The calculation of the basic earnings per share amount is based on the profit for the Relevant Periods attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the Relevant Periods.

The Company declared a shares bonus of 10 shares per 10 shares in March 2010. After the issuance of the shares bonus, the ordinary shares of the Company in issue increased to 1,464,000,000.

The Company had no dilutive potential ordinary shares for the Relevant Periods, hence no diluted earnings per share amount is presented.

#### 14. INVESTMENT PROPERTIES

|                                | Note | Group/Company<br>As of 31 December |             |             |
|--------------------------------|------|------------------------------------|-------------|-------------|
|                                |      | 2009                               | 2010        | 2011        |
|                                |      | RMB<br>'000                        | RMB<br>'000 | RMB<br>'000 |
| Cost:                          |      |                                    |             |             |
| At 1 January                   |      | 16,538                             | 39,113      | 39,361      |
| Additions                      |      | 39,113                             | 848         | —           |
| Disposals                      |      | (16,538)                           | (600)       | —           |
| At 31 December                 |      | 39,113                             | 39,361      | 39,361      |
| Depreciation:                  |      |                                    |             |             |
| At 1 January                   |      | (3,805)                            | (1,109)     | (3,293)     |
| Additions                      | 9    | (1,876)                            | (2,312)     | (2,343)     |
| Disposals                      |      | 4,572                              | 128         | —           |
| At 31 December                 |      | (1,109)                            | (3,293)     | (5,636)     |
| Carrying amount at 31 December |      | 38,004                             | 36,068      | 33,725      |

Included in the Group's and the Company's investment properties are buildings situated in mainland China, which are leased to third parties under operating leases.

In the opinion of management, the carrying amounts of the Company's investment properties approximate to their fair values.

#### 15. PROPERTY, PLANT AND EQUIPMENT

##### Group

|                       | Buildings   | Mining structures | Plant and machinery | Motor vehicles | Railway     | Road        | Office equipment and others | Construction in progress | Total       |
|-----------------------|-------------|-------------------|---------------------|----------------|-------------|-------------|-----------------------------|--------------------------|-------------|
|                       | RMB<br>'000 | RMB<br>'000       | RMB<br>'000         | RMB<br>'000    | RMB<br>'000 | RMB<br>'000 | RMB<br>'000                 | RMB<br>'000              | RMB<br>'000 |
| Cost:                 |             |                   |                     |                |             |             |                             |                          |             |
| At 1 January 2009     | 1,532,514   | 458,284           | 1,305,553           | 409,725        | 3,407,154   | 469,405     | 172,153                     | 4,808,959                | 12,563,747  |
| Additions             | 16,432      | 570,543           | 526,799             | 202,443        | 87,520      | —           | 85,247                      | 3,206,690                | 4,695,674   |
| Transfers             | 200,586     | 176,871           | 227,681             | —              | 264,256     | 22,047      | —                           | (891,441)                | —           |
| Disposals/written off | (61,518)    | —                 | (22,213)            | (128,422)      | (826)       | —           | (5,924)                     | —                        | (218,903)   |
| At 31 December 2009   | 1,688,014   | 1,205,698         | 2,037,820           | 483,746        | 3,758,104   | 491,452     | 251,476                     | 7,124,208                | 17,040,518  |
| Additions             | 89,302      | —                 | 199,341             | 56,586         | 68,879      | 3,088       | 84,081                      | 2,620,832                | 3,122,109   |
| Transfers             | 574,522     | 78,675            | 413,698             | 4,726          | 72,018      | 40,607      | 81,266                      | (1,265,512)              | —           |
| Disposals/written off | (104,394)   | (2,096)           | (5,696)             | (104,239)      | (14,843)    | (3,244)     | (21,420)                    | (347,897)                | (603,829)   |
| At 31 December 2010   | 2,247,444   | 1,282,277         | 2,645,163           | 440,819        | 3,884,158   | 531,903     | 395,403                     | 8,131,631                | 19,558,798  |
| Additions             | 437,997     | —                 | 220,494             | 141,441        | 63,037      | —           | 112,763                     | 2,558,330                | 3,534,062   |
| Transfers             | 714,027     | 174,059           | 2,750,529           | —              | 2,152,283   | 64,326      | 6,828                       | (5,862,052)              | —           |
| Disposals/written off | (1,330)     | —                 | (1,365)             | (25,768)       | (70,423)    | —           | (23,661)                    | —                        | (122,547)   |
| At 31 December 2011   | 3,398,138   | 1,456,336         | 5,614,821           | 556,492        | 6,029,055   | 596,229     | 491,333                     | 4,827,909                | 22,970,313  |

## Group

|                                   | Buildings | Mining structures | Plant and machinery | Motor vehicles | Railway   | Road      | Office equipment and others | Construction in progress | Total       |
|-----------------------------------|-----------|-------------------|---------------------|----------------|-----------|-----------|-----------------------------|--------------------------|-------------|
|                                   | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000  | RMB '000  | RMB '000                    | RMB '000                 | RMB '000    |
| Depreciation and impairment:      |           |                   |                     |                |           |           |                             |                          |             |
| At 1 January 2009                 | (177,887) | (97,644)          | (151,606)           | (204,110)      | (247,226) | (84,275)  | (85,284)                    | —                        | (1,048,032) |
| Depreciation charged for the year | (56,340)  | (33,804)          | (174,531)           | (96,787)       | (80,444)  | (23,876)  | (47,353)                    | —                        | (513,135)   |
| Disposals                         | 18,711    | —                 | 5,225               | 115,546        | 346       | —         | 3,781                       | —                        | 143,609     |
| Reversal of impairment            | —         | —                 | —                   | —              | —         | —         | 345                         | —                        | 345         |
| At 31 December 2009               | (215,516) | (131,448)         | (320,912)           | (185,351)      | (327,324) | (108,151) | (128,511)                   | —                        | (1,417,213) |
| Depreciation charged for the year | (79,200)  | (37,162)          | (249,437)           | (47,465)       | (99,903)  | (26,162)  | (63,072)                    | —                        | (602,401)   |
| Disposals                         | 38,133    | —                 | 2,525               | 101,207        | 1,976     | 1,740     | 13,450                      | —                        | 159,031     |
| At 31 December 2010               | (256,583) | (168,610)         | (567,824)           | (131,609)      | (425,251) | (132,573) | (178,133)                   | —                        | (1,860,583) |
| Depreciation charged for the year | (102,283) | (41,746)          | (340,646)           | (61,281)       | (129,438) | (27,607)  | (86,365)                    | —                        | (789,366)   |
| Disposals                         | 472       | —                 | 1,140               | 23,635         | 17,139    | —         | 8,289                       | —                        | 50,675      |
| At 31 December 2011               | (358,394) | (210,356)         | (907,330)           | (169,255)      | (537,550) | (160,180) | (256,209)                   | —                        | (2,599,274) |

|                     | Buildings | Mining structures | Plant and machinery | Motor vehicles | Railway   | Road     | Office equipment and others | Construction in progress | Total      |
|---------------------|-----------|-------------------|---------------------|----------------|-----------|----------|-----------------------------|--------------------------|------------|
|                     | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000  | RMB '000 | RMB '000                    | RMB '000                 | RMB '000   |
| Net carrying amount |           |                   |                     |                |           |          |                             |                          |            |
| At 1 January 2009   | 1,354,627 | 360,640           | 1,153,947           | 205,615        | 3,159,928 | 385,130  | 86,869                      | 4,808,959                | 11,515,715 |
| At 31 December 2009 | 1,472,498 | 1,074,250         | 1,716,908           | 298,395        | 3,430,780 | 383,301  | 122,965                     | 7,124,208                | 15,623,305 |
| At 31 December 2010 | 1,990,861 | 1,113,667         | 2,077,339           | 309,210        | 3,458,907 | 399,330  | 217,270                     | 8,131,631                | 17,698,215 |
| At 31 December 2011 | 3,039,744 | 1,245,980         | 4,707,491           | 387,237        | 5,491,505 | 436,049  | 235,124                     | 4,827,909                | 20,371,039 |

As of the date of this report, the Group is in the process of applying for or changing the registration of the title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB78,120,000. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as of 31 December 2011.

## Company

|                                 | Buildings | Mining structures | Plant and machinery | Motor vehicles | Railway  | Road     | Office equipment and others | Construction in progress | Total     |
|---------------------------------|-----------|-------------------|---------------------|----------------|----------|----------|-----------------------------|--------------------------|-----------|
|                                 | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000 | RMB '000 | RMB '000                    | RMB '000                 | RMB '000  |
| Cost:                           |           |                   |                     |                |          |          |                             |                          |           |
| At 1 January 2009 . . . . .     | 833,710   | 190,451           | 486,677             | 74,365         | —        | 382,607  | 63,378                      | 795,681                  | 2,826,869 |
| Additions . . . . .             | —         | —                 | 521,687             | 28,684         | —        | —        | 60,850                      | 827,037                  | 1,438,258 |
| Transfers . . . . .             | 225,861   | 154,542           | 160,354             | —              | —        | 20,867   | —                           | (561,624)                | —         |
| Disposals/written off . . . . . | (61,436)  | —                 | (16,827)            | (7,266)        | —        | —        | (5,093)                     | —                        | (90,622)  |
| At 31 December 2009 . . . . .   | 998,135   | 344,993           | 1,151,891           | 95,783         | —        | 403,474  | 119,135                     | 1,061,094                | 4,174,505 |
| Additions . . . . .             | —         | —                 | 147,412             | 47,235         | —        | —        | 41,419                      | 550,175                  | 786,241   |
| Transfers . . . . .             | 311,722   | —                 | 221,687             | —              | —        | 40,607   | —                           | (574,016)                | —         |
| Disposals/written off . . . . . | (83,869)  | —                 | (5,096)             | (6,466)        | —        | (3,244)  | (8,478)                     | (333,663)                | (440,816) |
| At 31 December 2010 . . . . .   | 1,225,988 | 344,993           | 1,515,894           | 136,552        | —        | 440,837  | 152,076                     | 703,590                  | 4,519,930 |
| Additions . . . . .             | 410,999   | —                 | 158,524             | 37,238         | —        | —        | 33,632                      | 877,170                  | 1,517,563 |
| Transfers . . . . .             | 2,641     | —                 | 248,128             | —              | —        | 64,325   | —                           | (315,094)                | —         |
| Disposals/written off . . . . . | (1,330)   | —                 | (1,365)             | (3,765)        | —        | —        | (17,713)                    | —                        | (24,173)  |
| At 31 December 2011 . . . . .   | 1,638,298 | 344,993           | 1,921,181           | 170,025        | —        | 505,162  | 167,995                     | 1,265,666                | 6,013,320 |

|                                             | Buildings | Mining structures | Plant and machinery | Motor vehicles | Railway  | Road      | Office equipment and others | Construction in progress | Total       |
|---------------------------------------------|-----------|-------------------|---------------------|----------------|----------|-----------|-----------------------------|--------------------------|-------------|
|                                             | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000 | RMB '000  | RMB '000                    | RMB '000                 | RMB '000    |
| Depreciation and impairment:                |           |                   |                     |                |          |           |                             |                          |             |
| At 1 January 2009 . . . . .                 | (130,135) | (94,188)          | (118,349)           | (33,046)       | —        | (64,240)  | (30,575)                    | —                        | (470,533)   |
| Depreciation charged for the year . . . . . | (29,747)  | (29,014)          | (91,696)            | (14,235)       | —        | (20,660)  | (18,695)                    | —                        | (204,047)   |
| Disposals . . . . .                         | 18,690    | —                 | 5,224               | 5,742          | —        | —         | 2,948                       | —                        | 32,604      |
| At 31 December 2009 . . . . .               | (141,192) | (123,202)         | (204,821)           | (41,539)       | —        | (84,900)  | (46,322)                    | —                        | (641,976)   |
| Depreciation charged for the year . . . . . | (42,210)  | (28,996)          | (146,804)           | (18,343)       | —        | (22,516)  | (26,657)                    | —                        | (285,526)   |
| Disposals . . . . .                         | 29,325    | —                 | 2,434               | 4,831          | —        | 1,740     | 5,020                       | —                        | 43,350      |
| At 31 December 2010 . . . . .               | (154,077) | (152,198)         | (349,191)           | (55,051)       | —        | (105,676) | (67,959)                    | —                        | (884,152)   |
| Depreciation charged for the year . . . . . | (57,507)  | (26,055)          | (183,725)           | (27,636)       | —        | (22,512)  | (28,451)                    | —                        | (345,886)   |
| Disposals . . . . .                         | 472       | —                 | 1,140               | 3,299          | —        | —         | 7,664                       | —                        | 12,575      |
| At 31 December 2011 . . . . .               | (211,112) | (178,253)         | (531,776)           | (79,388)       | —        | (128,188) | (88,746)                    | —                        | (1,217,463) |

|                               | Buildings | Mining structures | Plant and machinery | Motor vehicles | Railway  | Road     | Office equipment and others | Construction in progress | Total     |
|-------------------------------|-----------|-------------------|---------------------|----------------|----------|----------|-----------------------------|--------------------------|-----------|
|                               | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000 | RMB '000 | RMB '000                    | RMB '000                 | RMB '000  |
| Net carrying amount           |           |                   |                     |                |          |          |                             |                          |           |
| At 1 January 2009 . . . . .   | 703,575   | 96,263            | 368,328             | 41,319         | —        | 318,367  | 32,803                      | 795,681                  | 2,356,336 |
| At 31 December 2009 . . . . . | 856,943   | 221,791           | 947,070             | 54,244         | —        | 318,574  | 72,813                      | 1,061,094                | 3,532,529 |
| At 31 December 2010 . . . . . | 1,071,911 | 192,795           | 1,166,703           | 81,501         | —        | 335,161  | 84,117                      | 703,590                  | 3,635,778 |
| At 31 December 2011 . . . . . | 1,427,186 | 166,740           | 1,389,405           | 90,637         | —        | 376,974  | 79,249                      | 1,265,666                | 4,795,857 |



## 16. PREPAID LAND LEASE PAYMENTS

|                                                                         | Group             |          |          |
|-------------------------------------------------------------------------|-------------------|----------|----------|
|                                                                         | As of 31 December |          |          |
|                                                                         | 2009              | 2010     | 2011     |
|                                                                         | RMB '000          | RMB '000 | RMB '000 |
| Carrying amount at 1 January                                            | 126,076           | 168,212  | 240,714  |
| Additions                                                               | 58,669            | 85,551   | 54,416   |
| Disposal                                                                | (1,888)           | (1,058)  | (7,922)  |
| Amortisation for the year                                               | (14,645)          | (11,991) | (10,611) |
| Carrying amount at 31 December                                          | 168,212           | 240,714  | 276,597  |
| Current portion included in prepayments, deposits and other receivables | (9,863)           | (12,086) | (10,791) |
| Non-current Portion                                                     | 158,349           | 228,628  | 265,806  |

The carrying amount of the Group's prepaid land lease payments represents land use rights in mainland China with land held under the following lease terms:

|                                | Group             |          |          |
|--------------------------------|-------------------|----------|----------|
|                                | As of 31 December |          |          |
|                                | 2009              | 2010     | 2011     |
|                                | RMB '000          | RMB '000 | RMB '000 |
| Long term leases (≥50 years)   | 86,888            | 166,555  | 165,279  |
| Medium term leases (<50 years) | 81,324            | 74,159   | 111,318  |
|                                | 168,212           | 240,714  | 276,597  |

|                                                                         | Company           |          |          |
|-------------------------------------------------------------------------|-------------------|----------|----------|
|                                                                         | As of 31 December |          |          |
|                                                                         | 2009              | 2010     | 2011     |
|                                                                         | RMB '000          | RMB '000 | RMB '000 |
| Carrying amount at 1 January                                            | 66,368            | 102,300  | 95,461   |
| Additions                                                               | 43,998            | 59       | 53,416   |
| Disposal                                                                | (1,888)           | (1,058)  | —        |
| Amortisation for the year                                               | (6,178)           | (5,840)  | (5,714)  |
| Carrying amount at 31 December                                          | 102,300           | 95,461   | 143,163  |
| Current portion included in prepayments, deposits and other receivables | (6,757)           | (6,757)  | (5,715)  |
| Non-current portion                                                     | 95,543            | 88,704   | 137,448  |

The carrying amount of the Company's prepaid land lease payments represents land use rights in mainland China with land held under the following lease terms:

|                                | Company           |          |          |
|--------------------------------|-------------------|----------|----------|
|                                | As of 31 December |          |          |
|                                | 2009              | 2010     | 2011     |
|                                | RMB '000          | RMB '000 | RMB '000 |
| Long term leases (≥50 years)   | 46,090            | 43,909   | 51,775   |
| Medium term leases (<50 years) | 56,210            | 51,552   | 91,388   |
|                                | 102,300           | 95,461   | 143,163  |

## 17. MINING RIGHTS

|                                                         | Group             |                |                |
|---------------------------------------------------------|-------------------|----------------|----------------|
|                                                         | As of 31 December |                |                |
|                                                         | 2009              | 2010           | 2011           |
|                                                         | RMB '000          | RMB '000       | RMB '000       |
| Cost as of 1 January, net of accumulated amortisation   | 243,311           | 235,306        | 226,435        |
| Additions                                               | —                 | —              | —              |
| Amortisation for the year                               | (8,005)           | (8,871)        | (8,305)        |
| Cost as of 31 December, net of accumulated amortisation | <u>235,306</u>    | <u>226,435</u> | <u>218,130</u> |
| As of 31 December:                                      |                   |                |                |
| Cost                                                    | 292,806           | 292,806        | 292,806        |
| Accumulated amortisation                                | (57,500)          | (66,371)       | (74,676)       |
| Net carrying amount                                     | <u>235,306</u>    | <u>226,435</u> | <u>218,130</u> |

|                                                         | Company           |               |               |
|---------------------------------------------------------|-------------------|---------------|---------------|
|                                                         | As of 31 December |               |               |
|                                                         | 2009              | 2010          | 2011          |
|                                                         | RMB '000          | RMB '000      | RMB '000      |
| Cost as of 1 January, net of accumulated amortisation   | 85,635            | 79,602        | 72,161        |
| Additions                                               | —                 | —             | —             |
| Disposal                                                | —                 | —             | —             |
| Amortisation for the year                               | (6,033)           | (7,441)       | (5,551)       |
| Cost as of 31 December, net of accumulated amortisation | <u>79,602</u>     | <u>72,161</u> | <u>66,610</u> |
| As of 31 December:                                      |                   |               |               |
| Cost                                                    | 132,976           | 132,976       | 132,976       |
| Accumulated amortisation                                | (53,374)          | (60,815)      | (66,366)      |
| Net carrying amount                                     | <u>79,602</u>     | <u>72,161</u> | <u>66,610</u> |

## 18. OTHER INTANGIBLE ASSETS

|                                                         | Group             |               |               |
|---------------------------------------------------------|-------------------|---------------|---------------|
|                                                         | As of 31 December |               |               |
|                                                         | 2009              | 2010          | 2011          |
|                                                         | RMB '000          | RMB '000      | RMB '000      |
| Cost as of 1 January, net of accumulated amortisation   | 21,863            | 19,142        | 16,861        |
| Additions                                               | 118               | 554           | 5,205         |
| Amortisation for the year                               | (2,839)           | (2,835)       | (4,599)       |
| Cost as of 31 December, net of accumulated amortisation | <u>19,142</u>     | <u>16,861</u> | <u>17,467</u> |
| As of 31 December:                                      |                   |               |               |
| Cost                                                    | 23,963            | 24,517        | 29,722        |
| Accumulated amortisation                                | (4,821)           | (7,656)       | (12,255)      |
| Net carrying amount                                     | <u>19,142</u>     | <u>16,861</u> | <u>17,467</u> |

|                                                         | Company           |                |                |
|---------------------------------------------------------|-------------------|----------------|----------------|
|                                                         | As of 31 December |                |                |
|                                                         | 2009              | 2010           | 2011           |
|                                                         | RMB '000          | RMB '000       | RMB '000       |
| Cost as of 1 January, net of accumulated amortisation   | 11,656            | 10,342         | 9,049          |
| Additions                                               | 75                | 75             | 5,181          |
| Amortisation for the year                               | (1,389)           | (1,368)        | (1,943)        |
| Cost as of 31 December, net of accumulated amortisation | <u>10,342</u>     | <u>9,049</u>   | <u>12,287</u>  |
| As of 31 December:                                      |                   |                |                |
| Cost                                                    | 12,885            | 12,960         | 18,141         |
| Accumulated amortisation                                | <u>(2,543)</u>    | <u>(3,911)</u> | <u>(5,854)</u> |
| Net carrying amount                                     | <u>10,342</u>     | <u>9,049</u>   | <u>12,287</u>  |

The intangible assets primarily comprise of computer software.

## 19. OTHER NON-CURRENT ASSETS

|                                                         | Group             |                 |                 |
|---------------------------------------------------------|-------------------|-----------------|-----------------|
|                                                         | As of 31 December |                 |                 |
|                                                         | 2009              | 2010            | 2011            |
|                                                         | RMB '000          | RMB '000        | RMB '000        |
| Cost as of 1 January, net of accumulated amortisation   | 22,959            | 20,460          | 18,025          |
| Additions                                               | —                 | 756             | 3,244           |
| Amortisation for the year                               | <u>(2,499)</u>    | <u>(3,191)</u>  | <u>(3,672)</u>  |
| Cost as of 31 December, net of accumulated amortisation | <u>20,460</u>     | <u>18,025</u>   | <u>17,597</u>   |
| As of 31 December:                                      |                   |                 |                 |
| Cost                                                    | 27,793            | 28,549          | 31,793          |
| Accumulated amortisation                                | <u>(7,333)</u>    | <u>(10,524)</u> | <u>(14,196)</u> |
| Net carrying amount                                     | <u>20,460</u>     | <u>18,025</u>   | <u>17,597</u>   |

| <u>Analysed into:</u> | Group             |               |               |
|-----------------------|-------------------|---------------|---------------|
|                       | As of 31 December |               |               |
|                       | 2009              | 2010          | 2011          |
|                       | RMB '000          | RMB '000      | RMB '000      |
| Water use right       | 15,008            | 14,171        | 13,941        |
| Others                | <u>5,452</u>      | <u>3,854</u>  | <u>3,656</u>  |
|                       | <u>20,460</u>     | <u>18,025</u> | <u>17,597</u> |

Water use right was the payment to local water resources bureau to obtain the use right of water.

## 20. INVESTMENTS IN SUBSIDIARIES

|                                         | Company           |                  |                  |
|-----------------------------------------|-------------------|------------------|------------------|
|                                         | As of 31 December |                  |                  |
|                                         | 2009              | 2010             | 2011             |
|                                         | RMB '000          | RMB '000         | RMB '000         |
| Unlisted investments, at cost . . . . . | 3,624,326         | 4,188,635        | 5,028,759        |
| Financial guarantee contracts . . . . . | 288,745           | 127,205          | 88,945           |
|                                         | <u>3,913,071</u>  | <u>4,315,840</u> | <u>5,117,704</u> |

Particulars of the principal subsidiaries of the Company are set out in note 1.

The amounts of the financial guarantee contracts included in the Investments in subsidiaries represented the fair value of the recognised obligation of financial guarantees granted to the subsidiaries. For details of the financial guarantees, please refer to note 38.

## 21. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY

|                                        | Group             |              |          | Company           |              |          |
|----------------------------------------|-------------------|--------------|----------|-------------------|--------------|----------|
|                                        | As of 31 December |              |          | As of 31 December |              |          |
|                                        | 2009              | 2010         | 2011     | 2009              | 2010         | 2011     |
|                                        | RMB '000          | RMB '000     | RMB '000 | RMB '000          | RMB '000     | RMB '000 |
| Unlisted investment, at cost . . . . . | —                 | —            | —        | 6,400             | 6,377        | —        |
| Share of net assets . . . . .          | <u>4,942</u>      | <u>4,918</u> | <u>—</u> | <u>—</u>          | <u>—</u>     | <u>—</u> |
|                                        | <u>4,942</u>      | <u>4,918</u> | <u>—</u> | <u>6,400</u>      | <u>6,377</u> | <u>—</u> |

Particulars of the principal jointly-controlled entities of the Company are set out in note 1.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

|                                                                  | Group             |              |          |
|------------------------------------------------------------------|-------------------|--------------|----------|
|                                                                  | As of 31 December |              |          |
|                                                                  | 2009              | 2010         | 2011     |
|                                                                  | RMB '000          | RMB '000     | RMB '000 |
| Share of the jointly-controlled entity's assets and liabilities: |                   |              |          |
| Current assets . . . . .                                         | 232               | 208          | —        |
| Non-current assets . . . . .                                     | 4,710             | 4,710        | —        |
| Current liabilities . . . . .                                    | —                 | —            | —        |
| Non-current liabilities . . . . .                                | —                 | —            | —        |
| Net assets . . . . .                                             | <u>4,942</u>      | <u>4,918</u> | <u>—</u> |
| Share of the jointly-controlled entity's results:                |                   |              |          |
| Revenue . . . . .                                                | —                 | —            | —        |
| Cost of sales . . . . .                                          | —                 | —            | —        |
| Administrative expenses . . . . .                                | (325)             | (24)         | —        |
| Finance costs . . . . .                                          | 13                | 1            | —        |
| Profit before income tax . . . . .                               | (312)             | (23)         | —        |
| Income tax expense . . . . .                                     | —                 | —            | —        |
| Loss for the year from continuing operations . . . . .           | <u>(312)</u>      | <u>(23)</u>  | <u>—</u> |

## 22. INVESTMENTS IN ASSOCIATES

|                                         | Group             |                |                | Company           |                |                |
|-----------------------------------------|-------------------|----------------|----------------|-------------------|----------------|----------------|
|                                         | As of 31 December |                |                | As of 31 December |                |                |
|                                         | 2009              | 2010           | 2011           | 2009              | 2010           | 2011           |
|                                         | RMB '000          | RMB '000       | RMB '000       | RMB '000          | RMB '000       | RMB '000       |
| Unlisted investments, at cost . . . . . | —                 | —              | —              | 185,790           | 217,643        | 242,109        |
| Share of net assets . . . . .           | 200,782           | 279,636        | 353,026        | —                 | —              | —              |
|                                         | <u>200,782</u>    | <u>279,636</u> | <u>353,026</u> | <u>185,790</u>    | <u>217,643</u> | <u>242,109</u> |

Particulars of the principal associates are set out in note 1.

The following table illustrates the summarised financial information of the Group's associates:

|                                                  | Group             |                |                |
|--------------------------------------------------|-------------------|----------------|----------------|
|                                                  | As of 31 December |                |                |
|                                                  | 2009              | 2010           | 2011           |
|                                                  | RMB '000          | RMB '000       | RMB '000       |
| Share of the associates' assets and liabilities: |                   |                |                |
| Current assets . . . . .                         | 115,325           | 137,886        | 336,081        |
| Non-current assets . . . . .                     | 705,632           | 816,617        | 859,977        |
| Current liabilities . . . . .                    | (445,375)         | (319,367)      | (484,587)      |
| Non-current liabilities . . . . .                | (174,800)         | (355,500)      | (358,445)      |
| Equity . . . . .                                 | <u>200,782</u>    | <u>279,636</u> | <u>353,026</u> |
| Share of the associates' results:                |                   |                |                |
| Revenue . . . . .                                | 125,619           | 175,674        | 310,164        |
| Profit . . . . .                                 | <u>558</u>        | <u>2,599</u>   | <u>19,799</u>  |
| Carrying amount of the investment . . . . .      | <u>200,782</u>    | <u>279,636</u> | <u>353,026</u> |

## 23. AVAILABLE-FOR-SALE INVESTMENTS

|                                                | Group             |                  |                  |
|------------------------------------------------|-------------------|------------------|------------------|
|                                                | As of 31 December |                  |                  |
|                                                | 2009              | 2010             | 2011             |
|                                                | RMB '000          | RMB '000         | RMB '000         |
| Unlisted equity investments, at cost . . . . . | <u>1,338,839</u>  | <u>2,108,132</u> | <u>2,870,590</u> |

|                                                | Company           |                  |                  |
|------------------------------------------------|-------------------|------------------|------------------|
|                                                | As of 31 December |                  |                  |
|                                                | 2009              | 2010             | 2011             |
|                                                | RMB '000          | RMB '000         | RMB '000         |
| Unlisted equity investments, at cost . . . . . | <u>1,318,514</u>  | <u>2,033,607</u> | <u>2,771,675</u> |

Particulars of the principal available-for-sale investments of the Group are set as follows:

|                                                      | Percentage of equity interest attributable to the Group | Group             |                  |                  |
|------------------------------------------------------|---------------------------------------------------------|-------------------|------------------|------------------|
|                                                      |                                                         | As of 31 December |                  |                  |
|                                                      |                                                         | 2009              | 2010             | 2011             |
|                                                      |                                                         | RMB '000          | RMB '000         | RMB '000         |
| Mengji Railway Co., Ltd.<br>(蒙冀鐵路有限責任公司) .....       | 9.0%                                                    | 630,000           | 900,000          | 1,440,000        |
| Xin Baoshen Railway Co., Ltd.<br>(新包神鐵路有限責任公司) ..... | 15.0%                                                   | 382,800           | 382,800          | 382,800          |
| Zhunshuo Railway Co., Ltd.<br>(准朔鐵路有限責任公司) .....     | 19.0%                                                   | 142,200           | 521,400          | 675,790          |
| Nanbu Railway Co., Ltd.<br>(南部鐵路有限責任公司) .....        | 10.0%                                                   | 115,000           | 200,000          | 200,000          |
| Others .....                                         | —                                                       | 68,839            | 103,932          | 172,000          |
|                                                      |                                                         | <u>1,338,839</u>  | <u>2,108,132</u> | <u>2,870,590</u> |

The unlisted equity investments are equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of each reporting period as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

## 24. DEFERRED TAX ASSETS

### Group

The movements in deferred tax during the Relevant Periods are as follows:

|                                                         | Note | Group                  |               |                |
|---------------------------------------------------------|------|------------------------|---------------|----------------|
|                                                         |      | Year ended 31 December |               |                |
|                                                         |      | 2009                   | 2010          | 2011           |
|                                                         |      | RMB '000               | RMB '000      | RMB '000       |
| At 1 January, net .....                                 |      | 13,473                 | 47,417        | 27,398         |
| Deferred tax credited/(charged) to profit or loss ..... | 11   | 33,944                 | (20,019)      | 73,919         |
| At 31 December, net .....                               |      | <u>47,417</u>          | <u>27,398</u> | <u>101,317</u> |

The principal components of the Group's deferred income tax are as follows:

Deferred tax assets:

|                                                                                                 | Note | Provision      | Deferred compensation | Payables and accruals | Others        | Total          |
|-------------------------------------------------------------------------------------------------|------|----------------|-----------------------|-----------------------|---------------|----------------|
|                                                                                                 |      | RMB '000       | RMB '000              | RMB '000              | RMB '000      | RMB '000       |
| At 1 January 2009 .....                                                                         |      | 13,165         | —                     | —                     | 308           | 13,473         |
| Credited to the consolidated statements of comprehensive income during the year ....            |      | <u>2,832</u>   | —                     | 15,980                | 15,132        | 33,944         |
| At 31 December 2009 and 1 January 2010 ...                                                      |      | 15,997         | —                     | 15,980                | 15,440        | 47,417         |
| Charged to the consolidated statements of comprehensive income during the year ....             |      | <u>(4,849)</u> | —                     | (15,125)              | (45)          | (20,019)       |
| At 31 December 2010 .....                                                                       |      | 11,148         | —                     | 855                   | 15,395        | 27,398         |
| Credited/(Charged) to the consolidated statements of comprehensive income during the year ..... |      | <u>(7,722)</u> | 43,183                | (885)                 | 39,313        | 73,919         |
| At 31 December 2011 .....                                                                       |      | <u>3,426</u>   | <u>43,183</u>         | <u>—</u>              | <u>54,708</u> | <u>101,317</u> |



Deferred tax assets have not been recognised in respect of the following items:

|                  | Group       |          |          |
|------------------|-------------|----------|----------|
|                  | 31 December |          |          |
|                  | 2009        | 2010     | 2011     |
|                  | RMB '000    | RMB '000 | RMB '000 |
| Tax losses ..... | 17,331      | 8,983    | 11,136   |

The above tax losses are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

#### Company

The movements in deferred tax during the Relevant Periods are as follows:

|                                                                         | Company                |          |          |
|-------------------------------------------------------------------------|------------------------|----------|----------|
|                                                                         | Year ended 31 December |          |          |
|                                                                         | 2009                   | 2010     | 2011     |
|                                                                         | RMB '000               | RMB '000 | RMB '000 |
| At 1 January, net .....                                                 | 12,554                 | 35,437   | 9,425    |
| Deferred tax credited/(charged) to profit or loss during the year ..... | 22,883                 | (26,012) | (5,999)  |
| At 31 December, net .....                                               | 35,437                 | 9,425    | 3,426    |

The principal components of the Company's deferred income tax are as follows:

#### Deferred tax assets:

|                                                                         | Provision | Payables and accruals | Others   | Total    |
|-------------------------------------------------------------------------|-----------|-----------------------|----------|----------|
|                                                                         | RMB '000  | RMB '000              | RMB '000 | RMB '000 |
| At 1 January 2009 .....                                                 | 12,439    | —                     | 115      | 12,554   |
| Credited to the statement of comprehensive income during the year ..... | 1,213     | 11,036                | 10,634   | 22,883   |
| At 31 December 2009 and 1 January 2010 .....                            | 13,652    | 11,036                | 10,749   | 35,437   |
| Charged to the statement of comprehensive income during the year .....  | (4,233)   | (11,036)              | (10,743) | (26,012) |
| At 31 December 2010 and 1 January 2010 .....                            | 9,419     | —                     | 6        | 9,425    |
| Charged to the statement of comprehensive income during the year .....  | (5,993)   | —                     | (6)      | (5,999)  |
| At 31 December 2011 .....                                               | 3,426     | —                     | —        | 3,426    |

## 25. INVENTORIES

|                                          | Group             |                |                |
|------------------------------------------|-------------------|----------------|----------------|
|                                          | As of 31 December |                |                |
|                                          | 2009              | 2010           | 2011           |
|                                          | RMB '000          | RMB '000       | RMB '000       |
| Materials and supplies . . . . .         | 229,207           | 201,142        | 427,345        |
| Work-in-progress . . . . .               | 5,122             | 2,273          | 8,921          |
| Finished goods . . . . .                 | 85,045            | 259,708        | 243,401        |
| Less: Provision for impairment . . . . . | (3,006)           | (3,006)        | (2,951)        |
|                                          | <u>316,368</u>    | <u>460,117</u> | <u>676,716</u> |

|                                  | Company           |                |                |
|----------------------------------|-------------------|----------------|----------------|
|                                  | As of 31 December |                |                |
|                                  | 2009              | 2010           | 2011           |
|                                  | RMB '000          | RMB '000       | RMB '000       |
| Materials and supplies . . . . . | 219,563           | 174,566        | 295,315        |
| Finished goods . . . . .         | 99,494            | 263,298        | 246,283        |
|                                  | <u>319,057</u>    | <u>437,864</u> | <u>541,598</u> |

## 26. TRADE AND BILLS RECEIVABLES

## Group

|                                          | Group             |                |                |
|------------------------------------------|-------------------|----------------|----------------|
|                                          | As of 31 December |                |                |
|                                          | 2009              | 2010           | 2011           |
|                                          | RMB '000          | RMB '000       | RMB '000       |
| Trade receivables . . . . .              | 702,874           | 573,813        | 708,276        |
| Less: Provision for impairment . . . . . | (35,365)          | (29,062)       | —              |
|                                          | <u>667,509</u>    | <u>544,751</u> | <u>708,276</u> |
| Bills receivable . . . . .               | 1,018             | 28,496         | 43,154         |
|                                          | <u>668,527</u>    | <u>573,247</u> | <u>751,430</u> |

## Company

|                                          | Company           |                |                |
|------------------------------------------|-------------------|----------------|----------------|
|                                          | As of 31 December |                |                |
|                                          | 2009              | 2010           | 2011           |
|                                          | RMB '000          | RMB '000       | RMB '000       |
| Trade receivables . . . . .              | 621,135           | 536,886        | 637,445        |
| Less: Provision for impairment . . . . . | (31,057)          | (26,844)       | —              |
|                                          | <u>590,078</u>    | <u>510,042</u> | <u>637,445</u> |
| Bill receivables . . . . .               | —                 | 500            | 32,000         |
|                                          | <u>590,078</u>    | <u>510,542</u> | <u>669,445</u> |

The Group requires most of its customers to pay in advance and makes provision for the doubtful trade receivables balance at the end of each reporting period. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

The maximum exposure to credit risk at the end of each reporting period during the Relevant Periods is the carrying value of the Group's total trade receivables.

Bill receivables are bills of exchange with maturity of less than six months.

An aged analysis of the Group's trade and bills receivables, net of provisions, is as follows:

|                                                 | Group             |                |                |
|-------------------------------------------------|-------------------|----------------|----------------|
|                                                 | As of 31 December |                |                |
|                                                 | 2009              | 2010           | 2011           |
|                                                 | RMB '000          | RMB '000       | RMB '000       |
| Within six months . . . . .                     | 664,878           | 568,240        | 725,724        |
| Over six months but within one year . . . . .   | 3,649             | 5,007          | 20,880         |
| Over one year but within two years . . . . .    | —                 | —              | 4,826          |
| Over two years but within three years . . . . . | —                 | —              | —              |
| Over three years . . . . .                      | —                 | —              | —              |
|                                                 | <u>668,527</u>    | <u>573,247</u> | <u>751,430</u> |

Movements in the Group's provision for impairment of trade receivables are as follows:

|                                               | Group             |               |          |
|-----------------------------------------------|-------------------|---------------|----------|
|                                               | As of 31 December |               |          |
|                                               | 2009              | 2010          | 2011     |
|                                               | RMB '000          | RMB '000      | RMB '000 |
| At 1 January . . . . .                        | 44,981            | 35,365        | 29,062   |
| Reversal of impairment for the year . . . . . | (9,571)           | (6,303)       | (29,062) |
| Amount written off as uncollectible . . . . . | (45)              | —             | —        |
| At 31 December . . . . .                      | <u>35,365</u>     | <u>29,062</u> | <u>—</u> |

An aged analysis of the Company's trade and bills receivables, net of provisions, is as follows:

Company

|                                                 | Company           |                |                |
|-------------------------------------------------|-------------------|----------------|----------------|
|                                                 | As of 31 December |                |                |
|                                                 | 2009              | 2010           | 2011           |
|                                                 | RMB '000          | RMB '000       | RMB '000       |
| Within six months . . . . .                     | 590,078           | 510,542        | 669,445        |
| Over six months but within one year . . . . .   | —                 | —              | —              |
| Over one year but within two years . . . . .    | —                 | —              | —              |
| Over two years but within three years . . . . . | —                 | —              | —              |
| Over three years . . . . .                      | —                 | —              | —              |
|                                                 | <u>590,078</u>    | <u>510,542</u> | <u>669,445</u> |

Movements in the Company's provision for impairment of trade receivables are as follows:

|                                               | Company           |               |          |
|-----------------------------------------------|-------------------|---------------|----------|
|                                               | As of 31 December |               |          |
|                                               | 2009              | 2010          | 2011     |
|                                               | RMB '000          | RMB '000      | RMB '000 |
| At 1 January . . . . .                        | 41,900            | 31,057        | 26,844   |
| Reversal of impairment for the year . . . . . | —                 | (4,213)       | (26,844) |
| Amount written off as uncollectible . . . . . | (10,843)          | —             | —        |
| At 31 December . . . . .                      | <u>31,057</u>     | <u>26,844</u> | <u>—</u> |

The trade receivables of the Group and the Company that are not considered to be impaired at the end of each reporting period are receivables that were neither past due nor impaired, which relate to a large number of diversified customers for whom there was no recent history of default.

## 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                          | Group             |                |                |
|------------------------------------------|-------------------|----------------|----------------|
|                                          | As of 31 December |                |                |
|                                          | 2009              | 2010           | 2011           |
|                                          | RMB<br>'000       | RMB<br>'000    | RMB<br>'000    |
| Amounts due from related parties:        |                   |                |                |
| Jointly-controlled entity . . . . .      | 238               | 293            | —              |
| Associates . . . . .                     | 10,216            | 96             | 2,571          |
| Yitai Group . . . . .                    | 32,452            | 2,573          | —              |
|                                          | 42,906            | 2,962          | 2,571          |
| Advances to suppliers . . . . .          | 365,668           | 333,275        | 627,290        |
| Prepayments . . . . .                    | 95,523            | 78,131         | 84,907         |
| Staff advances . . . . .                 | 23,784            | 13,866         | 22,018         |
| Deposits . . . . .                       | 11,555            | 10,203         | 90,543         |
| Other receivables . . . . .              | 187,416           | 36,310         | 31,505         |
|                                          | 726,852           | 474,747        | 858,834        |
| Less: Provision for impairment . . . . . | (66,904)          | (20,704)       | (22,840)       |
|                                          | <u>659,948</u>    | <u>454,043</u> | <u>835,994</u> |

Movements in the provision for impairment of other receivables are as follows:

| Group                             | As of 31 December |               |               |
|-----------------------------------|-------------------|---------------|---------------|
|                                   | 2009              | 2010          | 2011          |
|                                   | RMB<br>'000       | RMB<br>'000   | RMB<br>'000   |
| At 1 January . . . . .            | 40,118            | 66,904        | 20,704        |
| Impairment for the year . . . . . | 26,877            | 4,653         | 10,196        |
| Reversal of impairment . . . . .  | (11)              | (50,853)      | (8,060)       |
| Written off . . . . .             | (80)              | —             | —             |
| At 31 December . . . . .          | <u>66,904</u>     | <u>20,704</u> | <u>22,840</u> |

|                                   | Company           |                  |                  |
|-----------------------------------|-------------------|------------------|------------------|
|                                   | As of 31 December |                  |                  |
|                                   | 2009              | 2010             | 2011             |
|                                   | RMB '000          | RMB '000         | RMB '000         |
| Amounts due from related parties: |                   |                  |                  |
| Jointly-controlled entity         | 238               | 293              | —                |
| Subsidiaries                      | 72,906            | 890,242          | 681,105          |
|                                   | 73,144            | 890,535          | 681,105          |
| Advances to suppliers             | 174,044           | 241,747          | 337,589          |
| Prepayments                       | 38,826            | 35,199           | 82,241           |
| Staff advances                    | 12,525            | 10,906           | 20,833           |
| Deposits                          | 11,555            | 7,158            | 85,579           |
| Other receivables                 | 245,264           | 34,393           | 25,430           |
|                                   | 555,358           | 1,219,938        | 1,232,777        |
| Less: Provision for impairment    | (78,157)          | (35,948)         | (43,900)         |
|                                   | <u>477,201</u>    | <u>1,183,990</u> | <u>1,188,877</u> |

Movements in the provision for impairment of other receivables are as follows:

|                                                  | Company           |               |               |
|--------------------------------------------------|-------------------|---------------|---------------|
|                                                  | As of 31 December |               |               |
|                                                  | 2009              | 2010          | 2011          |
|                                                  | RMB '000          | RMB '000      | RMB '000      |
| At 1 January                                     | 59,246            | 78,157        | 35,948        |
| Impairment/(Reversal of impairment) for the year | 18,991            | (42,209)      | 7,952         |
| Written off                                      | (80)              | —             | —             |
| At 31 December                                   | <u>78,157</u>     | <u>35,948</u> | <u>43,900</u> |

## 28. CASH AND SHORT-TERM DEPOSITS AND RESTRICTED BANK DEPOSITS

|                                 | Notes | Group             |                  |                  |
|---------------------------------|-------|-------------------|------------------|------------------|
|                                 |       | As of 31 December |                  |                  |
|                                 |       | 2009              | 2010             | 2011             |
|                                 |       | RMB '000          | RMB '000         | RMB '000         |
| Cash and bank balances          |       | 3,285,474         | 3,733,884        | 3,533,834        |
| Time deposits                   |       | 5,000             | 8,401            | 21,941           |
|                                 |       | 3,290,474         | 3,742,285        | 3,555,775        |
| Less: Restricted cash           | (a)   | (15,039)          | (27,124)         | (20,305)         |
|                                 |       | <u>3,275,435</u>  | <u>3,715,161</u> | <u>3,535,470</u> |
| Denominated in RMB              | (b)   | 3,275,395         | 3,713,471        | 3,534,774        |
| Denominated in other currencies |       | 40                | 1,690            | 696              |
|                                 |       | <u>3,275,435</u>  | <u>3,715,161</u> | <u>3,535,470</u> |

|                                       | Notes | Company           |                  |                  |
|---------------------------------------|-------|-------------------|------------------|------------------|
|                                       |       | As of 31 December |                  |                  |
|                                       |       | 2009              | 2010             | 2011             |
|                                       |       | RMB '000          | RMB '000         | RMB '000         |
| Cash and bank balances .....          |       | 1,872,227         | 2,176,322        | 2,281,216        |
| Time deposits .....                   |       | 5,000             | 8,401            | 8,401            |
|                                       |       | <u>1,877,227</u>  | <u>2,184,723</u> | <u>2,289,617</u> |
| Less: Restricted cash .....           | (a)   | <u>(11,842)</u>   | <u>(8,658)</u>   | <u>(17,076)</u>  |
|                                       |       | <u>1,865,385</u>  | <u>2,176,065</u> | <u>2,272,541</u> |
| Denominated in RMB .....              | (b)   | 1,865,347         | 2,174,376        | 2,271,847        |
| Denominated in other currencies ..... |       | 38                | 1,689            | 694              |
|                                       |       | <u>1,865,385</u>  | <u>2,176,065</u> | <u>2,272,541</u> |

## Notes:

- (a) As of 31 December 2009, 31 December 2010 and 31 December 2011, the Group's bank balances of approximately RMB15,039,000, RMB11,871,000 and RMB20,305,000 were deposited at banks as a mine geological environment protection guarantee fund pursuant to the related government regulations. Such guarantee deposit will be released when the obligations of environment protection is fulfilled and accepted by the competent government entities.

As of 31 December 2010, the Group's bank balances of approximately RMB15,253,000 were also deposited at banks as a guarantee fund for loans of foreign currency. Such guarantee deposit has been released in January 2011.

- (b) The RMB is not freely convertible into other currencies, however, under mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise the following:

|                                 | Group             |                  |                  |
|---------------------------------|-------------------|------------------|------------------|
|                                 | As of 31 December |                  |                  |
|                                 | 2009              | 2010             | 2011             |
|                                 | RMB '000          | RMB '000         | RMB '000         |
| Cash at banks and on hand ..... | <u>3,270,435</u>  | <u>3,706,760</u> | <u>3,513,529</u> |

## 29. TRADE AND BILLS PAYABLES

|                                       | Group             |                |                |
|---------------------------------------|-------------------|----------------|----------------|
|                                       | As of 31 December |                |                |
|                                       | 2009              | 2010           | 2011           |
|                                       | RMB '000          | RMB '000       | RMB '000       |
| Trade payables to third parties ..... | 258,458           | 279,434        | 520,067        |
| Trade payables to associates .....    | 11,397            | —              | 4,771          |
| Trade payables to Yitai Group .....   | —                 | —              | 18,647         |
|                                       | <u>269,855</u>    | <u>279,434</u> | <u>543,485</u> |

An aged analysis of the Group's trade and bills payables, based on the invoice dates, as of the end of each reporting period is as follows:

|                                             | Group             |                |                |
|---------------------------------------------|-------------------|----------------|----------------|
|                                             | As of 31 December |                |                |
|                                             | 2009              | 2010           | 2011           |
|                                             | RMB '000          | RMB '000       | RMB '000       |
| Within six months .....                     | 219,038           | 209,643        | 466,287        |
| Over six months but within one year .....   | 35,551            | 35,220         | 62,473         |
| Over one year but within two years .....    | 13,108            | 25,798         | 6,028          |
| Over two years but within three years ..... | 2,157             | 8,736          | 8,133          |
| Over three years .....                      | 1                 | 37             | 564            |
|                                             | <u>269,855</u>    | <u>279,434</u> | <u>543,485</u> |

The trade payables are non-interest-bearing and have an average credit term of 30 to 90 days. The credit terms granted by the related parties are similar to those offered by the related parties to their major customers.

|                                       | Company           |                |                |
|---------------------------------------|-------------------|----------------|----------------|
|                                       | As of 31 December |                |                |
|                                       | 2009              | 2010           | 2011           |
|                                       | RMB '000          | RMB '000       | RMB '000       |
| Trade payables to third parties ..... | 145,188           | 173,123        | 356,825        |
| Trade payables to associates .....    | —                 | —              | —              |
| Trade payables to Yitai Group .....   | —                 | —              | 18,647         |
|                                       | <u>145,188</u>    | <u>173,123</u> | <u>375,472</u> |

|                                             | Company           |                |                |
|---------------------------------------------|-------------------|----------------|----------------|
|                                             | As of 31 December |                |                |
|                                             | 2009              | 2010           | 2011           |
|                                             | RMB '000          | RMB '000       | RMB '000       |
| Within six months .....                     | 112,314           | 142,449        | 300,688        |
| Over six months but within one year .....   | 32,219            | 10,606         | 60,836         |
| Over one year but within two years .....    | 616               | 19,471         | 5,876          |
| Over two years but within three years ..... | 38                | 560            | 8,072          |
| Over three years .....                      | 1                 | 37             | —              |
|                                             | <u>145,188</u>    | <u>173,123</u> | <u>375,472</u> |



## 30. OTHER PAYABLES AND ACCRUALS

|                                            | Group             |                  |                  |
|--------------------------------------------|-------------------|------------------|------------------|
|                                            | As of 31 December |                  |                  |
|                                            | 2009              | 2010             | 2011             |
|                                            | RMB<br>'000       | RMB<br>'000      | RMB<br>'000      |
| Advances from customers                    | 119,143           | 330,028          | 397,226          |
| Accrued salaries, wages and benefits       | 130,492           | 224,155          | 262,290          |
| Other tax payables                         | 174,855           | 77,955           | (15,491)         |
| Accrued interest payable                   | 21,968            | 20,588           | 21,707           |
| Payables for property, plant and equipment | 1,670,623         | 1,229,390        | 1,062,108        |
| Accruals                                   | 27,684            | 56,656           | 90,513           |
| Amounts due to Yitai Group                 | —                 | —                | 13,001           |
| Amounts due to associates                  | 162               | 234              | 814              |
| Other payables                             | 2,360             | 7,250            | 54,214           |
|                                            | <u>2,147,287</u>  | <u>1,946,256</u> | <u>1,886,382</u> |

|                                            | Company           |                |                  |
|--------------------------------------------|-------------------|----------------|------------------|
|                                            | As of 31 December |                |                  |
|                                            | 2009              | 2010           | 2011             |
|                                            | RMB<br>'000       | RMB<br>'000    | RMB<br>'000      |
| Advances from customers                    | 84,543            | 289,548        | 343,491          |
| Accrued salaries, wages and benefits       | 75,956            | 115,253        | 157,846          |
| Other taxes payable                        | 194,016           | 4,148          | (31,604)         |
| Accrued interest payable                   | 2,780             | 254            | 340              |
| Payables for property, plant and equipment | 414,443           | 418,285        | 533,459          |
| Accruals                                   | 26,407            | 46,950         | 70,613           |
| Amounts due to subsidiaries                | 25,135            | 54,654         | 72,367           |
| Other payables                             | 14,132            | 2,406          | 4,614            |
|                                            | <u>837,412</u>    | <u>931,498</u> | <u>1,151,126</u> |

The above amounts are unsecured, interest-free and have no fixed terms of repayment.

## 31. INTEREST-BEARING LOANS AND BORROWINGS

|                                                                 | Group             |             |             |
|-----------------------------------------------------------------|-------------------|-------------|-------------|
|                                                                 | As of 31 December |             |             |
|                                                                 | 2009              | 2010        | 2011        |
|                                                                 | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| <b>Current:</b>                                                 |                   |             |             |
| Bank loans — secured by guarantees                              | 400,000           | 193,244     | 218,000     |
| Bank loans — unsecured                                          | 930,000           | 200,000     | 650,000     |
| Total bank loans                                                | 1,330,000         | 393,244     | 868,000     |
| Current portion of long term bank loans — secured by guarantees | 337,672           | 505,352     | 1,258,190   |
| Current portion of long term bank loans — unsecured             | 84,950            | 20,000      | 80,000      |
| Total current portion of long term bank loans                   | 422,622           | 525,352     | 1,338,190   |
| Total current loans                                             | 1,752,622         | 918,596     | 2,206,190   |
| <b>Non-current:</b>                                             |                   |             |             |
| Bank loans — secured by guarantees                              | 6,515,486         | 6,391,811   | 5,520,594   |
| Bank loans — unsecured                                          | 852,300           | 620,000     | 580,000     |
| Total non-current loans                                         | 7,367,786         | 7,011,811   | 6,100,594   |
| Total loans                                                     | 9,120,408         | 7,930,407   | 8,306,784   |
| Denominated in RMB                                              | 8,746,250         | 7,589,800   | 8,026,600   |
| Denominated in USD                                              | 51,768            | 51,459      | 43,977      |

|                                                                 | Company           |             |             |
|-----------------------------------------------------------------|-------------------|-------------|-------------|
|                                                                 | As of 31 December |             |             |
|                                                                 | 2009              | 2010        | 2011        |
|                                                                 | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| <b>Current:</b>                                                 |                   |             |             |
| Bank loans — secured by guarantees                              | —                 | —           | —           |
| Bank loans — unsecured                                          | 730,000           | —           | —           |
| Total bank loans                                                | 730,000           | —           | —           |
| Current portion of long term bank loans — secured by guarantees | 20,000            | —           | —           |
| Current portion of long term bank loans — unsecured             | 84,950            | 20,000      | 80,000      |
| Total current portion of long term bank loans                   | 104,950           | 20,000      | 80,000      |
| Total current loans                                             | 834,950           | 20,000      | 80,000      |
| <b>Non-current:</b>                                             |                   |             |             |
| Bank loans — secured by guarantees                              | 140,000           | —           | —           |
| Bank loans — unsecured                                          | 852,300           | 120,000     | 80,000      |
| Total non-current loans                                         | 992,300           | 120,000     | 80,000      |
| Total loans                                                     | 1,827,250         | 140,000     | 160,000     |
| Denominated in RMB                                              | 1,827,250         | 140,000     | 160,000     |

The ranges of the effective interest rates on the Group's and the Company's loans are as follows:

|                     | As of 31 December |           |           |
|---------------------|-------------------|-----------|-----------|
|                     | 2009              | 2010      | 2011      |
|                     | %                 | %         | %         |
| <b>Group</b>        |                   |           |           |
| Fixed-rate loans    | 3.80-7.47         | 2.20-7.29 | 3.80-9.09 |
| Floating-rate loans | 4.86-7.83         | 4.86-6.40 | 5.76-7.05 |
| <b>Company</b>      |                   |           |           |
| Fixed-rate loans    | 4.37-7.47         | 4.89-5.31 | N/A       |
| Floating-rate loans | 4.86-7.83         | 4.86-6.40 | 6.40-6.90 |

The maturity profile of the loans as of the end of the reporting period is as follows:

|                                        | Group             |                  |                  |
|----------------------------------------|-------------------|------------------|------------------|
|                                        | As of 31 December |                  |                  |
|                                        | 2009              | 2010             | 2011             |
|                                        | RMB '000          | RMB '000         | RMB '000         |
| Analysed into:                         |                   |                  |                  |
| Bank loans repayable:                  |                   |                  |                  |
| Within one year or on demand           | 1,752,622         | 918,596          | 2,206,190        |
| In the second year                     | 521,054           | 1,107,352        | 1,131,190        |
| In the third to fifth years, inclusive | 2,416,713         | 2,256,057        | 2,204,317        |
| Beyond five years                      | 4,430,019         | 3,648,402        | 2,765,087        |
|                                        | <u>9,120,408</u>  | <u>7,930,407</u> | <u>8,306,784</u> |
|                                        | Company           |                  |                  |
|                                        | As of 31 December |                  |                  |
|                                        | 2009              | 2010             | 2011             |
|                                        | RMB '000          | RMB '000         | RMB '000         |
| Analysed into:                         |                   |                  |                  |
| Bank loans repayable:                  |                   |                  |                  |
| Within one year or on demand           | 834,950           | 20,000           | 80,000           |
| In the second year                     | 122,500           | 40,000           | 40,000           |
| In the third to fifth years, inclusive | 765,050           | 80,000           | 40,000           |
| Beyond five years                      | 104,750           | —                | —                |
|                                        | <u>1,827,250</u>  | <u>140,000</u>   | <u>160,000</u>   |

Certain loans were supported by guarantees provided from the following parties:

|                           | Group             |                  |                  |
|---------------------------|-------------------|------------------|------------------|
|                           | As of 31 December |                  |                  |
|                           | 2009              | 2010             | 2011             |
|                           | RMB '000          | RMB '000         | RMB '000         |
| Yitai Group               | 529,196           | 60,000           | 404,000          |
| Independent third parties | —                 | —                | 31,452           |
| Other related parties     | 1,329,186         | 1,365,255        | 665,222          |
|                           | <u>1,858,382</u>  | <u>1,425,255</u> | <u>1,100,674</u> |

|                                 | Company           |          |          |
|---------------------------------|-------------------|----------|----------|
|                                 | As of 31 December |          |          |
|                                 | 2009              | 2010     | 2011     |
|                                 | RMB '000          | RMB '000 | RMB '000 |
| Yitai Group .....               | 160,000           | —        | —        |
| Independent third parties ..... | —                 | —        | —        |
|                                 | <u>160,000</u>    | <u>—</u> | <u>—</u> |

In the opinion of the Directors, the Group's and the Company's carrying amounts of current loans and non-current loans based on market rates approximate to their fair values at each end of the reporting period.

### 32. ISSUED CAPITAL

|                                        | Group/Company     |                  |                  |
|----------------------------------------|-------------------|------------------|------------------|
|                                        | As of 31 December |                  |                  |
|                                        | 2009              | 2010             | 2011             |
|                                        | RMB '000          | RMB '000         | RMB '000         |
| Fully paid-up registered capital ..... | <u>732,000</u>    | <u>1,464,000</u> | <u>1,464,000</u> |

The Company was incorporated on 23 September 1997 with an initial registered share capital of RMB366,000,000 divided into 366,000,000 shares with a par value of RMB1 each.

On 16 September 2007, the Company increased the issued share capital to RMB732,000,000 through the conversion of capital reserve and proposed dividends.

On 5 May 2010, the Company increased the issued share capital to RMB1,464,000,000 through the conversion of proposed dividends.

### 33. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

#### (b) Company

|                                                          | Capital reserve | Statutory surplus reserve | Safety and maintenance fund | Retained earnings | Proposed final dividends (note 12) | Total             |
|----------------------------------------------------------|-----------------|---------------------------|-----------------------------|-------------------|------------------------------------|-------------------|
|                                                          | RMB '000        | RMB '000                  | RMB '000                    | RMB '000          | RMB '000                           | RMB '000          |
| <b>As of 1 January 2009</b> .....                        | <b>125,414</b>  | <b>705,899</b>            | <b>329,832</b>              | <b>3,905,572</b>  | <b>732,000</b>                     | <b>5,798,717</b>  |
| Comprehensive income for the year .....                  | —               | —                         | —                           | 3,337,590         | —                                  | 3,337,590         |
| Transferred from retained earnings .....                 | —               | 342,556                   | —                           | (342,556)         | —                                  | —                 |
| Appropriation to safety and maintenance fund .....       | —               | —                         | (329,832)                   | 329,832           | —                                  | —                 |
| Others .....                                             | 40,756          | —                         | —                           | —                 | —                                  | 40,756            |
| 2008 final dividends paid .....                          | —               | —                         | —                           | —                 | (732,000)                          | (732,000)         |
| Proposed 2009 final dividends .....                      | —               | —                         | —                           | (732,000)         | 732,000                            | —                 |
| <b>As of 31 December 2009 and 1 January 2010</b> .....   | <b>166,170</b>  | <b>1,048,455</b>          | <b>—</b>                    | <b>6,498,438</b>  | <b>732,000</b>                     | <b>8,445,063</b>  |
| Comprehensive income for the year .....                  | —               | —                         | —                           | 4,571,504         | —                                  | 4,571,504         |
| Transferred from retained earnings .....                 | —               | 460,794                   | —                           | (460,794)         | —                                  | —                 |
| 2009 final dividends paid .....                          | —               | —                         | —                           | —                 | (732,000)                          | (732,000)         |
| 2009 final dividends conversion into share capital ..... | —               | —                         | —                           | (732,000)         | —                                  | (732,000)         |
| Proposed 2010 final dividends .....                      | —               | —                         | —                           | (2,196,000)       | 2,196,000                          | —                 |
| <b>As of 31 December 2010 and 1 January 2011</b> .....   | <b>166,170</b>  | <b>1,509,249</b>          | <b>—</b>                    | <b>7,681,148</b>  | <b>2,196,000</b>                   | <b>11,552,567</b> |
| Comprehensive income for the year .....                  | —               | —                         | —                           | 5,103,185         | —                                  | 5,103,185         |
| Transferred from retained profits .....                  | —               | 513,587                   | —                           | (513,587)         | —                                  | —                 |
| 2010 final dividends paid .....                          | —               | —                         | —                           | —                 | (2,196,000)                        | (2,196,000)       |
| Proposed 2011 final dividends .....                      | —               | —                         | —                           | (2,196,000)       | 2,196,000                          | —                 |
| Others .....                                             | (42)            | —                         | —                           | —                 | —                                  | (42)              |
| <b>As of 31 December 2011</b> .....                      | <b>166,128</b>  | <b>2,022,836</b>          | <b>—</b>                    | <b>10,074,746</b> | <b>2,196,000</b>                   | <b>14,459,710</b> |

**34. ACQUISITION AND DISPOSAL OF NON-CONTROLLING INTERESTS IN SUBSIDIARIES****Acquisition of Non-controlling interests in subsidiaries**

During the year ended 31 December 2010, the Group acquired the non-controlling interests in subsidiaries as follows:

- i) On 23 June 2010, the Group entered into a purchase agreement with Inner Mongolia Ruyi Co., Ltd. (內蒙古如意實業股份有限公司) to acquire the equity interests of 4% in Inner Mongolia Yitai Zhundong Railway Co., Ltd. at cash considerations of RMB108,750,000. After the acquisition, the Company held 100% of the total equity interest of Inner Mongolia Yitai Zhundong Railway Co., Ltd..

During the year ended 31 December 2011, the Group acquired the non-controlling interests in subsidiaries as follows:

- ii) On 10 June 2011, the Group entered into a purchase agreement with Liu Shun (劉順) to acquire the equity interests of 4.14% in Inner Mongolia Yitai Pharmaceutical Co., Ltd. (內蒙古伊泰藥業有限責任公司) at the cash consideration of RMB500,000. After the acquisition, the Company held 100% of the total equity interest of in Inner Mongolia Yitai Pharmaceutical Co., Ltd..

**Disposal of interests in subsidiaries**

During the year ended 31 December 2009, the disposals of minority interests in subsidiaries for the Group were as follows:

- i) On 31 May 2009, the Group entered into an agreement with Shanxi Yudean and Beijing Jingneng Thermal Power Co., Ltd. (北京京能熱電股份有限公司) to dispose of the equity interests of 9% and 9% in Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. for cash consideration of RMB402,800,000 and RMB402,800,000 respectively. After the disposal, the Group then held a 52% equity interest in Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd.
- ii) On 30 June 2009, the Group entered into an agreement with Ordos Dongchen Coal Co., Ltd. (鄂爾多斯市東辰煤炭有限責任公司), and Ordos Dinghua Resource Development Co., Ltd. (鄂爾多斯市鼎華資源開發有限責任公司) to dispose of the equity interests of 30% and 19% in Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd. for cash considerations of RMB 79,805,500 and RMB 50,543,500 respectively. After the disposal, the Group then held 51% equity interest in Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd.

**35. OPERATING LEASE ARRANGEMENTS****As lessee**

At the end of each reporting period during the Relevant Periods, the Group had no significant future minimum lease payments under non-cancellable operating leases.

## 36. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period during the Relevant Periods:

|                                          | Group             |                  |                  |
|------------------------------------------|-------------------|------------------|------------------|
|                                          | As of 31 December |                  |                  |
|                                          | 2009              | 2010             | 2011             |
|                                          | RMB '000          | RMB '000         | RMB '000         |
| Contracted, but not provided for:        |                   |                  |                  |
| Property, plant and equipment . . . . .  | 1,574,087         | 2,295,036        | 1,497,085        |
| Available-for-sale investments . . . . . | 823,120           | 358,920          | 168,530          |
|                                          | <u>2,397,207</u>  | <u>2,653,956</u> | <u>1,665,615</u> |
|                                          |                   |                  |                  |
|                                          | Company           |                  |                  |
|                                          | As of 31 December |                  |                  |
|                                          | 2009              | 2010             | 2011             |
|                                          | RMB '000          | RMB '000         | RMB '000         |
| Contracted, but not provided for:        |                   |                  |                  |
| Property, plant and equipment . . . . .  | 310,517           | 363,559          | 517,479          |
| Available-for-sale investments . . . . . | 729,625           | 319,625          | 153,625          |
|                                          | <u>1,040,142</u>  | <u>683,184</u>   | <u>671,104</u>   |

## 37. RELATED PARTY TRANSACTIONS AND BALANCES

## (a) Significant related party transactions

In addition to the transactions and balances disclosed elsewhere in this report, the Group had the following material transactions with related parties during the Relevant Periods:

|                                                 | Note | Group                  |          |          |
|-------------------------------------------------|------|------------------------|----------|----------|
|                                                 |      | Year ended 31 December |          |          |
|                                                 |      | 2009                   | 2010     | 2011     |
|                                                 |      | RMB '000               | RMB '000 | RMB '000 |
| Sales of goods to Yitai Group . . . . .         | (i)* | 186,326                | 102,311  | 140,449  |
| Sales of goods to an associate . . . . .        | (i)* | 3,156                  | 163,546  | 198,665  |
| Provision of services to Yitai Group . . . . .  | (i)* | 437,990                | 248,160  | 638,626  |
| Purchase of services from Yitai Group . . . . . | (i)# | 120,253                | 113,519  | 133,432  |
| Purchase of goods from Yitai Group . . . . .    | (i)# | 57,063                 | —        | —        |

Note:

- (i) In the opinion of the Directors, the transactions between the Group and the related parties were conducted in the ordinary and usual course of business and on normal commercial terms, the pricing terms were at the prevailing market prices.
- \* In the opinion of directors, the related party transactions will continue after the listing of H shares of the Company on Hong Kong Stock Exchange and the completion of the Proposed Acquisition (as defined in the Prospectus).
- # In the opinion of directors, the related party transactions will not continue after the listing of H shares of the Company on Hong Kong Stock Exchange and the completion of the Proposed Acquisition.

## (b) Outstanding balances with related parties

|                                                       | Note | Group             |          |          |
|-------------------------------------------------------|------|-------------------|----------|----------|
|                                                       |      | As of 31 December |          |          |
|                                                       |      | 2009              | 2010     | 2011     |
|                                                       |      | RMB '000          | RMB '000 | RMB '000 |
| Trade and bills receivables . . . . .                 | (i)  | 66,511            | 6,730    | 10,000   |
| Prepayments, deposits and other receivables . . . . . | (i)  | 42,906            | 2,962    | 2,571    |
| Trade payables . . . . .                              | (i)  | (11,397)          | —        | (23,418) |
| Other payables and accruals . . . . .                 | (i)  | (162)             | (234)    | (13,815) |

(i) The above balances are unsecured, non-interest bearing and repayable on demand.

## (c) Guarantees received from related parties

As of 31 December 2009, 31 December 2010 and 31 December 2011, bank loans of RMB1,858,382,000, RMB1,425,255,000 and RMB1,069,222,000 were guaranteed by the related parties respectively.

## (d) Guarantees given to banks for loans of related parties

As of 31 December 2009, 31 December 2010 and 31 December 2011, guarantees of RMB110,200,000, RMB19,552,000 and RMB17,056,000 were given to banks for loans of related parties.

**38. CONTINGENT LIABILITIES**

The Group had the following contingent liabilities not provided for as of the end of the reporting period during the Relevant Periods:

|                                                                                      | Group             |                  |                  |
|--------------------------------------------------------------------------------------|-------------------|------------------|------------------|
|                                                                                      | As of 31 December |                  |                  |
|                                                                                      | 2009              | 2010             | 2011             |
|                                                                                      | RMB '000          | RMB '000         | RMB '000         |
| Guarantees given to banks in connection with loans granted to associates . . . . .   | 110,200           | 19,552           | 17,056           |
|                                                                                      | <u>110,200</u>    | <u>19,552</u>    | <u>17,056</u>    |
|                                                                                      | Company           |                  |                  |
|                                                                                      | As of 31 December |                  |                  |
|                                                                                      | 2009              | 2010             | 2011             |
|                                                                                      | RMB '000          | RMB '000         | RMB '000         |
| Guarantees given to banks in connection with loans granted to subsidiaries . . . . . | 5,394,776         | 5,649,907        | 5,896,111        |
| Guarantees given to banks in connection with loans granted to associates . . . . .   | 110,200           | 19,552           | 17,056           |
|                                                                                      | <u>5,504,976</u>  | <u>5,669,459</u> | <u>5,913,167</u> |



## 39. FINANCIAL INSTRUMENTS BY CATEGORY

|                                                                                       | Group             |             |             |
|---------------------------------------------------------------------------------------|-------------------|-------------|-------------|
|                                                                                       | As of 31 December |             |             |
|                                                                                       | 2009              | 2010        | 2011        |
|                                                                                       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| <b>Financial assets</b>                                                               |                   |             |             |
| Available-for-sale investments . . . . .                                              | 1,338,839         | 2,108,132   | 2,870,590   |
| <b>Loans and receivables</b>                                                          |                   |             |             |
| Trade and bills receivables . . . . .                                                 | 668,527           | 573,247     | 751,430     |
| Financial assets included in prepayments, deposits and other<br>receivables . . . . . | 254,106           | 53,138      | 56,094      |
| Restricted cash . . . . .                                                             | 15,039            | 27,124      | 20,305      |
| Cash and short-term deposits . . . . .                                                | 3,275,435         | 3,715,161   | 3,535,470   |
| <b>Financial liabilities</b>                                                          |                   |             |             |
| <b>Financial liabilities at amortised cost</b>                                        |                   |             |             |
| Trade and bills payables . . . . .                                                    | 269,855           | 279,434     | 543,485     |
| Financial liabilities included in other payables and accruals . . . . .               | 2,028,144         | 1,616,228   | 1,489,156   |
| Interest-bearing bank and other borrowings . . . . .                                  | 9,120,408         | 7,930,407   | 8,306,784   |
|                                                                                       |                   |             |             |
|                                                                                       | Company           |             |             |
|                                                                                       | As of 31 December |             |             |
|                                                                                       | 2009              | 2010        | 2011        |
|                                                                                       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| <b>Financial assets</b>                                                               |                   |             |             |
| Available-for-sale investments . . . . .                                              | 1,318,514         | 2,033,607   | 2,771,675   |
| <b>Loans and receivables</b>                                                          |                   |             |             |
| Trade and bills receivables . . . . .                                                 | 590,078           | 510,542     | 669,445     |
| Financial assets included in prepayments, deposits and other<br>receivables . . . . . | 330,933           | 935,834     | 727,368     |
| Restricted cash . . . . .                                                             | 11,842            | 8,658       | 17,076      |
| Cash and short-term deposits . . . . .                                                | 1,865,385         | 2,176,065   | 2,272,541   |
| <b>Financial liabilities</b>                                                          |                   |             |             |
| <b>Financial liabilities at amortised cost</b>                                        |                   |             |             |
| Trade and bills payables . . . . .                                                    | 145,188           | 173,123     | 375,472     |
| Financial liabilities included in other payables and accruals . . . . .               | 752,869           | 641,950     | 807,635     |
| Interest-bearing bank and other borrowings . . . . .                                  | 1,827,250         | 140,000     | 160,000     |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values as of the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, commodity price risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

Interest rate risk is the risk of fluctuations of fair values on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing cash flow interest rate risk, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate loans) and the Group's and the Company's equity.

|                                   | Group                                  |                                                               |
|-----------------------------------|----------------------------------------|---------------------------------------------------------------|
|                                   | Increase/(decrease)<br>in basis points | Increase/(decrease)<br>in profit before<br>tax<br>RMB<br>'000 |
| Year ended 31 December 2011 ..... | 100<br>(100)                           | (70,429)<br>70,429                                            |
| Year ended 31 December 2010 ..... | 100<br>(100)                           | (75,372)<br>75,372                                            |
| Year ended 31 December 2009 ..... | 100<br>(100)                           | (77,883)<br>77,883                                            |

|                                   | Company                                |                                                               |
|-----------------------------------|----------------------------------------|---------------------------------------------------------------|
|                                   | Increase/(decrease)<br>in basis points | Increase/(decrease)<br>in profit before<br>tax<br>RMB<br>'000 |
| Year ended 31 December 2011 ..... | 100<br>(100)                           | (800)<br>800                                                  |
| Year ended 31 December 2010 ..... | 100<br>(100)                           | (1,400)<br>1,400                                              |
| Year ended 31 December 2009 ..... | 100<br>(100)                           | (10,973)<br>10,973                                            |

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and short-term deposits, available-for-sale investments and prepayments, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

### Commodity price risk

The Group is exposed to commodity price risk through fluctuations of the price of coal sold by the Group. The Group has accepted the exposure to commodity price risk and has not used forward contracts to eliminate the commodity price exposures on individual transactions.

### Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and the Group has available funding through an adequate amount of committed credit facilities to meet its commitments.

The table below summarises the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments.

## Group

| Year ended<br>31 December 2011                       | On demand      | Less than 1<br>year | 1 to 5 Years     | More than 5<br>years | Total             |
|------------------------------------------------------|----------------|---------------------|------------------|----------------------|-------------------|
|                                                      | RMB<br>'000    | RMB<br>'000         | RMB<br>'000      | RMB<br>'000          | RMB<br>'000       |
| Interest bearing bank and other borrowings . . . . . | —              | 2,652,175           | 4,511,978        | 3,642,957            | 10,807,110        |
| Trade and bills payables . . . . .                   | 543,485        | —                   | —                | —                    | 543,485           |
| Other payables and liabilities . . . . .             | 54,214         | 1,434,942           | —                | —                    | 1,489,156         |
|                                                      | <u>597,699</u> | <u>4,087,117</u>    | <u>4,511,978</u> | <u>3,642,957</u>     | <u>12,839,751</u> |

| Year ended<br>31 December 2010                       | On demand      | Less than 1<br>year | 1 to 5 years     | More than 5<br>years | Total             |
|------------------------------------------------------|----------------|---------------------|------------------|----------------------|-------------------|
|                                                      | RMB<br>'000    | RMB<br>'000         | RMB<br>'000      | RMB<br>'000          | RMB<br>'000       |
| Interest bearing bank and other borrowings . . . . . | —              | 1,312,207           | 4,586,410        | 4,836,282            | 10,734,899        |
| Trade and bills payables . . . . .                   | 279,434        | —                   | —                | —                    | 279,434           |
| Other payables and liabilities . . . . .             | 7,250          | 1,608,978           | —                | —                    | 1,616,228         |
|                                                      | <u>286,684</u> | <u>2,921,185</u>    | <u>4,586,410</u> | <u>4,836,282</u>     | <u>12,630,561</u> |

| Year ended<br>31 December 2009                       | On demand      | Less than 1<br>year | 1 to 5 years     | More than 5<br>years | Total             |
|------------------------------------------------------|----------------|---------------------|------------------|----------------------|-------------------|
|                                                      | RMB<br>'000    | RMB<br>'000         | RMB<br>'000      | RMB<br>'000          | RMB<br>'000       |
| Interest bearing bank and other borrowings . . . . . | —              | 2,308,828           | 4,297,785        | 5,581,384            | 12,187,997        |
| Trade and bills payables . . . . .                   | 258,458        | 11,397              | —                | —                    | 269,855           |
| Other payables and liabilities . . . . .             | 2,360          | 2,025,784           | —                | —                    | 2,028,144         |
|                                                      | <u>260,818</u> | <u>4,346,009</u>    | <u>4,297,785</u> | <u>5,581,384</u>     | <u>14,485,996</u> |

## Company

| Year ended<br>31 December 2011                                                            | On demand      | Less than 1<br>year | 1 to 5 years  | More than 5<br>years | Total            |
|-------------------------------------------------------------------------------------------|----------------|---------------------|---------------|----------------------|------------------|
|                                                                                           | RMB<br>'000    | RMB<br>'000         | RMB<br>'000   | RMB<br>'000          | RMB<br>'000      |
| Interest bearing bank and other borrowings . . . . .                                      | —              | 91,020              | 88,460        | —                    | 179,480          |
| Trade and bills payables . . . . .                                                        | 375,472        | —                   | —             | —                    | 375,472          |
| Other payables and liabilities . . . . .                                                  | 4,614          | 803,021             | —             | —                    | 807,635          |
| Guarantees given to banks in connection with facilities granted to subsidiaries . . . . . | 88,945         | —                   | —             | —                    | 88,945           |
|                                                                                           | <u>469,031</u> | <u>894,041</u>      | <u>88,460</u> | <u>—</u>             | <u>1,451,532</u> |

| Year ended<br>31 December 2010                                                            | On demand      | Less than 1<br>year | 1 to 5 years     | More than 5<br>years | Total            |
|-------------------------------------------------------------------------------------------|----------------|---------------------|------------------|----------------------|------------------|
|                                                                                           | RMB<br>'000    | RMB<br>'000         | RMB<br>'000      | RMB<br>'000          | RMB<br>'000      |
| Interest bearing bank and other borrowings . . . . .                                      | —              | 28,000              | 129,600          | —                    | 157,600          |
| Trade and bills payables . . . . .                                                        | 173,123        | —                   | —                | —                    | 173,123          |
| Other payables and liabilities . . . . .                                                  | 2,406          | 639,544             | —                | —                    | 641,950          |
| Guarantees given to banks in connection with facilities granted to subsidiaries . . . . . | 127,205        | —                   | —                | —                    | 127,205          |
|                                                                                           | <u>302,734</u> | <u>667,544</u>      | <u>129,600</u>   | <u>—</u>             | <u>1,099,878</u> |
| Year ended<br>31 December 2009                                                            | On demand      | Less than 1<br>year | 1 to 5 years     | More than 5<br>years | Total            |
|                                                                                           | RMB<br>'000    | RMB<br>'000         | RMB<br>'000      | RMB<br>'000          | RMB<br>'000      |
| Interest bearing bank and other borrowings . . . . .                                      | —              | 898,533             | 1,003,254        | 111,449              | 2,013,236        |
| Trade and bills payables . . . . .                                                        | 145,188        | —                   | —                | —                    | 145,188          |
| Other payables and liabilities . . . . .                                                  | 14,132         | 738,737             | —                | —                    | 752,869          |
| Guarantees given to banks in connection with facilities granted to subsidiaries . . . . . | 288,745        | —                   | —                | —                    | 288,745          |
|                                                                                           | <u>448,065</u> | <u>1,637,270</u>    | <u>1,003,254</u> | <u>111,449</u>       | <u>3,200,038</u> |

### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by capital. Net debt includes interest-bearing bank loans, trade, bills and other payables, accruals, less cash and cash equivalents. Capital represents the equity attributable to owners of the parent.

At the end of each of reporting period during the Relevant Periods, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of each of the Relevant Periods were as follows:

## Group

|                                                       | As of 31 December |             |             |
|-------------------------------------------------------|-------------------|-------------|-------------|
|                                                       | 2009              | 2010        | 2011        |
|                                                       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| Interest-bearing bank loans . . . . .                 | 9,120,408         | 7,930,407   | 8,306,784   |
| Trade and bills payables . . . . .                    | 269,855           | 279,434     | 543,485     |
| Other payables and accruals . . . . .                 | 2,028,144         | 1,616,228   | 1,489,156   |
| Less: Cash and cash equivalent . . . . .              | (3,275,435)       | (3,715,161) | (3,535,470) |
| Net debt . . . . .                                    | 8,142,972         | 6,110,908   | 6,803,955   |
| Equity attributable to owners of the company. . . . . | 9,506,584         | 13,745,474  | 17,015,636  |
| Gearing ratio . . . . .                               | 0.86              | 0.44        | 0.40        |

## 41. EVENTS AFTER THE REPORTING PERIOD

The Company has entered into an assets transfer agreement with Yitai Group on 29 May 2012, pursuant to which Yitai Group agreed to transfer, and the Company agreed to acquire, the Target Business Group at an aggregate consideration of RMB8,446.5 million. The Company intends to use the net proceeds of the Global Offering to fund the amount of consideration payable to Yitai Group for the Proposed Acquisition.

## 42. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
 Hong Kong



22nd Floor CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

29 June 2012

The Directors

Inner Mongolia Yitai Group Company Limited

Inner Mongolia Yitai Coal Company Limited

China International Capital Corporation Hong Kong Securities Limited

BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to the Target Business Group (as defined in note 1 of Section II below) for each of the three years ended 31 December 2009, 2010 and 2011, prepared on the basis set out in note 2 of Section II below, for inclusion in the Prospectus of Inner Mongolia Yitai Coal Company Limited (內蒙古伊泰煤炭股份有限公司“Yitai Coal”) dated 29 June 2012 (the “Prospectus”) in connection with the initial listing of the shares of Yitai Coal on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

Pursuant to an acquisition agreement dated 29 May 2012 entered into between Yitai Coal and Inner Mongolia Yitai Group Company Limited (內蒙古伊泰集團有限公司“Yitai Group”), Yitai Coal will agree to acquire the Target Business Group, which is carried out by the relevant entities and the business divisions controlled by Yitai Group (the “Acquisition”). Particulars of the entities and the business divisions included in the Target Business Group are set out in note 1 of Section II below.

Yitai Group and the entities included in the Target Business Group were established in the People's Republic of China (the “PRC”) and have adopted 31 December as their financial year end date for statutory financial reporting purposes. The financial statements of these entities were prepared in accordance with the relevant accounting principles and financial regulations in the PRC applicable to these entities and all of which were not audited by us. For the purpose of the Acquisition, the Directors of Yitai Group (the “Directors”) have prepared the combined financial statements of the Target Business Group which include the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Business Group for the Relevant Periods, and the combined statements of financial position of the Target Business Group as of 31 December 2009, 2010 and 2011 and a summary of significant accounting policies and other explanatory information, in accordance with the relevant accounting principles and financial regulations in the PRC (the “PRC Combined Financial Statements”), which have been audited by Da Hua Certified Public Accountants (大華會計師事務所, “Dahua”), a certified public accounting firm registered in the PRC.

The financial information set out in this report, including the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Business Group for the Relevant Periods, and the combined statements of financial position of the Target Business Group as of 31 December 2009, 2010 and 2011, and a summary of significant accounting policies and other explanatory information (collectively, the “Combined Financial Information”), has been prepared based on the PRC Combined Financial Statements and the relevant management accounts of the Target Business Group on the basis set out in note 2 of Section II below, after making such adjustments as appropriate to comply with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”).

The Directors are responsible for the preparation of the Combined Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Combined Financial Information that are free from material misstatement, whether due to fraud or error.

It is our responsibility to form an independent opinion, based on our audit, of the Combined Financial Information and to report our opinion thereon. For the purpose of this report, we have carried out an independent audit on the Combined Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, for the purpose of this report, the Combined Financial Information, prepared on the basis set out in note 2 of Section II below, gives a true and fair view of the combined results and cash flows of the Target Business Group for each of the years ended 31 December 2009, 2010 and 2011 and of the state of affairs of the Target Business Group as of 31 December 2009, 2010 and 2011 in accordance with IFRSs.



## I. COMBINED FINANCIAL INFORMATION

## (A) Combined statements of comprehensive income

|                                               | Notes | Year ended 31 December |             |             |
|-----------------------------------------------|-------|------------------------|-------------|-------------|
|                                               |       | 2009                   | 2010        | 2011        |
|                                               |       | RMB '000               | RMB '000    | RMB '000    |
| REVENUE .....                                 | 6     | 5,274,598              | 9,268,262   | 10,848,936  |
| Cost of sales .....                           |       | (3,614,665)            | (6,358,873) | (7,515,201) |
| Gross profit .....                            |       | 1,659,933              | 2,909,389   | 3,333,735   |
| Other income .....                            | 6     | 55,111                 | 118,267     | 128,483     |
| Selling and distribution costs .....          |       | (299,689)              | (372,771)   | (423,373)   |
| Administrative expenses .....                 |       | (120,191)              | (122,735)   | (158,081)   |
| Other expenses .....                          |       | 12,278                 | (20,577)    | 28,666      |
| Finance income .....                          | 7     | 7,004                  | 13,724      | 4,177       |
| Finance costs .....                           | 8     | (367)                  | (392)       | (417)       |
| PROFIT BEFORE TAX .....                       | 9     | 1,314,079              | 2,524,905   | 2,913,190   |
| Income tax expense .....                      | 11    | (293,535)              | (559,473)   | (617,611)   |
| PROFIT FOR THE YEAR .....                     |       | 1,020,544              | 1,965,432   | 2,295,579   |
| Other comprehensive income .....              |       | —                      | —           | —           |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR ..... |       | 1,020,544              | 1,965,432   | 2,295,579   |
| Attributable to:                              |       |                        |             |             |
| Owner of the Target Business Group .....      |       | 928,282                | 1,792,751   | 2,034,946   |
| Non-controlling interests .....               |       | 92,262                 | 172,681     | 260,633     |
|                                               |       | 1,020,544              | 1,965,432   | 2,295,579   |

*(B) Combined statements of financial position*

|                                                     |       | As of 31 December |             |             |
|-----------------------------------------------------|-------|-------------------|-------------|-------------|
|                                                     | Notes | 2009              | 2010        | 2011        |
|                                                     |       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| NON-CURRENT ASSETS                                  |       |                   |             |             |
| Property, plant and equipment                       | 13    | 1,145,653         | 1,051,352   | 1,054,737   |
| Prepaid land lease payments                         | 14    | 47,157            | 60,327      | 58,948      |
| Mining rights                                       | 15    | 279,351           | 258,180     | 235,820     |
| Other intangible assets                             | 16    | 455               | 336         | 268         |
| Deferred tax assets                                 | 17    | 23,624            | 21,161      | 10,908      |
| Total non-current assets                            |       | 1,496,240         | 1,391,356   | 1,360,681   |
| CURRENT ASSETS                                      |       |                   |             |             |
| Inventories                                         | 18    | 157,780           | 181,921     | 338,476     |
| Trade and bills receivables                         | 19    | 209,748           | 548,995     | 675,674     |
| Prepayments, deposits and other<br>receivables      | 20    | 98,886            | 135,562     | 110,538     |
| Restricted bank deposits                            | 21    | 10,974            | 7,087       | 7,120       |
| Cash and cash equivalents                           | 21    | 760,564           | 1,122,463   | 917,190     |
| Total current assets                                |       | 1,237,952         | 1,996,028   | 2,048,998   |
| CURRENT LIABILITIES                                 |       |                   |             |             |
| Trade and bills payables                            | 22    | 155,488           | 229,367     | 237,265     |
| Other payables and accruals                         | 23    | 755,486           | 820,300     | 542,588     |
| Taxes payable                                       |       | 30,518            | 68,164      | 42,329      |
| Total current liabilities                           |       | 941,492           | 1,117,831   | 822,182     |
| NET CURRENT ASSETS                                  |       | 296,460           | 878,197     | 1,226,816   |
| TOTAL ASSETS LESS CURRENT<br>LIABILITIES            |       |                   |             |             |
|                                                     |       | 1,792,700         | 2,269,553   | 2,587,497   |
| NON-CURRENT LIABILITIES                             |       |                   |             |             |
| Other non-current liabilities                       |       | 5,631             | 6,022       | 6,440       |
| Total non-current liabilities                       |       | 5,631             | 6,022       | 6,440       |
| NET ASSETS                                          |       | 1,787,069         | 2,263,531   | 2,581,057   |
| EQUITY                                              |       |                   |             |             |
| Equity attributable to owner of the Target Business |       |                   |             |             |
| Group                                               |       | 1,638,531         | 1,942,312   | 2,377,205   |
| Non-controlling interests                           |       | 148,538           | 321,219     | 203,852     |
| Total equity                                        |       | 1,787,069         | 2,263,531   | 2,581,057   |

*(C) Combined statements of changes in equity*

|                                                                  | Attributable to<br>owner of the target<br>business group | Non-controlling<br>interests | Total<br>equity |
|------------------------------------------------------------------|----------------------------------------------------------|------------------------------|-----------------|
|                                                                  | RMB<br>'000                                              | RMB<br>'000                  | RMB<br>'000     |
| At 1 January 2009 .....                                          | 1,715,130                                                | 60,326                       | 1,775,456       |
| Total comprehensive income for the year .....                    | 928,282                                                  | 92,262                       | 1,020,544       |
| Dividends to non-controlling interests .....                     | —                                                        | (4,050)                      | (4,050)         |
| Distribution to the owners of the Target<br>Business Group ..... | (1,004,881)                                              | —                            | (1,004,881)     |
| At 31 December 2009 and 1 January<br>2010 .....                  | 1,638,531                                                | 148,538                      | 1,787,069       |
| Total comprehensive income for the year .....                    | 1,792,751                                                | 172,681                      | 1,965,432       |
| Distribution to the owners of the Target<br>Business Group ..... | (1,488,970)                                              | —                            | (1,488,970)     |
| At 31 December 2010 and 1 January<br>2011 .....                  | 1,942,312                                                | 321,219                      | 2,263,531       |
| Total comprehensive income for the year .....                    | 2,034,946                                                | 260,633                      | 2,295,579       |
| Dividends to non-controlling interests .....                     | —                                                        | (378,000)                    | (378,000)       |
| Distribution to the owner of the Target<br>Business Group .....  | (1,600,053)                                              | —                            | (1,600,053)     |
| At 31 December 2011 .....                                        | 2,377,205                                                | 203,852                      | 2,581,057       |

*(D) Combined statements of cash flows*

|                                                                                  | Notes | Year ended 31 December |             |             |
|----------------------------------------------------------------------------------|-------|------------------------|-------------|-------------|
|                                                                                  |       | 2009                   | 2010        | 2011        |
|                                                                                  |       | RMB<br>'000            | RMB<br>'000 | RMB<br>'000 |
| CASH FLOWS FROM                                                                  |       |                        |             |             |
| OPERATING ACTIVITIES                                                             |       |                        |             |             |
| Profit before tax . . . . .                                                      |       | 1,314,079              | 2,524,905   | 2,913,190   |
| Adjustments for:                                                                 |       |                        |             |             |
| Finance costs . . . . .                                                          | 8     | 367                    | 392         | 417         |
| Finance income . . . . .                                                         | 7     | (7,004)                | (13,724)    | (4,177)     |
| Depreciation of property,<br>plant and equipment . . . . .                       | 13    | 110,828                | 134,784     | 136,157     |
| Amortisation of prepaid<br>land lease payments . . . . .                         | 14    | 727                    | 4,815       | 1,379       |
| Amortisation of mining<br>rights . . . . .                                       | 15    | 13,777                 | 21,171      | 22,360      |
| Amortisation of intangible<br>assets . . . . .                                   | 16    | 127                    | 119         | 130         |
| Impairment/(reversal of<br>impairment) of trade<br>receivables, net . . . . .    | 19    | (12,365)               | 17,997      | (28,900)    |
| Impairment/(reversal of<br>impairment) of other<br>receivables, net . . . . .    | 20    | (331)                  | 744         | (1,253)     |
| Loss on disposal of<br>items of property, plant<br>and equipment, net . . . . .  |       | 171                    | 169         | 1,063       |
| (Increase)/decrease in<br>inventories . . . . .                                  |       | 55,078                 | (24,141)    | (156,555)   |
| (Increase)/decrease in trade<br>and bills receivables . . . . .                  |       | 244,712                | (357,244)   | (97,779)    |
| (Increase)/decrease in<br>prepayments, deposits, and other receivables . . . . . |       | (8,526)                | (37,321)    | 26,277      |
| Increase/(decrease) in trade<br>and bills payables . . . . .                     |       | 25,736                 | 73,879      | 7,898       |
| Increase/(decrease) in other payables and accruals . . . . .                     |       | 448,964                | 25,174      | (254,638)   |
| Cash generated from<br>operations . . . . .                                      |       | 2,186,340              | 2,371,719   | 2,565,569   |
| Income taxes paid . . . . .                                                      |       | (206,033)              | (519,365)   | (633,193)   |
| Net cash flows from<br>operating activities . . . . .                            |       | 1,980,307              | 1,852,354   | 1,932,376   |

*(D) Combined statements of cash flows (continued)*

|                                                                                                                           | Notes | Year ended 31 December |             |             |
|---------------------------------------------------------------------------------------------------------------------------|-------|------------------------|-------------|-------------|
|                                                                                                                           |       | 2009                   | 2010        | 2011        |
|                                                                                                                           |       | RMB<br>'000            | RMB<br>'000 | RMB<br>'000 |
| CASH FLOWS FROM                                                                                                           |       |                        |             |             |
| INVESTING ACTIVITIES                                                                                                      |       |                        |             |             |
| Proceeds from disposals of items of property, plant and equipment, intangible assets and other long-term assets . . . . . |       | 127                    | 6,746       | —           |
| Purchase of property, plant and equipment and construction in progress . . . . .                                          |       | (370,972)              | (1,940)     | (163,678)   |
| Purchase of prepaid land lease payments . . . . .                                                                         | 14    | (39,008)               | (23,902)    | —           |
| Purchase of intangible assets . . . . .                                                                                   | 16    | —                      | —           | (62)        |
| Interest received . . . . .                                                                                               |       | 7,004                  | 13,724      | 4,177       |
| (Increase)/decrease in restricted bank deposits . . . . .                                                                 |       | (10,974)               | 3,887       | (33)        |
| Net cash flows used in investing activities . . . . .                                                                     |       | (413,823)              | (1,485)     | (159,596)   |
| CASH FLOWS FROM                                                                                                           |       |                        |             |             |
| FINANCING ACTIVITIES                                                                                                      |       |                        |             |             |
| Dividends paid to non-controlling interests . . . . .                                                                     |       | (4,050)                | —           | (378,000)   |
| Distribution to the owner of the Target Business Group . . . . .                                                          |       | (1,275,949)            | (1,488,970) | (1,600,053) |
| Net cash flows used in financing activities . . . . .                                                                     |       | (1,279,999)            | (1,488,970) | (1,978,053) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .                                                            |       | 286,485                | 361,899     | (205,273)   |
| Cash and cash equivalents at the beginning of year . . . . .                                                              | 21    | 474,079                | 760,564     | 1,122,463   |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR . . . . .                                                                    | 21    | 760,564                | 1,122,463   | 917,190     |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION

### 1. INFORMATION OF THE TARGET BUSINESS GROUP

Yitai Group was incorporated in Inner Mongolia in the PRC in 1999, formerly known as Inner Mongolia Yimei Industrial Group Co., Ltd. (內蒙古伊煤實業集團有限公司, "YIGC"), which was transformed to Yitai Group in 2002 (the "Transformation"). Pursuant to the Transformation, Yitai Group was 98.96% owned by Inner Mongolia Yitai Investment Co., Ltd. ("Yitai Investment"). The registered office of Yitai Group is located at Yitai Building, Tianjiao North Road, Dongsheng District, Ordos City, Inner Mongolia, the PRC. Yitai Group is principally engaged in the production and sale of coal. Yitai Group is also engaged in coal chemical production and property development.

Yitai Coal was incorporated in Ordos in Inner Mongolia with limited liability and its shares have been listed on the Shanghai Stock Exchange at domestically listed foreign shares ("B shares") since 8 August 1997, and its parent company is Yitai Group, which holds a 54.64% equity interest in Yitai Coal. Yitai Coal is principally engaged in the purchase, mining, distribution and sale of coal, sale of coal processed products, and the production and sale of liquorices related products and medicine and transportation.

In the opinion of the Directors, the ultimate holding company of Yitai Coal and Yitai Group is Yitai Investment, an enterprise incorporated in Inner Mongolia, the PRC, which equity interests are held via a trust agreement by 31 individuals, comprising the senior management members and key technicians of Yitai Group, on behalf of a group of employees of Yitai Group.

Pursuant to an acquisition agreement dated 29 May 2012 entered into between Yitai Coal and Yitai Group, Yitai Coal agreed to acquire from Yitai Group the production and sale of coal operation, together with the related assets and liabilities, which comprises the following:

- Certain divisions and branches principally engaged in coal related operation, directly operated and owned by Yitai Group, together with the related assets and liabilities therein: Baijialiang Mine (白家梁煤礦), Dadijing Mine (大地精煤礦), Chengyi Mine (誠意煤礦), Xiyngzi Collection and Transportation Centre (西營子發運站), Dongxing Collection and Transportation Centre (東興發運站), Baoshen Line Collection and Transportation Centre (包神線發運站), Baotou Sales Branch (包頭銷售分公司), Beijing Payment Centre (北京交費中心), Jingtang Port Collection and Transportation Centre (京唐港轉運站), Caofeidian Representative Office (曹妃甸辦事處), Qinhuangdao Representative Office (秦皇島辦事處), Tianjin Representative Office (天津辦事處), Tanggongta Payment Centre (唐公塔交費中心), Datong Representative Office (大同辦事處), Baotou Payment Centre (包頭交費中心) and certain departments at the headquarters of Yitai Group (collectively referred to as the "Target Business"); and
- Two subsidiaries of Yitai Group principally engaged in coal related business: Inner Mongolia Yitai Baoshan Coal Co., Ltd. (內蒙古伊泰寶山煤炭有限責任公司, "Yitai Baoshan") and Inner Mongolia Yitai Tongda Coal Co., Ltd. (內蒙古伊泰同達煤炭有限責任公司) ("Yitai Tongda"), in which Yitai Group owns 73% equity interests each.

The Target Business, Yitai Baoshan and Yitai Tongda are collectively referred to as the "Target Business Group" in this report. Yitai Group continues to own and operate its businesses, subsidiaries and associates not related to the coal operation (collectively, referred to as the "Retained Businesses") after the acquisition.

Pursuant to the Acquisition, certain property, plant and equipment with an aggregate net book value of approximately RMB4,350,000 and certain taxes payable and other liabilities in the aggregate amount of approximately RMB275,418,000 as of 31 December 2009, that are historically associated with the Target Business and that have been included in the Combined Financial Information, will be retained by Yitai Group upon the Acquisition. For the purpose of this report, the above assets and liabilities are reflected as part of the distribution made to Yitai Group for the year ended 31 December 2009.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 2. BASIS OF PRESENTATION AND PREPARATION

The Target Business had not been incorporated in the Relevant Periods, the business of the Target Business Group was either carried out by the subsidiaries or the business divisions or branches controlled by Yitai Group. The combined statements of comprehensive income, combined statements of changes in equity, combined statement of cash flows and combined statements of financial position of the Target Business Group for the periods presented herein have been prepared as if the Target Business Group had been in place as a separate stand-alone entity throughout the periods presented.

The Combined Financial Information is presented on a combination basis of the Target Business Group. The non-controlling interests of Yitai Baoshan and Yitai Tongda are presented as non-controlling interests of the Target Business Group. All intra-group balances, income and expenses, unrealised gains and losses resulting from intra-group transactions are eliminated in full. Income taxes have been determined as if the Target Business Group was a separate taxable entity for all the periods presented.

The identifiable overhead costs that could directly attribute to the Target Business were included in the combined results of operation of the Target Business Group, the non-identifiable overhead costs were allocated between the Target Business and the Retained Businesses as follows:

| <u>Cost item</u>         | <u>Allocation basis</u> |
|--------------------------|-------------------------|
| Employee benefit expense | Headcount of employee   |
| Other overhead costs     | Revenue                 |

For each of the three years ended 31 December 2009, 2010 and 2011, non-identifiable overhead costs of approximately RMB71,156,000, approximately RMB70,046,000, and approximately RMB108,283,000 were allocated to the Target Business, respectively; and approximately RMB8,814,000, approximately RMB4,944,000, and approximately RMB6,666,000 were allocated to the Retained Businesses, respectively.

The Directors believe that the foregoing cost allocation presents a reasonable basis of estimating what the Target Business Group's combined financial statements would have been on a stand-alone basis for the Relevant Periods.

While the Target Business Group has not operated as a separate entity, the financial statements are not necessarily indicative of results that would have occurred if the Target Business Group had been a separate stand-alone entity during the periods presented, nor is it indicative of future results of the Target Business Group. The Combined Financial Information set out in this report has been prepared in accordance with the accounting policies set out in note 3 of Section II, which comply with IFRSs issued by the IASB.

The Combined Financial Information has been prepared under the historical cost convention. The Combined Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.



## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 2. BASIS OF PRESENTATION AND PREPARATION — (CONTINUED)

The Target Business Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Combined Financial Information.

|                   |                                                                                                                                      |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 9            | <i>Financial Instruments</i> <sup>4</sup>                                                                                            |
| IFRS 7 Amendments | <i>Amendments to IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>  |
| IFRS 10           | <i>Consolidated Financial Statements</i> <sup>1</sup>                                                                                |
| IFRS 11           | <i>Joint Arrangements</i> <sup>1</sup>                                                                                               |
| IFRS 12           | <i>Disclosure of Interests in Other Entities</i> <sup>1</sup>                                                                        |
| IFRS 13           | <i>Fair Value Measurement</i> <sup>1</sup>                                                                                           |
| IAS 1 Amendments  | Amendments to IAS 1:<br><i>Changes to the Presentation of Other Comprehensive Income</i> <sup>2</sup>                                |
| IAS 27(Revised)   | <i>Separate Financial Statements</i> <sup>1</sup>                                                                                    |
| IAS 28(Revised)   | <i>Investments in Associates</i> <sup>1</sup>                                                                                        |
| IAS 12 Amendments | <i>Income Taxes</i> <sup>3</sup>                                                                                                     |
| IAS 19 Amendments | <i>Employee Benefits</i> <sup>1</sup>                                                                                                |
| IAS 32 Amendments | <i>Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>5</sup> |
| IFRIC-Int 20      | <i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>1</sup>                                                        |

1 Effective for annual periods beginning on or after 1 January 2013

2 Effective for annual periods beginning on or after 1 July 2012

3 Effective for annual periods beginning on or after 1 January 2012

4 Effective for annual periods beginning on or after 1 January 2015

5 Effective for annual periods beginning on or after 1 January 2014

The Target Business Group is in the process of making an assessment of the impact of these new, revised and amended IFRSs and IFRIC upon initial application. So far, these new and revised IFRSs are unlikely to have a significant impact on the Target Business Group's results of operations and financial position.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of combination

The Combined Financial Information incorporates the financial statements of the Target Business Group for the Relevant Periods. Control is achieved where the Target Business Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The business combinations involving entities or businesses under common control are accounted for using merger accounting. Merger accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The combined statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, whichever is a shorter period, regardless of the date of the common control combination.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

All intra-group balances, income and expenses, unrealised gains and losses, and dividends resulting from intra-group transactions are eliminated in full. Accounting policies of subsidiaries have been adjusted when necessary to ensure consistency with the policies adopted by the Target Business Group.

Non-controlling interests represent the interests of outside shareholders not held by the Target Business Group in the results and net assets of the subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recorded in equity.

#### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Target Business Group controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Target Business Group's profit or loss to the extent of dividends received and receivable. The Target Business Group's investments in subsidiaries are stated at cost less any impairment losses.

#### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

#### Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

#### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Except for mining structures, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life as follows:

|                             |               |
|-----------------------------|---------------|
| Buildings                   | 5 to 20 years |
| Plant and machinery         | 3 to 20 years |
| Motor vehicles              | 4 to 8 years  |
| Road                        | 20 years      |
| Office equipment and others | 3 to 5 years  |

Where parts of an item of property, plant and equipment, other than mining structures, have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Construction in progress representing buildings and other assets under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### Exploration and evaluation expenditure

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing coal bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. They are subsequently stated at cost less accumulated impairment. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

#### Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

#### Intangible assets

Intangible assets, primarily comprising computer software, acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. The useful lives of intangible assets are assessed to be finite and are amortised over the useful economic lives. The amortisation period and the amortisation method for computer software are reviewed at least at each financial year end.

#### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases. Where the Target Business Group is the lesser, assets leased by the Target Business Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Target Business Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments represent upfront prepayments made for the land use rights. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms ranging from 20 to 50 years.

#### Investments and other financial assets

##### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

**II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)**

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Business Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Target Business Group's financial assets include cash and bank balances, trade and other receivables and loans receivable.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Target Business Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Target Business Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Target Business Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income. The loss arising from impairment is recognised in other expenses.

***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Target Business Group has the positive intention and ability to hold to maturity. They are included in current assets if they mature within 12 months of the end of the reporting period. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income. The loss arising from impairment is recognised in other expenses.

***Available-for-sale financial assets***

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are

**II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)**

intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in other expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividends income, respectively and are recognised in other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Target Business Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Target Business Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Target Business Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Target Business Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Target Business Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- the Target Business Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Target Business Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Target Business Group's continuing involvement in the asset. In that case, the Target Business Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Business Group has retained.

**II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)**

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Business Group could be required to repay.

**Impairment of financial assets**

The Target Business Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the Target Business Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Target Business Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Business Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in other expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses.

***Assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.



## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

#### *Available-for-sale financial assets*

For available-for-sale financial investments, the Target Business Group assesses at the end of each reporting period whether there is objective evidence that the investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss.

#### **Financial liabilities**

##### **Financial liabilities at amortised cost**

Financial liabilities including trade and other payables, interest-bearing loans and loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised in finance costs.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

##### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Cash and cash equivalents**

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Business Group's cash management.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs.

#### Rehabilitation provision

The target business group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related coals. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Target Business Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with Interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Business Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Business Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- from the rendering of services, when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the Target Business Group;
- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- dividend income, when the shareholders' right to receive payment has been established.

#### Employee benefits

##### *Pension obligations*

The Target Business Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. Contributions to these plans are expensed as incurred.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the combined statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

#### Judgements

The preparation of the Combined Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Target Business Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Impairment of non-financial assets*

The Target Business Group has to exercise judgements in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continuing use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates and the growth rate assumptions in the cash flow projections, could materially affect the net present value result in the impairment test.

#### *Impairment provision of receivables*

The provision policy for doubtful debts of the Target Business Group is based on the ongoing evaluation of the collectibility and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Target Business Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

**II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)****4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES — (CONTINUED)****Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Current income tax***

The Target Business Group is subject to income taxes in numerous jurisdictions in the PRC. Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

***Deferred tax assets***

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

***Useful lives and residual values of items of property, plant and equipment***

In determining the useful lives and residual values of items of property, plant and equipment, the Target Business Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of items of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is based on historical experience of the Target Business Group with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at least, at each financial year end, based on changes in circumstances.

***Mine rehabilitation provision***

The Target Business Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates (3.24%), and changes in discount rates (10%). Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of each reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the combined statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

***Coal reserve and resource estimates***

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Target Business Group's mining properties. The Target Business Group estimates its coal reserves and mineral

**II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)****4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES — (CONTINUED)**

resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and require complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

***Units-of-production depreciation for mine specific assets***

Estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation / amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

**5. SEGMENT INFORMATION**

No operating segment information is presented as the Target Business Group's operations relate solely to the production and sale of coal and coal trading.

The Target Business Group's revenue from external customers is derived solely from its operations in the mainland China, and no assets of the Target Business Group are located outside the mainland China.

During the year ended 31 December 2009, the Target Business Group made sales to one customer of approximately RMB638,994,000, which individually exceeded 10% of the Target Business Group's total revenue for that year.

During the year ended 31 December 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Target Business Group's total revenue for that year.

During the year ended 31 December 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Target Business Group's total revenue for that year.

**6. REVENUE AND OTHER INCOME**

Revenue, which is also the Target Business Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 6. REVENUE AND OTHER INCOME — (CONTINUED)

An analysis of the Target Business Group's revenue and other income is as follows:

|                                                    | Year ended 31 December |                  |                   |
|----------------------------------------------------|------------------------|------------------|-------------------|
|                                                    | 2009                   | 2010             | 2011              |
|                                                    | RMB<br>'000            | RMB<br>'000      | RMB<br>'000       |
| <b>Revenue</b>                                     |                        |                  |                   |
| Sale of coal .....                                 | 5,274,598              | 9,268,262        | 10,848,936        |
|                                                    | <u>5,274,598</u>       | <u>9,268,262</u> | <u>10,848,936</u> |
| <b>Other income</b>                                |                        |                  |                   |
| Rental income from mining<br>equipments, net ..... | 1,873                  | —                | —                 |
| Platform services, net .....                       | 51,605                 | 112,332          | 125,731           |
| Others .....                                       | 1,633                  | 5,935            | 2,752             |
|                                                    | <u>55,111</u>          | <u>118,267</u>   | <u>128,483</u>    |

## 7. FINANCE INCOME

The Target Business Group's finance income is as follows:

|                            | Year ended 31 December |               |              |
|----------------------------|------------------------|---------------|--------------|
|                            | 2009                   | 2010          | 2011         |
|                            | RMB<br>'000            | RMB<br>'000   | RMB<br>'000  |
| Bank interest income ..... | 7,004                  | 13,724        | 4,177        |
|                            | <u>7,004</u>           | <u>13,724</u> | <u>4,177</u> |

## 8. FINANCE COSTS

The Target Business Group's finance costs are as follows:

|                                                                 | Year ended 31 December |             |             |
|-----------------------------------------------------------------|------------------------|-------------|-------------|
|                                                                 | 2009                   | 2010        | 2011        |
|                                                                 | RMB<br>'000            | RMB<br>'000 | RMB<br>'000 |
| Changes of present value of other non-current liabilities ..... | 367                    | 392         | 417         |
|                                                                 | <u>367</u>             | <u>392</u>  | <u>417</u>  |



## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 9. PROFIT BEFORE TAX

The Target Business Group's profit before tax is arrived at after charging /(crediting):

|                                                                 | Notes | Year ended 31 December |           |           |
|-----------------------------------------------------------------|-------|------------------------|-----------|-----------|
|                                                                 |       | 2009                   | 2010      | 2011      |
|                                                                 |       | RMB '000               | RMB '000  | RMB '000  |
| Cost of inventory sold                                          |       | 3,614,665              | 6,358,873 | 7,515,201 |
| Depreciation of property, plant and equipment                   | 13    | 110,828                | 134,784   | 136,157   |
| Amortisation of prepaid land lease payments                     | 14    | 727                    | 4,815     | 1,379     |
| Amortisation of mining rights                                   | 15    | 13,777                 | 21,171    | 22,360    |
| Amortisation of intangible assets                               | 16    | 127                    | 119       | 130       |
| Total depreciation and amortisation                             |       | 125,459                | 160,889   | 160,026   |
| Impairment/(reversal of impairment) of trade receivables, net   | 19    | (12,365)               | 17,997    | (28,900)  |
| Impairment/(reversal of impairment) of other receivables, net   | 20    | (331)                  | 744       | (1,253)   |
| Total impairment/(reversal of impairment), net                  |       | (12,696)               | 18,741    | (30,153)  |
| Loss on disposal of items of property, plant and equipment, net |       | 171                    | 169       | 1,063     |
| Employee benefits expense                                       |       |                        |           |           |
| Wages, salaries and other employees' benefits                   |       | 127,334                | 157,133   | 210,473   |
| Pension scheme contributions (defined contribution scheme)      |       | 4,342                  | 4,597     | 5,308     |
|                                                                 |       | 131,676                | 161,730   | 215,781   |
| Auditors' remuneration                                          |       | 806                    | 480       | 438       |

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

## (a) Directors' remuneration

Directors' remuneration information is not presented as the Target Business Group is not a stand-alone entity during the Relevant Periods. Accordingly, the Directors believe the presentation of such information is not meaningful for the purpose of this report.

## (b) Five highest paid employees

The Directors believe the presentation of the five highest paid employees information is not meaningful for the purpose of this report.

## 11. INCOME TAX EXPENSE

|                                                               | Year ended 31 December |          |          |
|---------------------------------------------------------------|------------------------|----------|----------|
|                                                               | 2009                   | 2010     | 2011     |
|                                                               | RMB '000               | RMB '000 | RMB '000 |
| Income tax:                                                   |                        |          |          |
| Current tax — mainland China                                  | 295,062                | 557,010  | 607,358  |
| Deferred tax (note 17):                                       |                        |          |          |
| Relating to origination and reversal of temporary differences | (1,527)                | 2,463    | 10,253   |
| Total income tax expense                                      | 293,535                | 559,473  | 617,611  |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 11. INCOME TAX EXPENSE — (CONTINUED)

PRC corporate income tax ("CIT") was provided at a rate of 25% on the taxable income as reported in the statutory accounts of the entities comprising the Target Business Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

The Target Business Group's subsidiaries, Yitai Baoshan and Yitai Tongda, are entitled to a preferential income tax rate of 15% for the year ended 31 December 2009 as approved by Inner Mongolia tax Bureau (Neidishui (2010) No. 36).

Yitai Baoshan and Yitai Tongda were entitled to a preferential CIT rate of 15% for the year ended 31 December 2010 based on Guoshuifa (2002) No. 47 issued by Ministry of Finance and State Administration of Taxation, which stated that selected entities can enjoy the preferential tax rate of 15% in the Western Development.

According to Caishui (2011) No. 58 issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation, selected entities in Western China that falling into Catalogue of Encouraged Industries in Western China (西部地區鼓勵類產業目錄, "CEIWC") can enjoy the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

According to the notice (2011) No. 2 issued by Inner Mongolia State Administration Taxation of China, selected entities in Inner Mongolia that had enjoyed the preferential tax rate before 2010 in the Western Development and falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (產業結構調整指導目錄 (2011)) are entitled to a preferential tax rate of 15% to prepay tax in the year ending 31 December 2011.

By the date of the report, CEIWC has not been promulgated. According to Caishui (2012) No.12 issued by State Administration of Taxation, before CEIWC is promulgated, selected entities falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (2011) are entitled to a preferential tax rate of 15%. If CEIWC is promulgated and the Companies mentioned above are not meet the condition of CEIWC, then income tax should be redeclared according to the applicable tax rate.

No provision for Hong Kong profits tax has been made in the Combined Financial Information as the Target Business Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates in mainland China to the tax expense at the Target Business Group's effective income tax rates for each of the Relevant Periods is as follows:

|                                                                       | Year ended 31 December |             |             |
|-----------------------------------------------------------------------|------------------------|-------------|-------------|
|                                                                       | 2009                   | 2010        | 2011        |
|                                                                       | RMB<br>'000            | RMB<br>'000 | RMB<br>'000 |
| Profit before tax . . . . .                                           | 1,314,079              | 2,524,905   | 2,913,190   |
| Tax at the statutory income tax rate<br>(25%) . . . . .               | 328,520                | 631,226     | 728,298     |
| Effect of lower tax rates . . . . .                                   | (39,787)               | (77,133)    | (113,401)   |
| Expenses not deductible for tax purposes . . . . .                    | 4,802                  | 5,380       | 2,714       |
| Tax charge at the Target Business<br>Group's effective rate . . . . . | 293,535                | 559,473     | 617,611     |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 12. EARNINGS PER SHARE

Earnings per share information is not presented as the Target Business Group is not a stand-alone entity and had no issued and outstanding shares during the Relevant Periods.

## 13. PROPERTY, PLANT AND EQUIPMENT

|                                   | Buildings | Mining structures | Plant and machinery | Motor vehicles | Road     | Office equipment and others | Construction in progress | Total     |
|-----------------------------------|-----------|-------------------|---------------------|----------------|----------|-----------------------------|--------------------------|-----------|
|                                   | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000 | RMB '000                    | RMB '000                 | RMB '000  |
| <b>Cost:</b>                      |           |                   |                     |                |          |                             |                          |           |
| At 1 January 2009                 | 90,352    | 160,298           | 411,351             | 5,591          | 24,275   | 43,174                      | 343,816                  | 1,078,857 |
| Additions                         | 126,154   | 43,481            | 51,742              | 3,319          | 201      | 3,486                       | 15,351                   | 243,734   |
| Disposals                         | (7,811)   | —                 | (510)               | —              | —        | (1,589)                     | —                        | (9,910)   |
| Transfer                          | 174,789   | 63,852            | 87,671              | —              | —        | —                           | (326,312)                | —         |
| At 31 December 2009               | 383,484   | 267,631           | 550,254             | 8,910          | 24,476   | 45,071                      | 32,855                   | 1,312,681 |
| Additions                         | —         | —                 | 16,276              | 795            | —        | 3,144                       | 21,365                   | 41,580    |
| Disposals                         | (776)     | —                 | (1,643)             | —              | —        | (77)                        | —                        | (2,496)   |
| Transfer                          | 4,341     | 24,272            | —                   | —              | —        | —                           | (28,613)                 | —         |
| At 31 December 2010               | 387,049   | 291,903           | 564,887             | 9,705          | 24,476   | 48,138                      | 25,607                   | 1,351,765 |
| Additions                         | —         | 92,163            | 5,874               | 1,357          | 80       | —                           | 41,131                   | 140,605   |
| Transfer                          | 1,405     | 1,132             | 6,372               | —              | —        | 2,273                       | (11,182)                 | —         |
| Disposals                         | (5,303)   | —                 | (2,811)             | (9)            | —        | (142)                       | —                        | (8,265)   |
| At 31 December 2011               | 383,151   | 385,198           | 574,322             | 11,053         | 24,556   | 50,269                      | 55,556                   | 1,484,105 |
| <b>Accumulated depreciation:</b>  |           |                   |                     |                |          |                             |                          |           |
|                                   | Buildings | Mining structures | Plant and machinery | Motor vehicles | Road     | Office equipment and others | Construction in progress | Total     |
|                                   | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000 | RMB '000                    | RMB '000                 | RMB '000  |
| At 1 January 2009                 | (2,757)   | (16,768)          | (29,105)            | (2,251)        | —        | (9,641)                     | —                        | (60,522)  |
| Depreciation charged for the year | (14,471)  | (24,563)          | (62,842)            | (1,303)        | (1,141)  | (6,508)                     | —                        | (110,828) |
| Disposals                         | 3,332     | —                 | 462                 | —              | —        | 528                         | —                        | 4,322     |
| At 31 December 2009               | (13,896)  | (41,331)          | (91,485)            | (3,554)        | (1,141)  | (15,621)                    | —                        | (167,028) |
| Depreciation charged for the year | (14,898)  | (43,256)          | (64,889)            | (1,817)        | (2,291)  | (7,633)                     | —                        | (134,784) |
| Disposals                         | 529       | —                 | —                   | —              | —        | 870                         | —                        | 1,399     |
| At 31 December 2010               | (28,265)  | (84,587)          | (156,374)           | (5,371)        | (3,432)  | (22,384)                    | —                        | (300,413) |
| Depreciation charged for the year | (13,545)  | (45,296)          | (66,663)            | (1,777)        | (1,105)  | (7,771)                     | —                        | (136,157) |
| Disposals                         | 4,532     | —                 | 2,525               | 9              | —        | 136                         | —                        | 7,202     |
| At 31 December 2011               | (37,278)  | (129,883)         | (220,512)           | (7,139)        | (4,537)  | (30,019)                    | —                        | (429,368) |
| <b>Net carrying amount:</b>       |           |                   |                     |                |          |                             |                          |           |
|                                   | Buildings | Mining structures | Plant and machinery | Motor vehicles | Road     | Office equipment and others | Construction in progress | Total     |
|                                   | RMB '000  | RMB '000          | RMB '000            | RMB '000       | RMB '000 | RMB '000                    | RMB '000                 | RMB '000  |
| At 1 January 2009                 | 87,595    | 143,530           | 382,246             | 3,340          | 24,275   | 33,533                      | 343,816                  | 1,018,335 |
| At 31 December 2009               | 369,588   | 226,300           | 458,769             | 5,356          | 23,335   | 29,450                      | 32,855                   | 1,145,653 |
| At 31 December 2010               | 358,784   | 207,316           | 408,513             | 4,334          | 21,044   | 25,754                      | 25,607                   | 1,051,352 |
| At 31 December 2011               | 345,873   | 255,315           | 353,810             | 3,914          | 20,019   | 20,250                      | 55,556                   | 1,054,737 |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 13. PROPERTY, PLANT AND EQUIPMENT — (CONTINUED)

As of the date of this report, the Target Business Group is in the process of applying for or changing the registration of the title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB6,268,000. The Directors are of the view that the Target Business Group is entitled to lawfully and valid occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Target Business Group's financial position as of 31 December 2011.

## 14. PREPAID LAND LEASE PAYMENTS

|                                                                         | As of 31 December |               |               |
|-------------------------------------------------------------------------|-------------------|---------------|---------------|
|                                                                         | 2009              | 2010          | 2011          |
|                                                                         | RMB '000          | RMB '000      | RMB '000      |
| Carrying amount at beginning of the year                                | 10,156            | 48,437        | 61,706        |
| Additions                                                               | 39,008            | 23,902        | —             |
| Disposals                                                               | —                 | (5,818)       | —             |
| Amortisation for the year                                               | (727)             | (4,815)       | (1,379)       |
| Carrying amount at the end of year                                      | <u>48,437</u>     | <u>61,706</u> | <u>60,327</u> |
| Analyzed into:                                                          |                   |               |               |
| Current portion included in prepayments, deposits and other receivables | 1,280             | 1,379         | 1,379         |
| Non-current portion                                                     | <u>47,157</u>     | <u>60,327</u> | <u>58,948</u> |
|                                                                         | <u>48,437</u>     | <u>61,706</u> | <u>60,327</u> |

All the prepaid land lease payments of the Target Business Group are held under long term leases (50 years).

## 15. MINING RIGHTS

|                                                               | As of 31 December |                 |                 |
|---------------------------------------------------------------|-------------------|-----------------|-----------------|
|                                                               | 2009              | 2010            | 2011            |
|                                                               | RMB '000          | RMB '000        | RMB '000        |
| Cost at beginning of the year net of accumulated amortisation | 293,128           | 279,351         | 258,180         |
| Amortisation for the year                                     | (13,777)          | (21,171)        | (22,360)        |
| Cost at the end of year, net of accumulated amortisation      | <u>279,351</u>    | <u>258,180</u>  | <u>235,820</u>  |
| At the end of year:                                           |                   |                 |                 |
| Cost                                                          | 310,410           | 310,410         | 310,410         |
| Accumulated amortisation                                      | <u>(31,059)</u>   | <u>(52,230)</u> | <u>(74,590)</u> |
| Net carrying amount                                           | <u>279,351</u>    | <u>258,180</u>  | <u>235,820</u>  |

In accordance with the relevant regulations, the majority of the Target Business Group's mining rights are granted for a period of up to 10 years. Based on the Target Business Group's past success in renewing its mining rights, in the opinion of the Directors, there will be no foreseeable major obstacle in renewing the mining rights when they expire.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 16. OTHER INTANGIBLE ASSETS

|                                                                | As of 31 December |            |            |
|----------------------------------------------------------------|-------------------|------------|------------|
|                                                                | 2009              | 2010       | 2011       |
|                                                                | RMB '000          | RMB '000   | RMB '000   |
| Cost at beginning of the year, net of accumulated amortisation | 582               | 455        | 336        |
| Additions                                                      | —                 | —          | 62         |
| Amortisation for the year                                      | (127)             | (119)      | (130)      |
| Cost at the end of year, net of accumulated amortisation       | <u>455</u>        | <u>336</u> | <u>268</u> |
| At the end of year                                             |                   |            |            |
| Cost                                                           | 606               | 606        | 668        |
| Accumulated amortisation                                       | (151)             | (270)      | (400)      |
| Net carrying amount                                            | <u>455</u>        | <u>336</u> | <u>268</u> |

## 17. DEFERRED TAX ASSETS

The movements in deferred tax during the Relevant Periods are as follows:

|                                                                             | As of 31 December |               |               |
|-----------------------------------------------------------------------------|-------------------|---------------|---------------|
|                                                                             | 2009              | 2010          | 2011          |
|                                                                             | RMB '000          | RMB '000      | RMB '000      |
| At beginning of the year, net                                               | 22,097            | 23,624        | 21,161        |
| Deferred tax credited/(charged) to profit or loss during the year (note 11) | 1,527             | (2,463)       | (10,253)      |
| At end of the year, net                                                     | <u>23,624</u>     | <u>21,161</u> | <u>10,908</u> |

|                                                      | Provision | Payables and accruals | Unrealised profits from intra group sales | Losses available for offset against future taxable profits | Total         |
|------------------------------------------------------|-----------|-----------------------|-------------------------------------------|------------------------------------------------------------|---------------|
|                                                      | RMB '000  | RMB '000              | RMB '000                                  | RMB '000                                                   | RMB '000      |
| At 1 January 2009                                    | 6,027     | 2,954                 | 7,995                                     | 5,121                                                      | 22,097        |
| Credited/(Charged) in profit or loss during the year | (3,202)   | 1,097                 | 8,753                                     | (5,121)                                                    | 1,527         |
| At 31 December 2009 and 1 January 2010               | 2,825     | 4,051                 | 16,748                                    | —                                                          | 23,624        |
| Charged in profit or loss during the year            | 4,634     | (4,051)               | (3,046)                                   | —                                                          | (2,463)       |
| At 31 December 2010 and 1 January 2011               | 7,459     | —                     | 13,702                                    | —                                                          | 21,161        |
| Charged in profit or loss during the year            | (7,459)   | —                     | (2,794)                                   | —                                                          | (10,253)      |
| At 31 December 2011                                  | <u>—</u>  | <u>—</u>              | <u>10,908</u>                             | <u>—</u>                                                   | <u>10,908</u> |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 18. INVENTORIES

|                              | As of 31 December |                |                |
|------------------------------|-------------------|----------------|----------------|
|                              | 2009              | 2010           | 2011           |
|                              | RMB<br>'000       | RMB<br>'000    | RMB<br>'000    |
| Coal .....                   | 157,364           | 179,166        | 333,723        |
| Materials and supplies ..... | 416               | 2,755          | 4,753          |
|                              | <u>157,780</u>    | <u>181,921</u> | <u>338,476</u> |

## 19. TRADE AND BILLS RECEIVABLES

|                                  | As of 31 December |                |                |
|----------------------------------|-------------------|----------------|----------------|
|                                  | 2009              | 2010           | 2011           |
|                                  | RMB<br>'000       | RMB<br>'000    | RMB<br>'000    |
| Trade receivables .....          | 218,651           | 577,895        | 675,674        |
| Bills receivable .....           | 2,000             | —              | —              |
| Less: Impairment provision ..... | (10,903)          | (28,900)       | —              |
|                                  | <u>209,748</u>    | <u>548,995</u> | <u>675,674</u> |

The Target Business Group requires most of its customers to pay in advance, and credit periods of 30 days are normally granted by the Target Business Group to its major customers. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

The maximum exposure to credit risk for the reporting date is the carrying value of the Target Business Group's total trade receivables.

Bills receivable are bills of exchange with a maturity period of less than six months.

An aged analysis of the Target Business Group's trade and bills receivables, that are neither individually nor collectively considered to be impaired, is as follows:

|                                                  | As of 31 December |                |                |
|--------------------------------------------------|-------------------|----------------|----------------|
|                                                  | 2009              | 2010           | 2011           |
|                                                  | RMB<br>'000       | RMB<br>'000    | RMB<br>'000    |
| Within six months .....                          | 209,726           | 548,995        | 675,674        |
| Over six months but within one year/period ..... | —                 | —              | —              |
| Over one year but within two years/period .....  | 22                | —              | —              |
|                                                  | <u>209,748</u>    | <u>548,995</u> | <u>675,674</u> |

Movements in the Target Business Group's provision for impairment of trade receivables are as follows:

|                                    | As of 31 December |               |             |
|------------------------------------|-------------------|---------------|-------------|
|                                    | 2009              | 2010          | 2011        |
|                                    | RMB<br>'000       | RMB<br>'000   | RMB<br>'000 |
| At beginning of the year .....     | 23,268            | 10,903        | 28,900      |
| Impairment losses recognised ..... | —                 | 17,997        | —           |
| Impairment losses reversed .....   | (12,365)          | —             | (28,900)    |
| At the end of year .....           | <u>10,903</u>     | <u>28,900</u> | <u>—</u>    |

The trade receivables of the Target Business Group that are not considered to be impaired at the end of each reporting period are receivables that were not past due, which relate to a large number of diversified customers for whom there was no recent history of default.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                          | As of 31 December |                |                |
|------------------------------------------|-------------------|----------------|----------------|
|                                          | 2009              | 2010           | 2011           |
|                                          | RMB               | RMB            | RMB            |
|                                          | '000              | '000           | '000           |
| Due from fellow subsidiaries . . . . .   | 1,220             | —              | 13,001         |
| Advances to suppliers . . . . .          | 86,854            | 127,967        | 71,879         |
| Prepayments . . . . .                    | 8,445             | —              | 217            |
| Staff advances . . . . .                 | —                 | 3              | 154            |
| Other receivables . . . . .              | 2,876             | 8,845          | 25,287         |
| Less: Provision for impairment . . . . . | (509)             | (1,253)        | —              |
|                                          | <u>98,886</u>     | <u>135,562</u> | <u>110,538</u> |

Movements in the provision for impairment of prepayments, deposits and other receivables are as follows:

|                                            | As of 31 December |              |          |
|--------------------------------------------|-------------------|--------------|----------|
|                                            | 2009              | 2010         | 2011     |
|                                            | RMB               | RMB          | RMB      |
|                                            | '000              | '000         | '000     |
| At beginning of the year . . . . .         | 840               | 509          | 1,253    |
| Provision of impairment . . . . .          | —                 | 744          | —        |
| Reversal of impairment provision . . . . . | (331)             | —            | (1,253)  |
| At the end of year . . . . .               | <u>509</u>        | <u>1,253</u> | <u>—</u> |

An aged analysis of prepayments, deposits and other receivables of the Target Business Group that are neither individually nor collectively considered to be impaired is as follows:

|                                                 | As of 31 December |                |                |
|-------------------------------------------------|-------------------|----------------|----------------|
|                                                 | 2009              | 2010           | 2011           |
|                                                 | RMB               | RMB            | RMB            |
|                                                 | '000              | '000           | '000           |
| Within six months . . . . .                     | 92,553            | 130,276        | 99,501         |
| Over six months but within one year . . . . .   | 5,381             | 703            | 2,983          |
| Over one year but within two years . . . . .    | 940               | 4,563          | 8,054          |
| Over two years but within three years . . . . . | —                 | 20             | —              |
| Over three years . . . . .                      | 12                | —              | —              |
|                                                 | <u>98,886</u>     | <u>135,562</u> | <u>110,538</u> |



## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 21. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

|                                       | Notes | As of 31 December   |                     |                     |
|---------------------------------------|-------|---------------------|---------------------|---------------------|
|                                       |       | 2009<br>RMB<br>'000 | 2010<br>RMB<br>'000 | 2011<br>RMB<br>'000 |
| Cash and bank balances .....          |       | 771,538             | 1,129,550           | 924,310             |
| Less: Restricted bank deposits .....  | (a)   | (10,974)            | (7,087)             | (7,120)             |
|                                       |       | <u>760,564</u>      | <u>1,122,463</u>    | <u>917,190</u>      |
| Denominated in RMB .....              | (b)   | 760,564             | 1,122,463           | 917,190             |
| Denominated in other currencies ..... |       | —                   | —                   | —                   |
|                                       |       | <u>760,564</u>      | <u>1,122,463</u>    | <u>917,190</u>      |

Notes:

- (a) As of 31 December 2009, 31 December 2010, and 31 December 2011, the Target Business Group's bank balances of approximately RMB10,974,000, RMB7,087,000 and RMB7,120,000 were deposited at banks as a mine geological environment protection guarantee fund pursuant to the related government regulations. Such guarantee deposit will be released when the obligations of environment protection is fulfilled and accepted by the competent government entities.
- (b) The RMB is not freely convertible into other currencies, however, under mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Business Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

## 22. TRADE AND BILLS PAYABLES

|                                         | As of 31 December   |                     |                     |
|-----------------------------------------|---------------------|---------------------|---------------------|
|                                         | 2009<br>RMB<br>'000 | 2010<br>RMB<br>'000 | 2011<br>RMB<br>'000 |
| Trade payables to third parties .....   | 115,617             | 213,898             | 237,265             |
| Trade payables to related parties ..... | 39,871              | 15,469              | —                   |
|                                         | <u>155,488</u>      | <u>229,367</u>      | <u>237,265</u>      |

An aged analysis of the Target Business Group's trade and bills payables, based on the invoice dates, as of the end of the reporting period is as follows:

|                                             | As of 31 December   |                     |                     |
|---------------------------------------------|---------------------|---------------------|---------------------|
|                                             | 2009<br>RMB<br>'000 | 2010<br>RMB<br>'000 | 2011<br>RMB<br>'000 |
| Within six months .....                     | 151,409             | 223,970             | 233,831             |
| Over six months but within one year .....   | 1,493               | 1,612               | 1,155               |
| Over one year but within two years .....    | 2,586               | 3,785               | 2,279               |
| Over two years but within three years ..... | —                   | —                   | —                   |
| Over three years .....                      | —                   | —                   | —                   |
|                                             | <u>155,488</u>      | <u>229,367</u>      | <u>237,265</u>      |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 22. TRADE AND BILLS PAYABLES — (CONTINUED)

The trade payables are non-interest-bearing and have an average credit term of 30 to 90 days. The credit terms granted by the related parties are similar to those granted by the related parties to their major customers.

## 23. OTHER PAYABLES AND ACCRUALS

|                                                                 | As of 31 December |                |                |
|-----------------------------------------------------------------|-------------------|----------------|----------------|
|                                                                 | 2009              | 2010           | 2011           |
|                                                                 | RMB<br>'000       | RMB<br>'000    | RMB<br>'000    |
| Due to fellow subsidiaries . . . . .                            | 56,611            | —              | —              |
| Advances from customers . . . . .                               | 154,269           | 198,811        | 147,271        |
| Accrued salaries, wages and benefits . . . . .                  | 23,897            | 16,364         | 38,685         |
| Other taxes payables . . . . .                                  | 42,896            | 169,308        | 11,699         |
| Other payables . . . . .                                        | 9,764             | 40,017         | 22,168         |
| Payables for purchasing property, plant and equipment . . . . . | 97,049            | 136,689        | 113,615        |
| Received deposit for security of construction quality . . . . . | 371,000           | 259,111        | 209,150        |
|                                                                 | <u>755,486</u>    | <u>820,300</u> | <u>542,588</u> |

The above amounts are unsecured, interest-free and have no fixed terms of repayment.

## 24. OPERATING LEASE ARRANGEMENTS

## As lessee

At the end of each reporting period during the Relevant Periods, the Target Business Group had no significant future minimum lease payments under non-cancellable operating leases.

## 25. COMMITMENTS

The Target Business Group had the following capital commitments at the end of each reporting period:

|                                         | As of 31 December |               |               |
|-----------------------------------------|-------------------|---------------|---------------|
|                                         | 2009              | 2010          | 2011          |
|                                         | RMB<br>'000       | RMB<br>'000   | RMB<br>'000   |
| Contracted, but not provided for:       |                   |               |               |
| Property, plant and equipment . . . . . | 80,944            | 18,427        | 20,573        |
|                                         | <u>80,944</u>     | <u>18,427</u> | <u>20,573</u> |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 26. RELATED PARTY TRANSACTIONS AND BALANCES

## (a) Significant related party transactions

In addition to the transactions and balances disclosed elsewhere in this report, the Target Business Group had the following material transactions with related parties during the Relevant Periods:

|                                                           | As of 31 December |          |          |
|-----------------------------------------------------------|-------------------|----------|----------|
|                                                           | 2009              | 2010     | 2011     |
|                                                           | RMB '000          | RMB '000 | RMB '000 |
| <b>Purchase of goods (i)</b>                              |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                        | 377,638           | 405,681  | 108,989  |
| <b>Purchase of property, plant and equipment (i)</b>      |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                        | 26,901            | —        | —        |
| <b>Receipt of transportation and storage services (i)</b> |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                        | 439,656           | 248,160  | 638,626  |
| <b>Render of platform services (i)</b>                    |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                        | 40,061            | 113,519  | 133,432  |

## (b) Outstanding balances with related parties

|                                                         | As of 31 December |          |          |
|---------------------------------------------------------|-------------------|----------|----------|
|                                                         | 2009              | 2010     | 2011     |
|                                                         | RMB '000          | RMB '000 | RMB '000 |
| <b>Trade and bills receivables (iii)</b>                |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                      | 11,397            | —        | 18,647   |
| <b>Other receivables and prepayments (iii)</b>          |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                      | 1,220             | —        | 13,001   |
| <b>Trade and bills payables (iii)</b>                   |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                      | 39,871            | 15,469   | —        |
| <b>Other payables and advances from customers (iii)</b> |                   |          |          |
| Fellow subsidiaries (ii) . . . . .                      | 56,611            | —        | —        |

- (i) In the opinion of Directors, the transactions between the Target Business Group and the related parties were conducted in the ordinary and usual course of business and on normal commercial terms, the pricing terms were at the prevailing market prices, and the related party transactions will not continue after the listing of H shares of Yitai Coal on Hong Kong Stock Exchange and the completion of the Acquisition.
- (ii) Fellow subsidiaries were other subsidiaries under the common control of Yitai Group, including Yitai Coal, the subsidiaries of Yitai Coal and other subsidiaries (except for the Target Business Group) of Yitai Group.
- (iii) The above balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

## 27. CONTINGENT LIABILITIES

The Target Business Group did not have any significant contingent liabilities not provided for at the end of each reporting period during the Relevant Periods.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as of the end of the reporting period are as follows:

|                                                                                       | As of 31 December |             |             |
|---------------------------------------------------------------------------------------|-------------------|-------------|-------------|
|                                                                                       | 2009              | 2010        | 2011        |
|                                                                                       | RMB<br>'000       | RMB<br>'000 | RMB<br>'000 |
| <b>Financial assets</b>                                                               |                   |             |             |
| Trade and bills receivables . . . . .                                                 | 209,748           | 548,995     | 675,674     |
| Financial assets included in prepayments, deposits and other<br>receivables . . . . . | 2,876             | 8,848       | 25,441      |
| Restricted bank deposits . . . . .                                                    | 10,974            | 7,087       | 7,120       |
| Cash and cash equivalents . . . . .                                                   | 760,564           | 1,122,463   | 917,190     |
| <b>Financial liabilities</b>                                                          |                   |             |             |
| Trade and bills payables . . . . .                                                    | 155,488           | 229,367     | 237,265     |
| Financial liabilities included in other payables and accruals . . . . .               | 601,217           | 621,489     | 395,317     |

All financial assets of the Target Business Group are loans and receivables, and all financial liabilities of the Target Business Group are financial liabilities at amortised cost.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Business Group's principal financial instrument, other than derivatives comprise cash equivalents and trade and bills receivables. The main purpose of these financial instruments is to manage short term cash flows and raise finance for the Target Business Group's operations. The Target Business Group has various financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The carrying amounts of the Target Business Group's financial instruments approximated to their fair values at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Target Business Group's financial instruments are interest rate risk, credit risk, commodity price risk and liquidity risk. As the Target Business Group's exposure to these risks is kept to a minimum, the Target Business Group has not used any derivatives and other instruments for hedging purposes. The Target Business Group does not hold or issue derivative financial instruments for trading purposes. Management reviews and agrees policies for managing each of these risks and they are summarised below.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Business Group's exposure to the risk of changes in market interest rates is limited as it had no borrowings or debt obligations with floating interest rates during the Relevant Periods.

*Credit risk*

The Target Business Group trades only with recognised and creditworthy third parties. It is the Target Business Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Business Group's exposure to bad debts is not significant.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — (CONTINUED)

The credit risk of the Target Business Group's other financial assets, which comprise cash and cash equivalents, and prepayments, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Target Business Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

*Commodity price risk*

The Target Business Group is exposed to commodity price risk through fluctuations of the price of coal sold by the Target Business Group. The Target Business Group has accepted the exposure to commodity price risk and has not used forward contracts to eliminate the commodity price exposures on individual transactions.

*Liquidity risk*

Management of the Target Business Group aims to maintain sufficient cash and cash equivalents and the Target Business Group has available funding through an adequate amount of committed credit facilities to meet its commitments.

The table below summarizes the maturity profile of the Target Business Group's financial liabilities based on the contractual undiscounted payments.

| <u>Year ended 31 December 2011</u>     | <u>On demand</u>     | <u>Less than<br/>1 year</u>     | <u>Total</u>        |
|----------------------------------------|----------------------|---------------------------------|---------------------|
|                                        | <u>RMB<br/>'000</u>  | <u>RMB<br/>'000</u>             | <u>RMB<br/>'000</u> |
| Trade and bills payables . . . . .     | 237,265              | —                               | 237,265             |
| Other payables and accruals . . . . .  | 281,702              | 113,615                         | 395,317             |
|                                        | <u>518,967</u>       | <u>113,615</u>                  | <u>632,582</u>      |
| <br><u>Year ended 31 December 2010</u> | <br><u>On demand</u> | <br><u>Less than<br/>1 year</u> | <br><u>Total</u>    |
|                                        | <u>RMB<br/>'000</u>  | <u>RMB<br/>'000</u>             | <u>RMB<br/>'000</u> |
| Trade and bills payables . . . . .     | 229,367              | —                               | 229,367             |
| Other payables and accruals . . . . .  | 484,800              | 136,689                         | 621,489             |
|                                        | <u>714,167</u>       | <u>136,689</u>                  | <u>850,856</u>      |
| <br><u>Year ended 31 December 2009</u> | <br><u>On demand</u> | <br><u>Less than<br/>1 year</u> | <br><u>Total</u>    |
|                                        | <u>RMB<br/>'000</u>  | <u>RMB<br/>'000</u>             | <u>RMB<br/>'000</u> |
| Trade and bills payables . . . . .     | 155,488              | —                               | 155,488             |
| Other payables and accruals . . . . .  | 504,168              | 97,049                          | 601,217             |
|                                        | <u>659,656</u>       | <u>97,049</u>                   | <u>756,705</u>      |

*Capital management*

The primary objective of the Target Business Group's capital management is to safeguard the Target Business Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — (CONTINUED)

The Target Business Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Business Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Business Group monitors capital using a gearing ratio, which is net debt divided by total capital. The net debt includes interest-bearing bank loans, trade, bills and other payables and accruals, less cash and cash equivalents. Capital represents the equity attributable to the owner of the Target Business Group.

At the end of the reporting period, the Target Business Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Target Business Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Target Business Group has a reasonable level of capital to support its business. The gearing ratios at the end of the reporting period were as follows:

|                                                                     | As of 31 December |                  |                  |
|---------------------------------------------------------------------|-------------------|------------------|------------------|
|                                                                     | 2009              | 2010             | 2011             |
|                                                                     | RMB '000          | RMB '000         | RMB '000         |
| Trade and bills payables . . . . .                                  | 155,488           | 229,367          | 237,265          |
| Other payables and accruals . . . . .                               | 601,217           | 621,489          | 395,317          |
| Less:                                                               |                   |                  |                  |
| Cash and cash equivalents . . . . .                                 | 760,564           | 1,122,463        | 917,190          |
| Net debt . . . . .                                                  | (3,859)           | (271,607)        | (284,608)        |
| Equity attributable to owner of the Target Business Group . . . . . | 1,638,531         | 1,942,312        | 2,377,205        |
| <b>Capital and net debt . . . . .</b>                               | <b>1,634,672</b>  | <b>1,670,705</b> | <b>2,092,597</b> |
| Gearing ratio . . . . .                                             | -0.2%             | -14.0%           | -12.0%           |

## III. SUBSEQUENT EVENTS

As of the date of this report, the Target Business Group had no significant events after reporting period.

## IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yitai Group for the Target Business or any of its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
 Hong Kong

*The information set out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix IA and Appendix IB to this Prospectus, and is included in this Prospectus for information only.*

**(A) UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED GROUP**

**1. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2011**

The unaudited pro forma combined income statement of the enlarged group resulting from the completion of the Proposed Acquisition (as defined in the Prospectus) (the "Enlarged Group") for the year ended 31 December 2011 set out below had been prepared to illustrate the effect of the Proposed Acquisition on the combined income statement of the Group, as if completion of the Proposed Acquisition had taken place on 1 January 2011, and prepared based on the audited financial information of the Group for the year ended 31 December 2011, the audited combined financial information of the Target Business Group for the year ended 31 December 2011 and with further adjustments as explained in the notes below.

The unaudited pro forma income statement has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the results of the Enlarged Group.

Year ended 31 December 2011:

|                                                     | The Group         | The Target Business Group | Total            | Pro forma adjustments | Note | Pro forma enlarged |
|-----------------------------------------------------|-------------------|---------------------------|------------------|-----------------------|------|--------------------|
|                                                     | RMB'000<br>Note 1 | RMB'000<br>Note 2         | RMB'000<br>A     | RMB'000<br>B          |      | RMB'000<br>A+B     |
| REVENUE . . . . .                                   | 16,515,775        | 10,848,936                | 27,364,711       | (361,770)             | 3    | 27,002,941         |
| Cost of sales . . . . .                             | (8,100,906)       | (7,515,201)               | (15,616,107)     | 881,047               | 3    | (14,735,060)       |
| Gross profit . . . . .                              | 8,414,869         | 3,333,735                 | 11,748,604       | 519,277               |      | 12,267,881         |
| Other income . . . . .                              | 349,929           | 128,483                   | 478,412          | (335,012)             | 3    | 143,400            |
| Selling and distribution costs . . . . .            | (717,676)         | (423,373)                 | (1,141,049)      | —                     |      | (1,141,049)        |
| Administrative expenses . . . . .                   | (1,009,022)       | (158,081)                 | (1,167,103)      | —                     |      | (1,167,103)        |
| Other expenses . . . . .                            | (64,376)          | 28,666                    | (35,710)         | —                     |      | (35,710)           |
| Finance income . . . . .                            | 34,090            | 4,177                     | 38,267           | —                     |      | 38,267             |
| Finance costs . . . . .                             | (285,327)         | (417)                     | (285,744)        | —                     |      | (285,744)          |
| Exchange gain, net . . . .                          | 17,740            | —                         | 17,740           | —                     |      | 17,740             |
| Share of profits and losses of associates . . . . . | 19,799            | —                         | 19,799           | —                     |      | 19,799             |
| PROFIT BEFORE TAX . . .                             | 6,760,026         | 2,913,190                 | 9,673,216        | 184,265               |      | 9,857,481          |
| Income tax expenses . . .                           | (1,010,762)       | (617,611)                 | (1,628,373)      | —                     |      | (1,628,373)        |
| PROFIT FOR THE YEAR . . . . .                       | <u>5,749,264</u>  | <u>2,295,579</u>          | <u>8,044,843</u> | <u>184,265</u>        |      | <u>8,229,108</u>   |
| Attributable to:                                    |                   |                           |                  |                       |      |                    |
| Owners of the Company . . . . .                     | 5,463,964         | 2,034,946                 | 7,498,910        | 184,265               |      | 7,683,175          |
| Minority interests . . . . .                        | 285,300           | 260,633                   | 545,933          | —                     |      | 545,933            |
|                                                     | <u>5,749,264</u>  | <u>2,295,579</u>          | <u>8,044,843</u> | <u>184,265</u>        |      | <u>8,229,108</u>   |



**2. UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION OF THE  
ENLARGED GROUP AS OF 31 DECEMBER 2011**

The unaudited pro forma combined statement of financial position of the Enlarged Group as of 31 December 2011 set out below had been prepared to illustrate the effect of the issue of the Company's H Shares (as defined in the Prospectus) and the Proposed Acquisition on the combined statement of financial position of the Group, as if completion of the issue of the Company's H Shares (as defined in the Prospectus) and the Proposed Acquisition had taken place on 31 December 2011, and prepared based on the audited financial information of the Group as of 31 December 2011, the audited financial information of the Target Business Group as of 31 December 2011 and with further adjustments as explained in the notes below.

The unaudited pro forma combined statement of financial position has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Enlarged Group.

31 December 2011:

|                                             | The<br>Group          | The Target<br>Business<br>Group | Total             | Pro forma<br>adjustments | Note | Pro forma<br>enlarged |
|---------------------------------------------|-----------------------|---------------------------------|-------------------|--------------------------|------|-----------------------|
|                                             | RMB<br>'000<br>Note 1 | RMB<br>'000<br>Note 2           | RMB<br>'000<br>A  | RMB<br>'000<br>B         |      | RMB<br>'000<br>A+B    |
| <b>NON-CURRENT ASSETS</b>                   |                       |                                 |                   |                          |      |                       |
| Property, plant and<br>equipment . . . . .  | 20,371,039            | 1,054,737                       | 21,425,776        | 184,265                  | 3    | 21,610,041            |
| Investment properties . . . . .             | 33,725                | —                               | 33,725            | —                        |      | 33,725                |
| Prepaid land lease<br>payments . . . . .    | 265,806               | 58,948                          | 324,754           | —                        |      | 324,754               |
| Mining rights . . . . .                     | 218,130               | 235,820                         | 453,950           | —                        |      | 453,950               |
| Intangible assets . . . . .                 | 17,467                | 268                             | 17,735            | —                        |      | 17,735                |
| Interests in associates . . . . .           | 353,026               | —                               | 353,026           | —                        |      | 353,026               |
| Available-for-sale<br>investments . . . . . | 2,870,590             | —                               | 2,870,590         | —                        |      | 2,870,590             |
| Other non-current<br>assets . . . . .       | 17,597                | —                               | 17,597            | —                        |      | 17,597                |
| Deferred tax assets . . . . .               | 101,317               | 10,908                          | 112,225           | —                        |      | 112,225               |
| Total non-current assets . . . .            | <u>24,248,697</u>     | <u>1,360,681</u>                | <u>25,609,378</u> | <u>184,265</u>           |      | <u>25,793,643</u>     |

31 December 2011:

|                                                        | The Group          | The Target Business Group | Total         | Pro forma adjustments | Notes | Pro forma enlarged |
|--------------------------------------------------------|--------------------|---------------------------|---------------|-----------------------|-------|--------------------|
|                                                        | RMB '000<br>Note 1 | RMB '000<br>Note 2        | RMB '000<br>A | RMB '000<br>B         |       | RMB '000<br>A+B    |
| CURRENT ASSETS                                         |                    |                           |               |                       |       |                    |
| Inventories . . . . .                                  | 676,716            | 338,476                   | 1,015,192     | —                     |       | 1,015,192          |
| Trade and bills receivables . . . .                    | 751,430            | 675,674                   | 1,427,104     | (18,647)              | 3     | 1,408,457          |
| Prepayments, deposits and other receivables . . . . .  | 835,994            | 110,538                   | 946,532       | (13,001)              | 3     | 933,531            |
| Restricted cash . . . . .                              | 20,305             | 7,120                     | 27,425        | —                     |       | 27,425             |
|                                                        |                    |                           |               | 5,933,589             | 4     |                    |
| Cash and cash equivalents . . . .                      | 3,535,470          | 917,190                   | 4,452,660     | (8,446,544)           | 5     | 1,939,705          |
| Total current assets . . . . .                         | 5,819,915          | 2,048,998                 | 7,868,913     | (2,544,603)           |       | 5,324,310          |
| CURRENT LIABILITIES                                    |                    |                           |               |                       |       |                    |
| Trade and bills payables . . . . .                     | 543,485            | 237,265                   | 780,750       | (18,647)              | 3     | 762,103            |
| Other payables and accruals . . . .                    | 1,886,382          | 542,588                   | 2,428,970     | (13,001)              | 3     | 2,415,969          |
| Interest-bearing loans . . . . .                       | 2,206,190          | —                         | 2,206,190     | —                     |       | 2,206,190          |
| Taxes payable . . . . .                                | 161,345            | 42,329                    | 203,674       | —                     |       | 203,674            |
| Total current liabilities . . . . .                    | 4,797,402          | 822,182                   | 5,619,584     | (31,648)              |       | 5,587,936          |
| NET CURRENT ASSETS . . . . .                           | 1,022,513          | 1,226,816                 | 2,249,329     | (2,512,955)           |       | (263,626)          |
| TOTAL ASSETS (LESS CURRENT LIABILITIES) . . . . .      | 25,271,210         | 2,587,497                 | 27,858,707    | (2,328,690)           |       | 25,530,017         |
| NON-CURRENT LIABILITIES                                |                    |                           |               |                       |       |                    |
| Interest-bearing loans . . . . .                       | 6,100,594          | —                         | 6,100,594     | —                     |       | 6,100,594          |
| Other long term liabilities . . . .                    | 387,236            | 6,440                     | 393,676       | —                     |       | 393,676            |
| Total non-current liabilities . . . .                  | 6,487,830          | 6,440                     | 6,494,270     | —                     |       | 6,494,270          |
| Net assets . . . . .                                   | 18,783,380         | 2,581,057                 | 21,364,437    | (2,328,690)           |       | 19,035,747         |
| EQUITY                                                 |                    |                           |               |                       |       |                    |
|                                                        |                    |                           |               | 184,265               | 3     |                    |
| Equity attributable to owners of the Company . . . . . | 17,015,636         | 2,377,205                 | 19,392,841    | 5,933,589             | 4     |                    |
|                                                        |                    |                           |               | (8,446,544)           | 5     | 17,064,151         |
| Minority Interests . . . . .                           | 1,767,744          | 203,852                   | 1,971,596     | —                     |       | 1,971,596          |
| Total equity . . . . .                                 | 18,783,380         | 2,581,057                 | 21,364,437    | (2,328,690)           |       | 19,035,747         |

Notes to Pro forma Adjustments:

- 1 The balances are extracted from the audited consolidated financial information of the Group as of the date or for the period presented as set out in Appendix IA to this Prospectus.
- 2 The balances are extracted from the audited financial information of the Target Business Group as of the date or for the period presented as set out in Appendix IB to this Prospectus.
- 3 The adjustment represents the elimination of transactions or balances between the Group and the Target Business Group.
- 4 The adjustment reflects the effect of the issue of the Company's 162,667,000 H Shares on the Main Board of The Stock Exchange of Hong Kong Limited, which is one of the preconditions to the completion of the Proposed Acquisition, and the estimated net proceeds from the Global Offering of approximately HK\$7,307,376,000 (equivalents to RMB5,933,589,000), after deducting the underwriting commissions and other estimated offering expenses and assuming that the Over-allotment Option is not exercised. In the preparation of pro forma combined financial information, the Offer Price is assumed to be HK\$48.00 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. The estimated net proceeds from the Global Offering are converted from HK dollars into Renminbi at the PBOC Rate prevailing on the Latest Practicable Date of RMB0.8120 to HK\$1.00. This adjustment is based on the assumption of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance that the issue of the Company's H Shares will take place or that the amount of net proceeds from the Global Offering will be equal to HK\$7,307,376,000.

- 5 The proposed acquisition of the Target Business Group is considered as a business combination involving entities under common control because the Company and the Target Business Group are ultimately controlled by Yitai Group both before and after the acquisition, and that control is not transitory. As a result, the acquisition is to be accounted for using merger accounting. The adjustment represents the recognition of the acquisition consideration of RMB8,446,544,000 in the form of cash and such consideration reduces the owner's equity of the enlarged Group.

**(B) LETTER ON UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF THE  
ENLARGED GROUP**

*The following is the text of a report, prepared for inclusion in this Prospectus, in respect of the unaudited pro forma combined financial information of the Enlarged Group, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.*



22nd Floor CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

29 June 2012

The Directors  
Inner Mongolia Yitai Coal Company Limited

Dear Sirs,

We report on the unaudited pro forma combined financial information (the "Unaudited Pro Forma Combined Financial Information") of Inner Mongolia Yitai Coal Company Limited 內蒙古伊泰煤炭股份有限公司, the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix IIA to the Prospectus of the Company dated 29 June 2012 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, which has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the issue of the Company's H Shares and the Proposed Acquisition (as defined in the Prospectus) resulting in the formation of an enlarged group (the "Enlarged Group") might have affected the financial information of the Group presented therein. The basis of preparation of the Unaudited Pro Forma Combined Financial Information is set out in Appendix IIA to the Prospectus.

**RESPONSIBILITIES**

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Combined Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Listing Rules, on the Unaudited Pro Forma Combined Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Combined Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Combined Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Combined Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Combined Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Combined Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards. The Unaudited Pro Forma Combined Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group had the transactions actually occurred as of the dates indicated therein or at any future dates; or
- the results of the Group for the year ended 31 December 2011 or any future periods.

## OPINION

In our opinion:

- (a) the Unaudited Pro Forma Combined Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Combined Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

The information set out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix IA and Appendix IB to this Prospectus, and is included in this Prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" and "Appendix IA — Accountants' Report of Inner Mongolia Yitai Coal Company Limited."

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide the investors with further information about (i) how the proposed Listing might have affected the net tangible assets of the Group as if the Global Offering had occurred on 31 December 2011; and (ii) how the proposed Listing might have affected the forecasts earnings per share of the Group for the year ending 31 December 2011 as if the Global Offering had taken place on 1 January 2011. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial results and positions of the financial periods concerns.

#### A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared to show the effect on the consolidated net tangible assets of the Group as of 31 December 2011 as if the Global Offering had occurred on 31 December 2011.

The unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the financial position of the Group.

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared based on the audited consolidated net assets of the Group as of 31 December 2011 as extracted from "Appendix IA — Accountants' Report of Inner Mongolia Yitai Coal Company Limited," and is adjusted as described below.

|                                                          | Consolidated net tangible assets attributable to equity holders of the Company as of 31 December 2011 <sup>(1)</sup> | Estimated net proceeds from the Global Offering <sup>(2)</sup> | Unaudited pro forma adjusted consolidated net tangible assets | Unaudited pro forma adjusted consolidated net tangible assets per share <sup>(3)(4)</sup> |       |
|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------|
|                                                          | RMB '000                                                                                                             | RMB '000                                                       | RMB '000                                                      | RMB                                                                                       | HK\$  |
| Based on an Offer Price of HK\$43.00 per Share . . . . . | 16,998,169                                                                                                           | 5,273,161                                                      | 22,271,330                                                    | 13.69                                                                                     | 16.86 |
| Based on an Offer Price of HK\$53.00 per Share . . . . . | 16,998,169                                                                                                           | 6,594,017                                                      | 23,592,186                                                    | 14.50                                                                                     | 17.86 |

- (1) The consolidated net tangible assets amount attributable to equity holders of the Company as of 31 December 2011 were determined as follows:

|                                                                                          | RMB'000     |
|------------------------------------------------------------------------------------------|-------------|
| Audited consolidated net assets as set out in Appendix IA . . . . .                      | 18,783,380  |
| Less: Minority interests . . . . .                                                       | (1,767,744) |
| Consolidated net assets attributable to equity holders of the Company . . . . .          | 17,015,636  |
| Less: Intangible assets . . . . .                                                        | (17,467)    |
| Consolidated net tangible assets attributable to equity holders of the Company . . . . . | 16,998,169  |

- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$43.00 per Share or HK\$53.00 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from HK dollars into Renminbi at the PBOC Rate prevailing on 20 June 2012 of RMB0.8120 to HK\$1.00.

- (3) The unaudited pro forma adjusted consolidated net tangible assets per share amount is determined after the adjustment as described above and on the basis that 1,626,667,000 shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any shares which may be issued upon the exercise of the Over-allotment Option) are issued and outstanding.
- (4) The translation of Renminbi into HK dollars has been made at the rate of RMB0.8120 to HK\$1.00, the PBOC Rate prevailing on 20 June 2012. No representation is made that the HK dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.
- (5) The unaudited pro forma adjusted net tangible assets do not take into account the effect of the proposed acquisition of the Target Business Group. Details of the financial effect of these proposed acquisitions are set out in Appendix IIA to this Prospectus.
- (6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2011.

## B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecasts earnings per Share of the Group for the six months ending 30 June 2012 has been prepared in accordance with Rule 4.29 of the Listing Rules, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2012. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial results of the Group.

|                                                                                                                | For the Six Months Ending<br>30 June 2012         |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------|
| Unaudited forecasts consolidated profit attributable to equity holders of the Company <sup>(1)</sup> . . . . . | not less than RMB3,095 million                    |
| Unaudited pro forma forecasts earnings per Share <sup>(2)</sup> . . . . .                                      | RMB1.90 (equivalent to<br>approximately HK\$2.34) |

### Notes:

- (1) The forecasts consolidated net profit attributable to equity holders of the Company for the six months ending 30 June 2012 is extracted from the paragraph headed "Profit Forecast For the Six Months Ending June 30, 2012" in the section headed "Financial Information." The bases on which the above Profit Forecast for the six months ending 30 June 2012 has been prepared are summarised in "Profit Forecast" on Appendix IV to this Prospectus.
- (2) The calculation of the unaudited pro forma forecasts earnings per Share is based on the forecasts consolidated profit attributable to equity holders of the Company for the six months ending 30 June 2012 and on the assumptions that the Company had been listed since 1 January 2012, a total of 1,626,667,000 Shares were in issue during the six months ending 30 June 2012 and the Over-allotment Option would not be exercised. The unaudited pro forma forecasts earnings per Share for the six months ending 30 June 2012 is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8120, the prevailing rate quoted by the PBOC on 20 June 2012.



### C. LETTER FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a letter, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for inclusion in this Prospectus, in respect of the Group's unaudited pro forma financial information.*



22nd Floor CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

29 June 2012

The Directors  
Inner Mongolia Yitai Coal Company  
China International Capital Corporation Hong Kong Securities Limited  
BOCI Asia Limited

Dear Sirs,

We report on the unaudited pro forma adjusted consolidated net tangible assets and unaudited pro forma forecasts earnings per share (the "Unaudited Pro Forma Financial Information") of Inner Mongolia Yitai Coal Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the Directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the global offering might have affected the financial information presented, for inclusion in Appendix IIB to the Prospectus of the Company dated 29 June 2012 (the "Prospectus"). The basis of preparation of the Unaudited Pro forma Financial Information is set out in Appendix IIB to the Prospectus.

#### Respective Responsibilities of the Directors and the Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

#### Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro

Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as of 31 December 2011 or any future date; or
- the forecasts earnings per share of the Group for the six months ending 30 June 2012 or any future periods.

### Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

Under the rules of The Shanghai Stock Exchange on which our B shares are listed, we are required to publish interim financial report containing unaudited financial statements. Because we released financial statements for the three-month period ended 31 March 2012 prior to the date of this prospectus, we have prepared interim condensed consolidated financial information for the three-month period ended 31 March 2012 in accordance with International Accounting Standard 34 “Interim Financial Reporting” and have incorporated such report in this prospectus.

## A. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### a. Interim condensed consolidated statement of comprehensive income

|                                                                                       | Notes | Three months ended 31 March |                      |
|---------------------------------------------------------------------------------------|-------|-----------------------------|----------------------|
|                                                                                       |       | 2012                        | 2011                 |
|                                                                                       |       | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| REVENUE .....                                                                         | 4     | 5,371,647                   | 3,210,150            |
| Cost of sales .....                                                                   |       | (3,034,652)                 | (1,342,143)          |
| Gross profit .....                                                                    |       | 2,336,995                   | 1,868,007            |
| Other income .....                                                                    | 4     | 101,371                     | 54,198               |
| Selling and distribution costs .....                                                  |       | (175,658)                   | (171,522)            |
| Administrative expenses .....                                                         |       | (177,991)                   | (145,100)            |
| Other expenses .....                                                                  |       | (22,320)                    | 26,821               |
| Finance income .....                                                                  |       | 8,713                       | 5,938                |
| Finance costs .....                                                                   |       | (98,696)                    | (42,707)             |
| Exchange gains, net .....                                                             |       | 585                         | 1,163                |
| Share of profits and losses of associates .....                                       |       | 2,465                       | (2,625)              |
| PROFIT BEFORE TAX .....                                                               | 5     | 1,975,464                   | 1,594,173            |
| Income tax expense .....                                                              | 6     | (302,992)                   | (235,970)            |
| PROFIT FOR THE PERIOD .....                                                           |       | <u>1,672,472</u>            | <u>1,358,203</u>     |
| Other comprehensive income .....                                                      |       | —                           | —                    |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD .....                                       |       | <u>1,672,472</u>            | <u>1,358,203</u>     |
| Profit and total comprehensive income attributable to:                                |       |                             |                      |
| Owners of the company .....                                                           | 7     | 1,525,557                   | 1,310,965            |
| Non-controlling interests .....                                                       |       | 146,915                     | 47,238               |
|                                                                                       |       | <u>1,672,472</u>            | <u>1,358,203</u>     |
| Basic earnings per share attributable to ordinary equity holders of the Company (RMB) |       |                             |                      |
| — For profit for the period .....                                                     | 7     | <u>1.04</u>                 | <u>0.90</u>          |

**b. Interim condensed consolidated statement of financial position**

|                                              | Notes | 31 March 2012<br>Unaudited<br>RMB'000 | 31 December 2011<br>Audited<br>RMB'000 |
|----------------------------------------------|-------|---------------------------------------|----------------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                                       |                                        |
| Property, plant and equipment                | 8     | 20,580,536                            | 20,371,039                             |
| Investment properties                        |       | 33,139                                | 33,725                                 |
| Prepaid land lease payments                  | 9     | 265,374                               | 265,806                                |
| Mining rights                                |       | 216,866                               | 218,130                                |
| Other intangible assets                      |       | 17,312                                | 17,467                                 |
| Investments in associates                    | 10    | 355,491                               | 353,026                                |
| Available-for-sale investments               | 11    | 2,889,550                             | 2,870,590                              |
| Other non-current assets                     |       | 25,041                                | 17,597                                 |
| Deferred tax assets                          |       | 90,396                                | 101,317                                |
| Total non-current assets                     |       | <u>24,473,705</u>                     | <u>24,248,697</u>                      |
| <b>CURRENT ASSETS</b>                        |       |                                       |                                        |
| Inventories                                  | 12    | 660,851                               | 676,716                                |
| Trade and bills receivables                  | 13    | 1,095,023                             | 751,430                                |
| Prepayments, deposits and other receivables  | 14    | 1,419,424                             | 835,994                                |
| Restricted cash                              | 15    | 20,331                                | 20,305                                 |
| Cash and short-term deposits                 | 15    | 3,811,060                             | 3,535,470                              |
| Total current assets                         |       | <u>7,006,689</u>                      | <u>5,819,915</u>                       |
| <b>CURRENT LIABILITIES</b>                   |       |                                       |                                        |
| Trade and bills payables                     | 16    | 630,392                               | 543,485                                |
| Other payables and accruals                  | 17    | 2,052,052                             | 1,886,382                              |
| Interest-bearing loans and borrowings        | 18    | 2,070,009                             | 2,206,190                              |
| Income tax payable                           |       | 347,246                               | 161,345                                |
| Total current liabilities                    |       | <u>5,099,699</u>                      | <u>4,797,402</u>                       |
| NET CURRENT ASSETS                           |       | <u>1,906,990</u>                      | <u>1,022,513</u>                       |
| TOTAL ASSETS LESS CURRENT LIABILITIES        |       | <u>26,380,695</u>                     | <u>25,271,210</u>                      |
| <b>NON-CURRENT LIABILITIES</b>               |       |                                       |                                        |
| Interest-bearing loans and borrowings        | 18    | 5,569,484                             | 6,100,594                              |
| Other non-current liabilities                |       | 317,818                               | 387,236                                |
| Total non-current liabilities                |       | <u>5,887,302</u>                      | <u>6,487,830</u>                       |
| NET ASSETS                                   |       | <u>20,493,393</u>                     | <u>18,783,380</u>                      |
| <b>EQUITY</b>                                |       |                                       |                                        |
| Issued capital                               | 19    | 1,464,000                             | 1,464,000                              |
| Reserves                                     |       | 14,881,193                            | 13,355,636                             |
| Proposed final dividends                     |       | 2,196,000                             | 2,196,000                              |
| Equity attributable to owners of the company |       | 18,541,193                            | 17,015,636                             |
| Non-controlling interests                    |       | 1,952,200                             | 1,767,744                              |
| Total equity                                 |       | <u>20,493,393</u>                     | <u>18,783,380</u>                      |

## Attributable to the equity holders of the company

\* These reserve accounts comprise the consolidated reserves of RMB13,355,636,000 as at 31 December 2011 and RMB14,881,193,000 as at 31 March 2012 in the interim consolidated statement of financial position.

**d. Interim condensed consolidated statement of cash flows**

|                                                           | <b>Three months ended 31 March</b> |                              |
|-----------------------------------------------------------|------------------------------------|------------------------------|
|                                                           | <b>2012</b>                        | <b>2011</b>                  |
|                                                           | <b>Unaudited<br/>RMB'000</b>       | <b>Unaudited<br/>RMB'000</b> |
| Net cash inflow from operating activities .....           | 2,055,046                          | 853,173                      |
| Net cash outflow from investing activities .....          | (1,039,486)                        | (592,436)                    |
| Net cash (outflow)/inflow from financing activities ..... | (736,333)                          | 276,527                      |
| Net increase in cash and cash equivalents .....           | 279,227                            | 537,264                      |
| Cash and cash equivalents at 1 January .....              | 3,513,529                          | 3,706,760                    |
| Cash and cash equivalents at 31 March .....               | <u>3,792,756</u>                   | <u>4,244,024</u>             |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

## 1. CORPORATE INFORMATION

The Company conducted initial public offering of domestic listed foreign shares (the “B shares”) in the Shanghai Stock Exchange on 8 August 1997. Upon the completion of the B shares offering, the Company was incorporated as a joint stock company with limited liability on 23 September 1997, with a registered capital of RMB366,000,000, 54.64% of which was held by Inner Mongolia Yitai Group Co., Ltd. (“Yitai Group”) and 45.36% of which was held by the public investors of the B shares. On 16 September 2007, the Company increased the issued share capital to RMB732,000,000 through the conversion of capital reserve and proposed dividends. On 5 May 2010, the Company increased the issued share capital to RMB1,464,000,000 through the conversion of proposed dividends.

The registered office of the Company is located at Yitai Building, Tianjiao North Road, Dongsheng District, Ordos City, Inner Mongolia, PRC. The Group is principally engaged in the production and sale of coal, the provision of railway and road transportation services, the production and sale of coal-related chemical, and development, production and sales of traditional Chinese medicine.

In the opinion of the Directors, the parent company of the Company is Yitai Group and the ultimate holding company is Inner Mongolia Yitai Investment Co., Ltd., an enterprise incorporated in Inner Mongolia, PRC, which equity interests are held via a trust agreement by 31 individuals, comprising the senior management members and key technicians of Yitai Group, on behalf of a group of employees of Yitai Group.

**Particulars of principal subsidiaries, jointly-controlled entity and associates**

As at 31 March 2012, the Company had investments in the following principal subsidiaries and associates, all of which are private companies with limited liability, the particulars of which are set out below:

| Company name                                                                              | Place and date of incorporation /operations  | Nominal value of issued and fully paid-up capital<br>RMB'000 | Percentage of equity interest attributable to the Company<br>% | Principal activities   |
|-------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------|------------------------|
| <b>Subsidiaries</b>                                                                       |                                              |                                                              |                                                                |                        |
| Inner Mongolia Yitai Zhundong Railway Co., Ltd.<br>(內蒙古伊泰准東鐵路有限責任公司) . . . . .            | Inner Mongolia, the PRC<br>5 October 1998    | 1,496,000                                                    | 100.0                                                          | Railway transportation |
| Inner Mongolia Yitai Pharmaceutical Co., Ltd.<br>(內蒙古伊泰藥業有限責任公司) . . . . .                | Inner Mongolia, the PRC<br>20 May 1998       | 358,400                                                      | 100.0                                                          | Pharmaceuticals        |
| Inner Mongolia Yitai Coal-to-Oil Co., Ltd.<br>(內蒙古伊泰煤製油有限責任公司) . . . . .                  | Inner Mongolia, the PRC<br>17 March 2006     | 1,500,000                                                    | 80.0                                                           | Coal-to-Oil production |
| Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd.<br>(內蒙古伊泰京粵酸刺溝礦業有限責任公司) . . . . . | Inner Mongolia, the PRC<br>18 September 2007 | 1,080,000                                                    | 52.0                                                           | Coal mining            |
| Inner Mongolia Yitai Huzhun Railway Co., Ltd.<br>(內蒙古伊泰呼准鐵路有限公司) . . . . .                | Inner Mongolia, the PRC<br>26 February 2003  | 1,360,000                                                    | 76.5                                                           | Railway transportation |
| Ordos Yitai Motor Transport Co., Ltd.<br>(鄂爾多斯市伊泰汽車運輸有限公司) . . . . .                      | Inner Mongolia, the PRC<br>1 December 2004   | 38,560                                                       | 100.0                                                          | Motor transportation   |
| Inner Mongolia Yitai Transport Co., Ltd.<br>(內蒙古伊泰汽車運輸有限責任公司) . . . . .                   | Inner Mongolia, the PRC<br>20 March 2007     | 5,000                                                        | 100.0                                                          | Motor transportation   |



## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 1. CORPORATE INFORMATION — (CONTINUED)

| <u>Company name</u>                                                                                    | <u>Place and date of<br/>incorporation<br/>/operations</u> | <u>Nominal value of<br/>issued and fully<br/>paid-up capital</u><br>RMB'000 | <u>Percentage of<br/>equity interest<br/>attributable to the<br/>Company</u><br>% | <u>Principal activities</u>                      |
|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------|
| Inner Mongolia Yitai Tiedong<br>Storage and Transportation Co.,<br>Ltd.<br>(內蒙古伊泰鐵東儲運有限責任公司) . . . . . | Inner Mongolia,<br>the PRC<br>3 September<br>2008          | 169,000                                                                     | 51.0                                                                              | Storage and<br>transportation                    |
| Huhhot Yitai Coal Sales Co., Ltd.<br>(呼和浩特市伊泰煤炭銷售有限公司) . . . . .                                       | Inner Mongolia,<br>the PRC<br>3 September<br>2009          | 50,000                                                                      | 100.0                                                                             | Coal wholesale                                   |
| Yitai Yili Energy Co., Ltd.<br>(伊泰伊犁能源有限公司) . . . . .                                                  | Xinjiang,<br>the PRC<br>24 September<br>2009               | 100,000                                                                     | 100.0                                                                             | Coal technology<br>development<br>and consulting |
| Inner Mongolia Yitai Chemical<br>Co., Ltd.<br>(內蒙古伊泰化工有限責任公司) . . . . .                                | Inner Mongolia,<br>the PRC<br>29 October<br>2009           | 100,000                                                                     | 100.0                                                                             | Chemical<br>production and<br>sale               |
| Yitai Xinjiang Zhundong Energy<br>Co., Ltd.<br>(伊泰新疆准東能源有限公司) . . . . .                                | Xinjiang,<br>the PRC<br>9 August 2010                      | 100,000                                                                     | 100.0                                                                             | Coal technology<br>development<br>and consulting |
| Yitai Share (Hong Kong) Co., Ltd.<br>(伊泰(股份)香港有限公司) . . . . .                                          | Hong Kong,<br>the PRC<br>27 June 2011                      | 18,903                                                                      | 100.0                                                                             | Coal imports<br>and<br>international<br>trade    |
| Yitai Hami Energy Co., Ltd.<br>(伊泰哈密能源有限公司) . . . . .                                                  | Xinjiang,<br>the PRC<br>13 January<br>2012                 | 10,000                                                                      | 100.0                                                                             | Coal wholesale<br>and chemical<br>sale           |
| Yitai Xinjiang Energy Co., Ltd.<br>(伊泰新疆能源有限公司) . . . . .                                              | Xinjiang,<br>the PRC<br>26 February<br>2012                | 100,000                                                                     | 90.0                                                                              | Chemical<br>production and<br>sale               |
| Yitai Yili Mining Co., Ltd.<br>(伊泰伊犁礦業有限公司) . . . . .                                                  | Xinjiang,<br>the PRC<br>13 March<br>2012                   | 50,000                                                                      | 90.0                                                                              | Investment in<br>the coal mining                 |
| <u>Associates</u>                                                                                      |                                                            |                                                                             |                                                                                   |                                                  |
| Ordos Tiandi Huarun Mine<br>Equipment Co., Ltd.<br>(鄂爾多斯市天地華潤煤礦裝備有限責任公司) . . . . .                     | Inner Mongolia,<br>the PRC<br>5 February<br>2007           | 100,000                                                                     | 31.5                                                                              | Mine<br>equipment<br>production and<br>sale      |
| Inner Mongolia Jingtai Electric<br>Power Generation Co., Ltd.<br>(內蒙古京泰發電有限責任公司) . . . . .             | Inner Mongolia,<br>the PRC<br>29 November<br>2007          | 570,000                                                                     | 29.0                                                                              | Gangue Power<br>Plant<br>construction            |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 1. CORPORATE INFORMATION — (CONTINUED)

| Company name                                                                                         | Place and date of incorporation /operations | Nominal value of issued and fully paid-up capital<br>RMB'000 | Percentage of equity interest attributable to the Company<br>% | Principal activities                                                      |
|------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------|
| Avic Liming Jinhuaaji Petrochemical Equipment (Inner Mongolia) Co., Ltd.<br>(中航黎明錦化機石化裝備 (內蒙古) 有限公司) | Inner Mongolia, the PRC<br>12 October 2006  | 218,300                                                      | 39.0                                                           | Chemical equipment production and sale                                    |
| Ordos Yizheng Coal Mine Fire-proof Project Co., Ltd.<br>(鄂爾多斯市伊政煤田滅火工程有限責任公司) . . . . .              | Inner Mongolia, the PRC<br>14 July 2010     | 50,000                                                       | 30.0                                                           | Coal mine fire-proof project, land restoration, and ecological treatment. |
| Ordos Lianke Qingjie Energy Technology Co., Ltd.<br>(鄂爾多斯市聯科清潔能源技術有限公司) . . . . .                    | Inner Mongolia, the PRC<br>27 January 2011  | 150,000                                                      | 20.0                                                           | Research and development of coal-related chemical technology              |

All the above subsidiaries are directly held by the Company.

The English names of certain companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

All the above companies are limited liability companies.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Basis of preparation

The interim condensed consolidated financial information for the three months ended 31 March 2012 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information should be read in conjunction with Appendix IA — Accountants' Report of the Company as set out in the Prospectus, which have been prepared in accordance of International Financial Reporting Standards ("IFRS").

## 2.2 Significant accounting policies

The accounting policies applied are consistent with those of Appendix IA — Accountants' Report of the Company as set out in the Prospectus for the years ended 31 December 2009, 2010 and 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

IAS 12 Amendments      *Income Taxes*

The adoption of this revised IFRS has had no significant effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited condensed financial statements.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the coal segment is the mining and sale of coal products;
- (b) the transportation segment provides road and railway transportation services to coal companies;

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 3. OPERATING SEGMENT INFORMATION — (CONTINUED)

- (c) the coal-related chemical segment is to produce and sell coal-based synthetic fuel;
- (d) the “others” segment comprises, principally, the development, production and sale of traditional Chinese medicine.

Management monitors the results of its operating segments separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit and is measured consistently with the Group’s profit in the consolidated financial statements.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| Three months ended<br>31 March 2012                    | Coal<br>RMB’000  | Transportation<br>RMB’000 | Coal-related<br>chemical<br>RMB’000 | Others<br>RMB’000 | Consolidated<br>RMB’000 |
|--------------------------------------------------------|------------------|---------------------------|-------------------------------------|-------------------|-------------------------|
| <b>Segment revenue:</b>                                |                  |                           |                                     |                   |                         |
| External customers . . . . .                           | 4,786,267        | 211,251                   | 367,359                             | 6,770             | 5,371,647               |
| Intersegment . . . . .                                 | 59,017           | 145,215                   | —                                   | —                 | 204,232                 |
|                                                        | <u>4,845,284</u> | <u>356,466</u>            | <u>367,359</u>                      | <u>6,770</u>      | <u>5,575,879</u>        |
| <i>Reconciliation</i>                                  |                  |                           |                                     |                   |                         |
| Elimination of intersegment sales . . . . .            |                  |                           |                                     |                   | (204,232)               |
| Total revenue . . . . .                                |                  |                           |                                     |                   | <u>5,371,647</u>        |
| <b>Segment results:</b>                                |                  |                           |                                     |                   |                         |
| Profit/(loss) before tax . . . . .                     | 1,757,138        | 157,748                   | 66,666                              | (6,088)           | 1,975,464               |
| Income tax expense . . . . .                           | (267,088)        | (19,093)                  | (16,811)                            | —                 | (302,992)               |
|                                                        | <u>1,490,050</u> | <u>138,655</u>            | <u>49,855</u>                       | <u>(6,088)</u>    | <u>1,672,472</u>        |
| <i>Reconciliation</i>                                  |                  |                           |                                     |                   |                         |
| Elimination of intersegment results . . . . .          |                  |                           |                                     |                   | —                       |
| Net profit for the period . . . . .                    |                  |                           |                                     |                   | <u>1,672,472</u>        |
| <b>As at 31 March 2012</b>                             |                  |                           |                                     |                   |                         |
| <b>Segment assets</b>                                  | 18,012,686       | 8,808,824                 | 4,563,539                           | 64,091            | 31,449,140              |
| Elimination of intersegment<br>receivables . . . . .   |                  |                           |                                     |                   | 31,254                  |
| Unrealized profit included in assets . . . . .         |                  |                           |                                     |                   | —                       |
| Total assets . . . . .                                 |                  |                           |                                     |                   | <u>31,480,394</u>       |
| <b>Segment liabilities</b>                             | 3,476,705        | 4,820,091                 | 2,646,365                           | 12,586            | 10,955,747              |
| Elimination of intersegment payables . . . . .         |                  |                           |                                     |                   | 31,254                  |
| Total liabilities . . . . .                            |                  |                           |                                     |                   | <u>10,987,001</u>       |
| <b>Other segment information:</b>                      |                  |                           |                                     |                   |                         |
| <b>Three months ended 31 March 2012</b>                |                  |                           |                                     |                   |                         |
| Financial income . . . . .                             | 7,646            | 577                       | 487                                 | 3                 | 8,713                   |
| Financial costs . . . . .                              | (24,645)         | (33,912)                  | (40,139)                            | —                 | (98,696)                |
| Depreciation and amortisation . . . . .                | (147,531)        | (60,729)                  | (37,616)                            | (2,036)           | (247,912)               |
| Share of profits of associates . . . . .               | 2,465            | —                         | —                                   | —                 | 2,465                   |
| Impairment recognised in income<br>statement . . . . . | (24)             | (467)                     | —                                   | —                 | (491)                   |
| Capital expenditure* . . . . .                         | 180,977          | 216,631                   | 58,228                              | 47                | 455,883                 |
| <b>As at 31 March 2012</b>                             |                  |                           |                                     |                   |                         |
| Investments in associates . . . . .                    | 237,525          | —                         | 117,966                             | —                 | 355,491                 |

\* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 3. OPERATING SEGMENT INFORMATION — (CONTINUED)

| Three months ended<br>31 March 2011                            | Coal<br>RMB'000 | Transportation<br>RMB'000 | Coal-related<br>chemical<br>RMB'000 | Others<br>RMB'000 | Consolidated<br>RMB'000 |
|----------------------------------------------------------------|-----------------|---------------------------|-------------------------------------|-------------------|-------------------------|
| <b>Segment revenue:</b>                                        |                 |                           |                                     |                   |                         |
| External customers .....                                       | 3,099,071       | 105,797                   | —                                   | 5,282             | 3,210,150               |
| Intersegment .....                                             | 21,073          | 127,566                   | —                                   | —                 | 148,639                 |
|                                                                | 3,120,144       | 233,363                   | —                                   | 5,282             | 3,358,789               |
| <i>Reconciliation</i>                                          |                 |                           |                                     |                   |                         |
| Elimination of intersegment sales .....                        |                 |                           |                                     |                   | (148,639)               |
| Total revenue .....                                            |                 |                           |                                     |                   | 3,210,150               |
| <b>Segment results:</b>                                        |                 |                           |                                     |                   |                         |
| Profit/(loss) before tax .....                                 | 1,519,283       | 91,491                    | 2,815                               | (4,398)           | 1,609,191               |
| Income tax expense .....                                       | (227,081)       | (8,360)                   | (529)                               | —                 | (235,970)               |
|                                                                | 1,292,202       | 83,131                    | 2,286                               | (4,398)           | 1,373,221               |
| <i>Reconciliation</i>                                          |                 |                           |                                     |                   |                         |
| Elimination of intersegment results .....                      |                 |                           |                                     |                   | (15,018)                |
| Net profit for the period .....                                |                 |                           |                                     |                   | 1,358,203               |
| <b>As at 31 December 2011</b>                                  |                 |                           |                                     |                   |                         |
| <b>Segment assets</b> .....                                    | 16,714,552      | 9,067,339                 | 4,949,052                           | 111,001           | 30,841,944              |
| Elimination of intersegment receivables .....                  |                 |                           |                                     |                   | (759,715)               |
| Unrealized profit included in assets .....                     |                 |                           |                                     |                   | (13,617)                |
| Total assets .....                                             |                 |                           |                                     |                   | 30,068,612              |
| <b>Segment liabilities</b> .....                               | 3,585,595       | 5,217,260                 | 3,188,684                           | 53,408            | 12,044,947              |
| Elimination of intersegment payables .....                     |                 |                           |                                     |                   | (759,715)               |
| Total liabilities .....                                        |                 |                           |                                     |                   | 11,285,232              |
| <b>Other segment information:</b>                              |                 |                           |                                     |                   |                         |
| <b>Three months ended 31 March 2011</b>                        |                 |                           |                                     |                   |                         |
| Finance income .....                                           | 5,245           | 690                       | —                                   | 3                 | 5,938                   |
| Finance costs .....                                            | (23,701)        | (18,998)                  | —                                   | (8)               | (42,707)                |
| Depreciation and amortisation .....                            | (98,214)        | (51,262)                  | (12,552)                            | (495)             | (162,523)               |
| Share of losses of associates .....                            | (1,996)         | —                         | (629)                               | —                 | (2,625)                 |
| Reversal of impairment recognised in income<br>statement ..... | 16,747          | 7,622                     | 5,017                               | 2,609             | 31,995                  |
| Capital expenditure* .....                                     | 304,208         | 189,664                   | 30,826                              | —                 | 524,698                 |
| <b>As at 31 December 2011</b>                                  |                 |                           |                                     |                   |                         |
| Investments in associates .....                                | 235,060         | —                         | 117,966                             | —                 | 353,026                 |

\* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

The Group's revenue from external customers is derived solely from its operation in mainland China, and no non-current assets of the Group are located outside mainland China.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION— (CONTINUED)

**4. REVENUE AND OTHER INCOME**

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts.

|                                                                          | Note | Three months ended 31 March |                      |
|--------------------------------------------------------------------------|------|-----------------------------|----------------------|
|                                                                          |      | 2012                        | 2011                 |
|                                                                          |      | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| Revenue                                                                  |      |                             |                      |
| Sale of goods                                                            |      | 5,160,396                   | 3,104,353            |
| Rendering of services                                                    |      | 211,251                     | 105,797              |
|                                                                          |      | <u>5,371,647</u>            | <u>3,210,150</u>     |
| Other income                                                             |      |                             |                      |
| Gain on disposal of property, plant and equipment, and intangible assets | 5    | 1,548                       | 5,973                |
| Income from the sale of other materials                                  |      | 732                         | 1,834                |
| Income from the rendering of other services                              |      | 29,172                      | 45,317               |
| Payables waived                                                          |      | —                           | 735                  |
| Government grants                                                        |      | 420                         | 339                  |
| Compensation received*                                                   |      | 69,499                      | —                    |
|                                                                          |      | <u>101,371</u>              | <u>54,198</u>        |

\* It represents the amount received from an unrelated, third party coal mining company as compensation for the dismantlement of certain mining properties and the consequent business disruption caused to us arising from the agreed construction of a railway and other related facilities by this company on one of the Group's mines.

**5. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging/(crediting):

|                                                                               | Note | Three months ended 31 March |                      |
|-------------------------------------------------------------------------------|------|-----------------------------|----------------------|
|                                                                               |      | 2012                        | 2011                 |
|                                                                               |      | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| Cost of inventories sold                                                      |      | 2,953,514                   | 1,287,830            |
| Cost of services provided                                                     |      | 81,138                      | 54,313               |
| Depreciation of investment properties                                         |      | 586                         | 586                  |
| Depreciation of property, plant and equipment                                 |      | 241,821                     | 155,741              |
| Amortisation of prepaid land lease payments                                   |      | 2,952                       | 2,359                |
| Amortisation of mining rights                                                 |      | 1,264                       | 1,853                |
| Amortisation of intangible assets                                             |      | 955                         | 1,232                |
| Amortisation of other non-current assets                                      |      | 334                         | 752                  |
| Total depreciation and amortisation                                           |      | <u>247,912</u>              | <u>162,523</u>       |
| Reversal of impairment of trade and bills receivables                         |      | —                           | (25,007)             |
| Provision/(reversal) of impairment of other receivables                       |      | 491                         | (6,988)              |
| Gain on disposal of property, plant and equipment and intangible assets       | 4    | 1,548                       | 5,973                |
| Employee benefit expense (including directors' and supervisors' remuneration) |      |                             |                      |
| Wages, salaries and other employees' benefits                                 |      | 161,128                     | 141,647              |
| Pension scheme contributions (defined contribution scheme)                    |      | 10,342                      | 8,132                |
|                                                                               |      | <u>171,470</u>              | <u>149,779</u>       |
| Auditors' remuneration                                                        |      | <u>2,405</u>                | <u>1,500</u>         |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 6. INCOME TAX EXPENSE

|                                 | Three months ended 31 March |                      |
|---------------------------------|-----------------------------|----------------------|
|                                 | 2012                        | 2011                 |
|                                 | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| Income tax                      |                             |                      |
| Current tax — mainland China    | 292,071                     | 233,621              |
| Deferred income tax             | 10,921                      | 2,349                |
| Total tax charge for the period | <u>302,992</u>              | <u>235,970</u>       |

PRC corporate income tax ("CIT") was provided at a rate of 25% on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

The Company and its certain subsidiaries are entitled to a preferential CIT rate of 15% for the 10 years ended 31 December 2010 based on the following issued documents:

- i) Caishui (2001) No. 202 issued by the Treasury Department of the National Taxation Department, which was related to the notice of the preferential tax rate in the Western Development.
- ii) Guonei Shuiwai (2003) No.11 issued by the Inner-Mongolia Taxation Department, which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development.
- iii) Ordos Guoshui (2003) No.57 issued by the Ordos National Taxation Department, which was related to the approval given to the Company to enjoy tax benefits resulted from the Western Development.

According to Caishui (2011) No.58 issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation, selected entities in Western China that falling into Catalogue of Encouraged Industries in Western China (西部地區鼓勵類產業目錄, "CEIWC") can enjoy the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

By the date of the report, CEIWC has not been promulgated. According to Caishui (2012) No.12 issued by State Administration of Taxation, before CEIWC is promulgated, selected entities falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (產業結構調整指導目錄 (2011)) are entitled to a preferential tax rate of 15%. If CEIWC is promulgated and the Companies mentioned above are not meet the condition of CEIWC, then income tax should be redeclared according to the applicable tax rate.

No provision for Hong Kong profits tax has been made in the Financial Information as the Group had no assessable profits derived from or earned in Hong Kong during the periods.

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates to the tax expense at the Group's effective income tax rates for each of the periods is as follows:

|                                                                                               | Three months ended 31 March |                      |
|-----------------------------------------------------------------------------------------------|-----------------------------|----------------------|
|                                                                                               | 2012                        | 2011                 |
|                                                                                               | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| Profit before tax                                                                             | <u>1,975,464</u>            | <u>1,594,173</u>     |
| Tax at the statutory income tax rate of 25% for the three months ended 31 March 2011 and 2012 | 493,866                     | 398,543              |
| Effect of lower tax rate                                                                      | (187,390)                   | (158,000)            |
| Entertainment expenses not deductible for tax purposes                                        | 2,166                       | 806                  |
| Tax losses not recognised                                                                     | 2,619                       | 3,289                |
| Tax losses utilised from previous years                                                       | (9,897)                     | (9,712)              |
| Others                                                                                        | 1,628                       | 1,044                |
| Tax charge at the Group's effective rate                                                      | <u>302,992</u>              | <u>235,970</u>       |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 7. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

|                                                                                               | Three months ended 31 March |                      |
|-----------------------------------------------------------------------------------------------|-----------------------------|----------------------|
|                                                                                               | 2012                        | 2011                 |
|                                                                                               | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| <i>Earnings</i>                                                                               |                             |                      |
| Profit for the period attributable to ordinary equity holders of the<br>Company .....         | <u>1,525,557</u>            | <u>1,310,965</u>     |
| <i>Shares</i>                                                                                 |                             |                      |
| Weighted average number of ordinary shares in issue during the period<br>(in thousands) ..... | <u>1,464,000</u>            | <u>1,464,000</u>     |

The calculation of the basic earnings per share amount is based on the profit for the periods attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the periods.

The Company had no dilutive potential ordinary shares for the period, hence no diluted earnings per share amount is presented.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION—(CONTINUED)

## 8. PROPERTY, PLANT AND EQUIPMENT

|                                     | Buildings | Mining structures | Plant and machinery | Motor vehicles | Railway   | Road      | Office equipment and others | Construction in progress | Total       |
|-------------------------------------|-----------|-------------------|---------------------|----------------|-----------|-----------|-----------------------------|--------------------------|-------------|
|                                     | RMB'000   | RMB'000           | RMB'000             | RMB'000        | RMB'000   | RMB'000   | RMB'000                     | RMB'000                  | RMB'000     |
| Cost:                               |           |                   |                     |                |           |           |                             |                          |             |
| At 31 December 2011 (Audited)       | 3,398,138 | 1,456,336         | 5,614,821           | 556,492        | 6,029,055 | 596,229   | 491,333                     | 4,827,909                | 22,970,313  |
| Additions                           | 7,352     | —                 | 30,129              | 5,679          | 19,167    | —         | 16,743                      | 373,341                  | 452,411     |
| Transfers                           | 15,198    | —                 | —                   | —              | 30,000    | —         | —                           | (45,198)                 | —           |
| Disposals/written off               | (249)     | —                 | (982)               | (7,999)        | —         | —         | (468)                       | —                        | (9,698)     |
| At 31 March 2012 (Unaudited)        | 3,420,439 | 1,456,336         | 5,643,968           | 554,172        | 6,078,222 | 596,229   | 507,608                     | 5,156,052                | 23,413,026  |
| Depreciation and impairment:        |           |                   |                     |                |           |           |                             |                          |             |
| At 31 December 2011 (Audited)       | (358,394) | (210,356)         | (907,330)           | (169,255)      | (537,550) | (160,180) | (256,209)                   | —                        | (2,599,274) |
| Depreciation charged for the period | (28,732)  | (4,388)           | (119,221)           | (18,401)       | (39,631)  | (7,170)   | (24,278)                    | —                        | (241,821)   |
| Disposals                           | 176       | —                 | 859                 | 7,155          | —         | —         | 415                         | —                        | 8,605       |
| At 31 March 2012 (Unaudited)        | (386,950) | (214,744)         | (1,025,692)         | (180,501)      | (577,181) | (167,350) | (280,072)                   | —                        | (2,832,490) |
| Net carrying amount:                |           |                   |                     |                |           |           |                             |                          |             |
| At 31 December 2011 (Audited)       | 3,039,744 | 1,245,980         | 4,707,491           | 387,237        | 5,491,505 | 436,049   | 235,124                     | 4,827,909                | 20,371,039  |
| At 31 March 2012 (Unaudited)        | 3,033,489 | 1,241,592         | 4,618,276           | 373,671        | 5,501,041 | 428,879   | 227,536                     | 5,156,052                | 20,580,536  |

As at the date of this report, the Group is in the process of applying for or changing the registration of the title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB77,527,000. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 March 2012.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 9. PREPAID LAND LEASE PAYMENTS

|                                                                         | 31 March<br>2012     | 31 December<br>2011 |
|-------------------------------------------------------------------------|----------------------|---------------------|
|                                                                         | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Carrying amount at 1 January                                            | 276,597              | 240,714             |
| Additions                                                               | 4,102                | 54,416              |
| Disposal                                                                | —                    | (7,922)             |
| Amortisation for the period/year                                        | (2,952)              | (10,611)            |
| Carrying amount at 31 March/31 December                                 | 277,747              | 276,597             |
| Current portion included in prepayments, deposits and other receivables | (12,373)             | (10,791)            |
| Non-current Portion                                                     | <u>265,374</u>       | <u>265,806</u>      |

The carrying amount of the Group's prepaid land lease payments represents land use rights in mainland China with land held under the following lease terms:

|                                | 31 March<br>2012     | 31 December<br>2011 |
|--------------------------------|----------------------|---------------------|
|                                | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Long term leases (≥50 years)   | 168,024              | 165,279             |
| Medium term leases (<50 years) | 109,723              | 111,318             |
|                                | <u>277,747</u>       | <u>276,597</u>      |

## 10. INTERESTS IN ASSOCIATES

|                     | 31 March<br>2012     | 31 December<br>2011 |
|---------------------|----------------------|---------------------|
|                     | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Share of net assets | <u>355,491</u>       | <u>353,026</u>      |

The following table illustrates the summarised financial information of the Group's associates:

|                                                  | 31 March<br>2012     | 31 December<br>2011 |
|--------------------------------------------------|----------------------|---------------------|
|                                                  | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Share of the associates' assets and liabilities: |                      |                     |
| Current assets                                   | 200,179              | 336,081             |
| Non-current assets                               | 870,702              | 859,977             |
| Current liabilities                              | (366,286)            | (484,587)           |
| Non-current liabilities                          | (349,104)            | (358,445)           |
| Equity                                           | <u>355,491</u>       | <u>353,026</u>      |
| Share of the associates' results:                |                      |                     |
| Revenue                                          | 56,268               | 310,164             |
| Profit                                           | <u>2,465</u>         | <u>19,799</u>       |
| Carrying amount of the investment                | <u>355,491</u>       | <u>353,026</u>      |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 11. AVAILABLE-FOR-SALE INVESTMENTS

|                                                | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------------|----------------------|---------------------|
|                                                | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Unlisted equity investments, at cost . . . . . | <u>2,889,550</u>     | <u>2,870,590</u>    |

The unlisted equity investments are equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of each reporting period as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

Particulars of the principal available-for-sale investments of the Group are set as follows:

|                                                     | Percentage of equity<br>interest attributable<br>to the Group | 31 March<br>2012     | 31 December<br>2011 |
|-----------------------------------------------------|---------------------------------------------------------------|----------------------|---------------------|
|                                                     |                                                               | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Mengji Railway Co., Ltd. (蒙冀鐵路有限責任公司)               | 9%                                                            | 1,440,000            | 1,440,000           |
| Xin Baoshen Railway Co., Ltd. (新包神鐵路有限責任公司) . . . . | 15%                                                           | 382,800              | 382,800             |
| Zhunshuo Railway Co., Ltd. (准朔鐵路有限責任公司) . . . . .   | 19%                                                           | 694,750              | 675,790             |
| Nanbu Railway Co., Ltd. (南部鐵路有限責任公司) . . . . .      | 10%                                                           | 200,000              | 200,000             |
| Others . . . . .                                    | —                                                             | 172,000              | 172,000             |
|                                                     |                                                               | <u>2,889,550</u>     | <u>2,870,590</u>    |

## 12. INVENTORIES

|                                          | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------|----------------------|---------------------|
|                                          | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Materials and supplies . . . . .         | 442,213              | 427,345             |
| Work-in-progress . . . . .               | 2,825                | 8,921               |
| Finished goods . . . . .                 | 218,764              | 243,401             |
| Less: Provision for impairment . . . . . | (2,951)              | (2,951)             |
|                                          | <u>660,851</u>       | <u>676,716</u>      |

## 13. TRADE AND BILLS RECEIVABLES

|                                          | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------|----------------------|---------------------|
|                                          | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Trade receivables . . . . .              | 1,086,023            | 708,276             |
| Less: Provision for impairment . . . . . | —                    | —                   |
|                                          | <u>1,086,023</u>     | <u>708,276</u>      |
| Bills receivable . . . . .               | 9,000                | 43,154              |
|                                          | <u>1,095,023</u>     | <u>751,430</u>      |

The Group requires most of its customers to pay in advance and makes provision for the doubtful trade receivables balance at the end of each reporting period. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

The maximum exposure to credit risk at the end of each reporting period during the period is the carrying value of the Group's total trade receivables.

Bill receivables are bills of exchange with maturity of less than six months.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 13. TRADE AND BILLS RECEIVABLES — (CONTINUED)

An aged analysis of the Group's trade and bills receivables, net of provisions, is as follows:

|                                                 | 31 March<br>2012     | 31 December<br>2011 |
|-------------------------------------------------|----------------------|---------------------|
|                                                 | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Within six months . . . . .                     | 1,071,718            | 725,724             |
| Over six months but within one year . . . . .   | 17,714               | 20,880              |
| Over one year but within two years . . . . .    | 5,591                | 4,826               |
| Over two years but within three years . . . . . | —                    | —                   |
|                                                 | <u>1,095,023</u>     | <u>751,430</u>      |

Movements in the Group's provision for impairment of trade receivables are as follows:

|                                                      | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------------------|----------------------|---------------------|
|                                                      | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| At 1 January . . . . .                               | —                    | 29,062              |
| Reversal of impairment for the period/year . . . . . | —                    | (29,062)            |
| At 31 March/31 December . . . . .                    | <u>—</u>             | <u>—</u>            |

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                          | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------|----------------------|---------------------|
|                                          | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Amounts due from related parties:        |                      |                     |
| Associates . . . . .                     | —                    | 2,571               |
|                                          | —                    | 2,571               |
| Advances to suppliers . . . . .          | 1,158,347            | 627,290             |
| Prepayments . . . . .                    | 132,246              | 84,907              |
| Staff advances . . . . .                 | 37,781               | 22,018              |
| Deposits . . . . .                       | 73,517               | 90,543              |
| Other receivables . . . . .              | 40,864               | 31,505              |
|                                          | <u>1,442,755</u>     | <u>858,834</u>      |
| Less: Provision for impairment . . . . . | <u>(23,331)</u>      | <u>(22,840)</u>     |
|                                          | <u>1,419,424</u>     | <u>835,994</u>      |

Movements in the provision for impairment of other receivables are as follows:

|                                          | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------|----------------------|---------------------|
|                                          | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| At 1 January . . . . .                   | 22,840               | 20,704              |
| Impairment for the period/year . . . . . | 491                  | 10,196              |
| Reversal of impairment . . . . .         | —                    | (8,060)             |
| At 31 March/31 December . . . . .        | <u>23,331</u>        | <u>22,840</u>       |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 15. CASH AND SHORT-TERM DEPOSITS AND RESTRICTED CASH

|                                       |       | 31 March<br>2012     | 31 December<br>2011 |
|---------------------------------------|-------|----------------------|---------------------|
|                                       | Notes | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Cash and bank balances .....          |       | 3,813,088            | 3,533,834           |
| Time deposits .....                   |       | 18,303               | 21,941              |
|                                       |       | <u>3,831,391</u>     | <u>3,555,775</u>    |
| Less: Restricted cash .....           | (a)   | (20,331)             | (20,305)            |
|                                       |       | <u>3,811,060</u>     | <u>3,535,470</u>    |
| Denominated in RMB .....              | (b)   | 3,810,888            | 3,534,774           |
| Denominated in other currencies ..... |       | 172                  | 696                 |
|                                       |       | <u>3,811,060</u>     | <u>3,535,470</u>    |

## Notes:

- (a) As at 31 December 2011 and 31 March 2012, the Group's bank balances of approximately RMB20,305,000 and RMB20,330,000 were deposited at banks as a mine geological environment protection guarantee fund pursuant to the related government regulations. Such guarantee deposit will be released when the obligations of environment protection is fulfilled and accepted by the competent government entities.
- (b) The RMB is not freely convertible into other currencies, however, under mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise the following:

|                                 | 31 March<br>2012     | 31 December<br>2011 |
|---------------------------------|----------------------|---------------------|
|                                 | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Cash at banks and on hand ..... | <u>3,792,756</u>     | <u>3,513,529</u>    |

## 16. TRADE AND BILLS PAYABLES

|                                         | 31 March<br>2012     | 31 December<br>2011 |
|-----------------------------------------|----------------------|---------------------|
|                                         | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Trade payables to third parties .....   | 609,647              | 520,067             |
| Trade payables to associates .....      | 11,558               | 4,771               |
| Trade payables to the Yitai Group ..... | 9,187                | 18,647              |
|                                         | <u>630,392</u>       | <u>543,485</u>      |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 16. TRADE AND BILLS PAYABLES — (CONTINUED)

An aged analysis of the Group's trade and bills payables, based on the invoice dates, as at the end of each reporting period is as follows:

|                                                 | 31 March<br>2012     | 31 December<br>2011 |
|-------------------------------------------------|----------------------|---------------------|
|                                                 | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Within six months . . . . .                     | 519,755              | 466,287             |
| Over six months but within one year . . . . .   | 94,791               | 62,473              |
| Over one year but within two years . . . . .    | 7,153                | 6,028               |
| Over two years but within three years . . . . . | 8,207                | 8,133               |
| Over three years . . . . .                      | 486                  | 564                 |
|                                                 | <u>630,392</u>       | <u>543,485</u>      |

The trade payables are non-interest-bearing and have an average credit term of 30 to 90 days. The credit terms granted by the related parties are similar to those offered by the related parties to their major customers.

## 17. OTHER PAYABLES AND ACCRUALS

|                                                      | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------------------|----------------------|---------------------|
|                                                      | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Advances from customers . . . . .                    | 545,629              | 397,226             |
| Accrued salaries, wages and benefits . . . . .       | 39,455               | 262,290             |
| Other tax payables . . . . .                         | 186,472              | (15,491)            |
| Accrued interest payable . . . . .                   | 13,235               | 21,707              |
| Payables for property, plant and equipment . . . . . | 1,024,311            | 1,062,108           |
| Accruals . . . . .                                   | 86,814               | 90,513              |
| Amounts due to the Yitai Group . . . . .             | 105,975              | 13,001              |
| Amounts due to associates . . . . .                  | 293                  | 814                 |
| Other payables . . . . .                             | 49,868               | 54,214              |
|                                                      | <u>2,052,052</u>     | <u>1,886,382</u>    |

The above amounts are unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 18. INTEREST-BEARING LOANS AND BORROWINGS

|                                                                 | 31 March<br>2012     | 31 December<br>2011 |
|-----------------------------------------------------------------|----------------------|---------------------|
|                                                                 | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| <b>Current:</b>                                                 |                      |                     |
| Bank loans — secured by guarantees                              | 218,000              | 218,000             |
| Bank loans — unsecured                                          | —                    | 650,000             |
| Total bank loans                                                | 218,000              | 868,000             |
| Current portion of long term bank loans — secured by guarantees | 1,772,009            | 1,258,190           |
| Current portion of long term bank loans — unsecured             | 80,000               | 80,000              |
| Total current portion of long term bank loans                   | 1,852,009            | 1,338,190           |
| Total current loans                                             | 2,070,009            | 2,206,190           |
| <b>Non-current:</b>                                             |                      |                     |
| Bank loans — secured by guarantees                              | 5,029,484            | 5,520,594           |
| Bank loans — unsecured                                          | 540,000              | 580,000             |
| Total non-current loans                                         | 5,569,484            | 6,100,594           |
| Total loans                                                     | 7,639,493            | 8,306,784           |
| Denominated in RMB                                              | 7,376,600            | 8,026,600           |
| Denominated in USD                                              | 41,767               | 43,977              |

The ranges of the effective interest rates on the Group's loans are as follows:

|                     | 31 March<br>2012 | 31 December<br>2011 |
|---------------------|------------------|---------------------|
|                     | Unaudited<br>%   | Audited<br>%        |
| Fixed-rate loans    | 3.80-6.56        | 3.80-9.09           |
| Floating-rate loans | 6.27-7.05        | 5.76-7.05           |

The maturity profile of the loans as at the end of the reporting period is as follows:

|                                        | 31 March<br>2012     | 31 December<br>2011 |
|----------------------------------------|----------------------|---------------------|
|                                        | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Analysed into:                         |                      |                     |
| Bank loans repayable:                  |                      |                     |
| Within one year or on demand           | 2,070,009            | 2,206,190           |
| In the second year                     | 649,009              | 1,131,190           |
| In the third to fifth years, inclusive | 2,126,370            | 2,204,317           |
| Beyond five years                      | 2,794,105            | 2,765,087           |
|                                        | 7,639,493            | 8,306,784           |

Certain loans were supported by guarantees provided from the following parties:

|                           | 31 March<br>2012     | 31 December<br>2011 |
|---------------------------|----------------------|---------------------|
|                           | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Yitai Group               | 404,000              | 404,000             |
| Independent third parties | 31,970               | 31,452              |
| Related parties           | 671,900              | 665,222             |
|                           | 1,107,870            | 1,100,674           |



## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 18. INTEREST-BEARING LOANS AND BORROWINGS — (CONTINUED)

In the opinion of the Directors, the Group's carrying amounts of current loans and non-current loans based on market rates approximate to their fair values at each end of the reporting period.

## 19. ISSUED CAPITAL

|                                            | 31 March<br>2012     | 31 December<br>2011 |
|--------------------------------------------|----------------------|---------------------|
|                                            | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Fully paid-up registered capital . . . . . | <u>1,464,000</u>     | <u>1,464,000</u>    |

## 20. COMMITMENTS

The Group had the following capital commitments at the end of the reporting periods:

|                                          | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------|----------------------|---------------------|
|                                          | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Contracted, but not provided for:        |                      |                     |
| Property, plant and equipment . . . . .  | 1,539,100            | 1,497,085           |
| Available-for-sale investments . . . . . | <u>168,530</u>       | <u>168,530</u>      |
|                                          | <u>1,707,630</u>     | <u>1,665,615</u>    |

## 21. RELATED PARTY TRANSACTIONS AND BALANCES

## (a) Significant related party transactions

In addition to the transactions and balances disclosed elsewhere in this report, the Group had the following material transactions with related parties during the periods:

|                                                 |      | Three months ended 31 March |                      |
|-------------------------------------------------|------|-----------------------------|----------------------|
|                                                 | Note | 2012                        | 2011                 |
|                                                 |      | Unaudited<br>RMB'000        | Unaudited<br>RMB'000 |
| Sales of goods to Yitai Group . . . . .         | (i)* | 30,820                      | 21,984               |
| Sales of goods to an associate . . . . .        | (i)* | 47,666                      | 29,882               |
| Provision of services to Yitai Group . . . . .  | (i)* | 136,228                     | 138,183              |
| Purchase of services from Yitai Group . . . . . | (i)# | 29,381                      | 40,915               |

## Note:

- (i) In opinion of the Directors, the transactions between the Group and the related parties were conducted in the ordinary and usual course of business and on normal commercial terms, the pricing terms were at the prevailing market prices.
- \* In opinion of the Directors, the related party transactions will continue after the listing of H shares of the Company on Hong Kong Stock Exchange and the completion of the Proposed Acquisition (as defined in the Prospectus).
- # In opinion of the Directors, the related party transactions will not continue after the listing of H shares of the Company on Hong Kong Stock Exchange and the completion of the Proposed Acquisition.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION — (CONTINUED)

## 21. RELATED PARTY TRANSACTIONS AND BALANCES — (CONTINUED)

## (b) Outstanding balances with related parties

|                                                       |      | 31 March<br>2012     | 31 December<br>2011 |
|-------------------------------------------------------|------|----------------------|---------------------|
|                                                       | Note | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Trade and bill receivables . . . . .                  | (i)  | 55,472               | 10,000              |
| Prepayments, deposits and other receivables . . . . . | (i)  | —                    | 2,571               |
| Trade payables . . . . .                              | (i)  | (20,745)             | (23,418)            |
| Other payables and accruals . . . . .                 | (i)  | (106,268)            | (13,815)            |

(i) The above balances are unsecured, non-interest bearing and repayable on demand.

## (c) Guarantees received from related parties

As at 31 December 2011 and 31 March 2012, bank loans of RMB1,069,222,000 and RMB1,075,900,000 were guaranteed by the related parties respectively.

## (d) Guarantees given to banks for loans of related parties

As at 31 December 2011 and 31 March 2012, guarantees of RMB17,056,000 and RMB RMB17,056,000 were given to banks for loans of related parties.

## 22. CONTINGENT LIABILITIES

The Group had the following contingent liabilities not provided for as at the end of the reporting period:

|                                                                                    | 31 March<br>2012     | 31 December<br>2011 |
|------------------------------------------------------------------------------------|----------------------|---------------------|
|                                                                                    | Unaudited<br>RMB'000 | Audited<br>RMB'000  |
| Guarantees given to banks in connection with loans granted to associates . . . . . | <u>17,056</u>        | <u>17,056</u>       |

## 23. EVENTS AFTER THE REPORTING PERIOD

The Company has entered into an assets transfer agreement with Yitai Group on 29 May 2012, pursuant to which Yitai Group agreed to transfer, and the Company agreed to acquire, the Target Business Group at an aggregate consideration of RMB8,446.5 million. The Company intends to use the net proceeds of the Global Offering to fund the amount of consideration payable to Yitai Group for the Proposed Acquisition.

## 24. DIVIDEND PROPOSED

The proposed 2010 dividend of RMB2,196 million was approved at the annual general meeting of 2010 on 8 April 2011. RMB2,196 million dividend was proposed for the year 2011 and is subject to the approval of the Company's shareholders at the forthcoming 2011 annual general meeting.

**B. REPORT FROM THE REPORTING ACCOUNTANT**

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
TO THE BOARD OF DIRECTORS OF INNER MONGOLIA YITAI COAL COMPANY LIMITED**

*(incorporated in the People's Republic of China with limited liability)*

**Introduction**

We have reviewed the accompanying interim condensed consolidated financial information of Inner Mongolia Yitai Coal Company Limited (內蒙古伊泰煤炭股份有限公司, the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as set out on pages III-1 to III-21, comprising of the interim condensed consolidated statement of financial position as at 31 March 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes (collectively referred to as the "Interim Financial Information"). The Directors of the Company (the "Directors") are responsible for the preparation and presentation of the Interim Financial Information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on the Financial Information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of Interim Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Financial Information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young  
Certified Public Accountants  
Hong Kong  
29 June 2012

*The Profit Forecast for the six months ending 30 June 2012 is set out in the section headed "Financial Information — Profit Forecast For the Six Months Ending June 30, 2012" in this Prospectus.*

## I. BASES AND ASSUMPTIONS

The Directors have prepared the Profit Forecast based on the following financial information:

- (a) the unaudited consolidated results for the two months ended 29 February 2012 of the Group, and
- (b) a forecast of the consolidated results of the Group for the four months ending 30 June 2012;

The Directors are not aware of any extraordinary items during the Forecast Period. The Profit Forecast has been prepared on the basis consistent in all material respects with accounting policies currently adopted by the Group as summarized in the Accountants' Report as set out in Appendix IA to the Prospectus.

The Profit Forecast has been prepared on the following assumptions:

- there will be no significant changes in the existing political, legal, fiscal, social or economic conditions in the PRC, including but not limited to changes in laws, regulations or rules, which may have a material adverse effect on the Group's financial performance and financial status;
- there will be no significant changes in the government policies in the PRC, including but not limited to those in relation to mining industry development, the pricing and selling of the Group's products and taxation of sales income;
- there will be no material changes in the inflation rate, interest rates or foreign exchange rates in the PRC from those prevailing as at the date of the Prospectus to be issued by the Company;
- the Group's operations, results and financial position will not be adversely affected by the risk factors described under the 'Risk Factors' section of the Prospectus;
- there will be no material change in the bases or rates of taxation and other levies, both direct and indirect, in the PRC;
- the Group's operations and business will not be severely interrupted by any force majeure events or unfavorable events, including but not limited to natural disasters or catastrophes, epidemics or serious accidents; and
- The Company, and certain subsidiaries of the Company will continue to be entitled to a preferential corporate income tax rate of 15% in 2012.

## II. LETTERS FROM THE REPORTING ACCOUNTANTS

*The following is the text of a letter received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus, in connection with the forecast of the consolidated profit attributable to the equity holders of the Company for the six months ending 30 June 2012.*



22nd Floor CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

29 June 2012

The Directors  
Inner Mongolia Yitai Coal Co., Ltd.  
China International Capital Corporation Hong Kong Securities Limited  
BOCI Asia Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the consolidated profit attributable to the equity holders of Inner Mongolia Yitai Coal Co., Ltd. (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the six months ending 30 June 2012 (the "Profit Forecast") as set out in the subsection headed "Profit Forecast For The Six Months Ending June 30, 2012" under the section headed "Financial information" in the Prospectus of the Company dated 29 June 2012 (the "Prospectus") for which the Directors of the Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 on "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the unaudited consolidated results of the Group for the two months ended 29 February 2012 and a forecast of the consolidated results of the Group for the four months ending 30 June 2012.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out on page IV-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 29 June 2012, the text of which is set out in Appendix IA to the Prospectus.

Yours faithfully

**Ernst & Young**  
*Certified Public Accountants*  
*Hong Kong*

### III. LETTERS FROM THE JOINT SPONSORS

*The following is text of a letter prepared by the Joint Sponsors, for the purpose of incorporation in this Prospectus, in connection with the forecast of the consolidated profit attributable to the equity holders of the Company for the six months ending June 30, 2012.*



June 29, 2012

The Directors  
Inner Mongolia Yitai Coal Co., Ltd.

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the equity holders of Inner Mongolia Yitai Coal Co., Ltd. (the "Company") for the six months ending June 30, 2012 (the "Profit Forecast") as set out in the Prospectus issued by the Company dated June 29, 2012 (the "Prospectus").

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix IV to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated June 29, 2012 addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of  
China International Capital  
Corporation Hong Kong Securities Limited

Qi Kezhan  
Managing Director

For and on behalf of  
BOCI Asia Limited

Raymond Leung  
Managing Director

Marcus Woo  
Executive Director

**COMPETENT PERSON'S REPORT**  
**INNER MONGOLIA YITAI COAL CO., LTD.**  
Inner Mongolia Autonomous Region  
People's Republic of China

Prepared For  
**INNER MONGOLIA YITAI COAL CO., LTD.**

By  
**John T. Boyd Company**  
Mining and Geological Consultants  
Pittsburgh, Pennsylvania



Report No. 3434.12  
March 2012





**John T. Boyd Company**  
Mining and Geological Consultants

**Chairman**

James W. Boyd

7 March 2012

**President and CEO**

John T. Boyd II

File: 3434.12

Inner Mongolia Yitai Coal Co., Ltd.

**Managing Director and COO**

Ronald L. Lewis

Yitai Plaza, Tian Jiao North Road

Dongsheng District

Ordos, Inner Mongolia Autonomous Region 017000

PEOPLE'S REPUBLIC OF CHINA

**Vice Presidents**

Richard L. Bate

James F. Kvitkovich

Russell P. Moran

John L. Weiss

William P. Wolf

Attention:

Mr. Zhang Donghai

Chairman

Subject:

Competent Person's Report

Inner Mongolia Yitai Coal Co., Ltd.

Inner Mongolia Autonomous Region

People's Republic of China

**Vice President****Business Development**

George Stepanovich, Jr.

Dear Sirs:

**Managing Director — Australia**

Ian L. Alexander

**Managing Director — China**

Dehui (David) Zhong

**Assistant to the President**

Mark P. Davic

**Pittsburgh**

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John T. Boyd Company (BOYD) was engaged in August 2009 by Inner Mongolia Yitai Coal Co., Ltd. (Yitai) to complete an independent technical review (Competent Person's Report) of the primary coal assets of Yitai and the Inner Mongolia Yitai Group Company Limited (Yitai Group). The scope of our review included mines, processing plants, railways, and loadout stations. The general locations of Yitai's and Yitai Group's mining operations are in Junggar (Zhunge'er) Banner, Ejina Horo Banner, and Dongsheng District of Ordos City, in Inner Mongolia Autonomous Region, People's Republic of China (PRC).

The combined Yitai/Yitai Group operations include: 12 operating coal mines (combined output of 47.77 Mt in 2011), 2 mines under construction, 4 coal preparation plants, 10 loadout stations, and approximately 398 km of company-owned railway. Of the 12 operating coal mines, Yitai Group directly operates 5 mines. These assets are to be included in the Yitai Global Offering and listing on The Stock Exchange of Hong Kong (HKEx). The results of our review are discussed in this Competent Person's Report (CPR).

Yitai is one of the largest local coal enterprises in the PRC and was the first B-share Chinese coal company listed on the Shanghai Stock Exchange. Yitai Group, Yitai's parent company, is ranked 14th in the 2011 National Top 50 list of Chinese coal enterprises by output. Yitai is an established underground coal producer and controls significant coal reserves to sustain and expand future operations. The company produces long-flame, non-caking coal primarily for use in the chemical, industrial, and power generation markets. Company management is both experienced and capable.

Yitai has entered into an Assets Transfer Agreement with Yitai Group. Pursuant to this agreement, Yitai Group agrees to transfer the assets and interests of the Group relating to coal production, and sales and transportation, after completion of the Global Offering.

During August and September 2009, a team of BOYD's technical specialists completed a series of visits to the Yitai and Yitai Group operations and sites. Follow up visits were conducted in February 2011 and February 2012.

We wish to acknowledge the cooperation of Yitai and Yitai Group management and staff during this assignment in providing source data; in arranging and conducting visits by BOYD personnel of the subject mines, CPP, and other sites; and in responding to requests for supplemental information.

Respectfully Submitted

JOHN T. BOYD COMPANY  
By:

John T. Boyd II  
President and CEO

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## GLOSSARY AND DEFINITIONS

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ad                                 | Air dried, as in coal quality reporting.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| AFC                                | Armored face conveyor.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Block                              | A defined area of coal bordered by gate roads, usually rectangular in configuration, in which the LW face operates, also known as a panel.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| BOYD                               | John T. Boyd Company.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| cad                                | Calculated, air dried basis, coal quality reporting for fixed carbon.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| CAPEX                              | Capital expenditure.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Cash Operating Cost (or Cash Cost) | All cash costs directly associated with coal production, including, but not limited to, raw materials, salary and wages, labor benefits, power, repairs, coal processing, transport of coal from mine to loading point, general administrative expense, and selling expenses.                                                                                                                                                                                                                                                                                                                                                                                            |
| Coal Reserve                       | The economically mineable part of a Measured or Indicated Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves. |
| Coal Resource                      | A concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics, and continuity of a Coal Resource are known, estimated, or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.                                                                                                                                                     |
| Coal Seam                          | Portion of the strata that contains solid fossil fuel.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Commercial Output                  | Saleable product from a particular mine, which may include varying proportions of raw and clean coals.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Competent Person                   | Person satisfying SEHK rules 18.21 and 18.22.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Competent Person's Report          | Public report prepared by a Competent Person concerning Resources and/or Reserves in compliance with SEHK rules and reporting standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Con-Mech                           | Conventionally Mechanized (LW face), mining method in which the working face is equipped with individual hydraulic props and roof bars, AFC, and shearer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| CPP                                | Coal Preparation Plant, facility used to process raw coal using mechanical washing or chemical methods.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| CPR                                | Competent Person's Report.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| CV                                 | Calorific value, heat content of the coal seam.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

|                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CY Category         | Designations within the Chinese coal classification system (CY41 and CY42) for coals with volatile matter content greater than 37% and a caking index of less than 5. Also known as Long Flame.                                                                                                                                                                                                                                                                                             |
| d                   | Dry basis, as in coal quality reporting.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| daf                 | Dry, ash free basis, as in coal quality reporting.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| DB                  | Drill and blast mining method.                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Dip                 | Angle that stratum makes with the horizontal.                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| DMC                 | Dense media cyclone.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| DMV                 | Dense media vessel.                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Face                | An area of coal designated for extraction using LW mining.                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Face (working face) | Mine location where active coal extraction is taking place.                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Feasibility Study   | In international practice, this study assesses in detail the technical soundness and economic viability of an undeveloped mining project and serves as the basis for the investment decision and as a bankable document for project financing. The study is based on a detailed mine plan and constitutes an audit of all geological, engineering, environmental, legal, and economic information accumulated on the project. Generally, a separate environmental impact study is required. |
| Fm                  | Formation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| FM                  | Fully Mechanized (LW face), mining method in which the working face is equipped with hydraulic shields, AFC, and shearer.                                                                                                                                                                                                                                                                                                                                                                   |
| FOB                 | Free-on-board, a mercantile term meaning that the seller is responsible for delivering goods to a specified location after loading to truck or rail, commonly used in coal price reporting.                                                                                                                                                                                                                                                                                                 |
| FSR                 | Feasibility Study Report, the document produced as a result of a feasibility study as conducted by a Chinese design institute.                                                                                                                                                                                                                                                                                                                                                              |
| GAAP                | Generally accepted accounting principles.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Gate                | Room-and-pillar development around a longwall face supporting its operation.                                                                                                                                                                                                                                                                                                                                                                                                                |
| Geologic Report     | Compiled by a Chinese exploration team or company after exploration activity is completed in a designated area. The report generally details geologic data, including location and geography, exploration data, regional geology, mining characteristics, coal seams, hydrology, geotechnical aspects, environmental aspects, coal resource/reserve tonnages, and resource assessment. Supporting maps, cross sections, and figures may also be provided.                                   |
| Gob                 | Spoil material allowed to subside behind the longwall retreat.                                                                                                                                                                                                                                                                                                                                                                                                                              |

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gr.a.d                  | Gross value, air dried, as in coal quality reporting for calorific content.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Gr.d                    | Gross value, dry basis, as in coal quality reporting for calorific content.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| HKEx                    | The Stock Exchange of Hong Kong.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Hr                      | Hour.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Indicated Coal Resource | That part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed. |
| Inferred Coal Resource  | That part of a Coal Resource for which tonnage, quality, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed, but not verified, geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability.                                                                                |
| In-Place Resource       | Coal resources in the ground, in situ or un-mined condition.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| JORC                    | Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.                                                                                                                                                                                                                                                                                                                                                                         |
| JORC Code               | Australasian Code for Reporting of Mineral Resources and Ore Reserves.                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Kcal/kg                 | Kilocalorie per kilogram, measure of coal heat content.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| km                      | Kilometer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| kW                      | Kilowatt.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| kV                      | Kilovolt.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| LOM                     | Life-of-Mine.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| LW                      | Longwall, underground mining technique, used interchangeably with equipment used in this technique.                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| m                       | Meter.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| m <sup>2</sup>          | Square meter.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| m <sup>3</sup>          | Cubic meter.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| m <sup>3</sup> /min     | Cubic meter per minute.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| m/s                     | Meters per second.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Marketable Reserves     | Saleable coal product from Recoverable Reserves after accounting for mining and processing losses, where applicable.                                                                                                                                                                                                                                                                                                                                                                                                                  |

|                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Measured Coal Resource                        | That part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced sufficiently close to confirm geological and quality continuity.                                                                    |
| Methane                                       | A colorless, odorless, explosive gas (CH <sub>4</sub> ) typically associated with coal seams.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Mine Plan                                     | The current documentation of the state of development and exploitation of a deposit during its economic life, including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in economic viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining. |
| Mining Rights                                 | The mining rights granted by the relevant authorities to conduct mining activities within the People's Republic of China, specifying the mining method, the validity period, and the annual output level. Seams and elevations may also be specified.                                                                                                                                                                                                                                                                                           |
| MLR                                           | Ministry of Land and Resources of the People's Republic of China.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| mm                                            | Millimeter.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Mt                                            | Million tonnes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Mtpa                                          | Million tonnes per annum.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Non-Cash Operating Cost<br>(or Non-Cash Cost) | All non-cash costs directly associated with coal production, including, but not limited to, depreciation, amortization, production maintenance fee, safety fund fee, and financial expenses.                                                                                                                                                                                                                                                                                                                                                    |
| Normal Fault                                  | A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall.                                                                                                                                                                                                                                                                                                                                                                                                              |
| NRC                                           | National Railway of China, state-owned railway system.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Operating Cost                                | All costs directly associated with coal production including both cash and non-cash operating cost.                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| OSD                                           | Out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal mining process.                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Outcrop                                       | The part of the coal formation exposed to the surface.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Out-of-Seam                                   | Non-coal material above and below the coal seam recovered during mining.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Overburden                                    | Waste rock material overlying a coal seam.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| P                     | Phosphorous, trace element that may adversely affect boiler efficiency.                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Panel                 | An area of coal designated for extraction using longwall mining within which a series of blocks (longwall faces) are developed.                                                                                                                                                                                                                                                                                                                                                                                                             |
| Partings              | Rock material within mineable coal seams usually extracted with the coal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| PDR                   | Preliminary Design Report, official report of the final design study conducted by a recognized Chinese mine design institute. The Preliminary Design study is undertaken after an FSR has been issued for the subject project. The PDR is a more detailed, comprehensive version of the FSR and generally expands the FSR with additional mine planning analysis, including detailed mine opening and construction plans from initial work to full production status, and serves as a guide for mine construction and development.          |
| Pillar                | Column of coal left behind for support.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| PRC                   | The People's Republic of China.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Prefeasibility Study  | The study that provides a preliminary assessment of the economic viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes accumulated geological, engineering, environmental, legal, and economic information.                                                                                                                                                                                          |
| Probable Coal Reserve | The economically mineable part of an Indicated and, in some circumstances, Measured Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. |
| Productivity          | Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, for example, tonnes per employee-year.                                                                                                                                                                                                                                                                                                                                                                                                             |
| Proved Coal Reserve   | The economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments that may include feasibility studies, have been conducted and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.                                          |
| Qgr.d                 | Gross calorific value or higher heating value on a dry basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Qnet.ar               | Net calorific value or lower heating value on an as-received basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Qnet.d                | Net calorific value or lower heating value on a dry basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

|                               |                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Railcar                       | Open-top cars (wagons) used to haul coal to the customers.                                                                                                                                                                                                                                                                                         |
| Raw Coal                      | Coal on an as-mined basis, which may be sold directly or processed if necessary.                                                                                                                                                                                                                                                                   |
| Recoverable Coal              | Portion of coal reserve available for mining exclusive of coal losses due to mining.                                                                                                                                                                                                                                                               |
| Recoverable Reserves          | Proved and Probable reserves prior to adjustment for preparation plant yield. Refers to that portion of the in-place coal seam tonnage that can be recovered with the mining techniques specified in the feasibility or design study before OSD and coal processing considerations.                                                                |
| Recoverable Resources         | Tonnage after mining recovery, mining dilution, and moisture gain factors have been applied. Tonnages are classified as resources because the mining rights have not been obtained.                                                                                                                                                                |
| Refuse                        | Low heat content material remaining after commercial coal has been produced from raw coal using crushing, screening, and processing methods. Heat content typically is sufficient for utilization in specially designed boilers for power generation.                                                                                              |
| Reverse Fault                 | The hanging wall has moved upward along the fault plane relative to the footwall.                                                                                                                                                                                                                                                                  |
| RMB                           | Renminbi, the Chinese currency.                                                                                                                                                                                                                                                                                                                    |
| ROM                           | Run-of-mine, the as-mined material as it leaves the mine.                                                                                                                                                                                                                                                                                          |
| SACMS                         | State Administration of Coal Mine Safety of the People's Republic of China.                                                                                                                                                                                                                                                                        |
| Saleable Product              | May include varying proportions of raw and clean coal.                                                                                                                                                                                                                                                                                             |
| SAWS                          | State Administration of Work Safety of the People's Republic of China.                                                                                                                                                                                                                                                                             |
| Shearer                       | Equipment used to extract coal from a fully mechanized longwall face.                                                                                                                                                                                                                                                                              |
| Strike                        | The course or bearing of an inclined coal seam or stratum on a level surface; the direction of a horizontal line perpendicular to the dip.                                                                                                                                                                                                         |
| Subcrop                       | Projected limit of mineral deposition where the coal seam outcrop is overlain by surface alluvial material (i.e., bed outcrop is obscured).                                                                                                                                                                                                        |
| Third-Party Service Providers | Personnel typically employed on a full-time or temporary basis, directed by the mining company, and assigned to operating mines in order to perform specific routine underground maintenance and construction tasks (e.g., LW face transfers, opening and roadway construction, etc.). These workers are not reflected in mine employment figures. |
| Tonne                         | Metric tonne equal to 1,000 kilograms.                                                                                                                                                                                                                                                                                                             |

|             |                                                                                                                                         |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| tph         | Tonnes-per-hour.                                                                                                                        |
| UG          | Underground.                                                                                                                            |
| VM          | Volatile Matter, characteristic for coal quality reporting.                                                                             |
| Wash Plant  | Facility used to selectively remove undesirable waste from the ROM/raw coal using chemical and mechanical methods. Also known as a CPP. |
| Yield       | Saleable portion of the raw coal processed in a coal preparation plant relative to the total tonnes processed.                          |
| Yitai       | Inner Mongolia Yitai Coal Co., Ltd.                                                                                                     |
| Yitai Group | Inner Mongolia Yitai Group Co., Ltd.                                                                                                    |



## 1.0 INTRODUCTION

### 1.1 Background

John T. Boyd Company (BOYD) was engaged in August 2009 to complete an Competent Person's Report (CPR) of the primary coal assets of Inner Mongolia Yitai Coal Co., Ltd. (Yitai) and the Inner Mongolia Yitai Group Company Limited (Yitai Group). Yitai Group directly and indirectly holds 60.09% of Yitai's shares. Collectively, the company's assets are referred to as Yitai and include 12 active coal mining operations (5 of these mines are controlled by Yitai Group), 2 mines under planning and construction, 2 operating coal preparation plants, 2 coal preparation plants under construction, railways, and 10 loadout stations. Within the context of the Chinese coal industry, Yitai is a large-scale producer with an annual output capacity of over 47 Mt, including the output capacities of the 5 Yitai Group mines to be acquired by Yitai. Yitai was the first B-share Chinese coal company listed in Shanghai Stock Exchange, and Yitai Group is ranked 14th in the 2011 National Top 50 list of highest output coal enterprises. Mining operations are primarily located in Junggar (Zhunge'er) Banner, Ejin Horo Banner, and Dongsheng District of Ordos City, in the Inner Mongolia Autonomous Region, PRC.

Coal mining operations, related coal preparation plants (CPP) and railway assets included in this CPR are as follows:

- Twelve operating underground coal mines:
  - Yitai.
    - = Suancigou.
    - = Nalinmiao No. 2.
    - = Hongjingta No. 1.
    - = Nalinmiao No. 1.
    - = Yangwangou.
    - = Fuhua.
    - = Kaida.
  - Yitai Group
    - = Dadijing.
    - = Baoshan, (Yitai Group has 73% equity interest).
    - = Dingjiaqu, (Yitai Group has 73% equity interest).
    - = Chengyi.
    - = Baijialiang.
- Two mines under planning and construction by Yitai:
  - Talahao.
  - Bulamao.
- Two operating CPPs:
  - Suancigou (12.0 Mtpa to be expanded to 16.0 Mtpa).
  - Zhunge'erzhao (10.0 Mtpa).
- Two CPPs under planning and construction:
  - Talahao (6.0 Mtpa).
  - Kaida (6.0 Mtpa).
- Ten operating coal loadout facilities.
- Company-owned railways:
  - Inner Mongolia Yitai Zhundong Railway Co. Ltd. — 192 km.

- Inner Mongolia Yitai Huzhun Railway Co. Ltd. — 180 km.
- Suancigou spur (Inner Mongolia Yitai Huzhun Railway Co. Ltd.) — 27 km.

Figures 1.1, 1.2, and 1.3, following this text, show the general location of the Yitai and Yitai Group mining right and exploration right areas and railway infrastructure included in this CPR.

## 1.2 SCOPE OF WORK

By assignment, the scope of work for the CPR included an independent assessment of:

- Reported coal reserves at designated operating and planned mines with restatement of coal tonnage to comply with JORC Code requirements.
- Major mining operations, including site visits to observe operations, assessment of current practices and performance, health and safety performance, transportation Infrastructure, and validation of future mine plans.
- CPPs, including site visits to observe operations and assessment of current practices.
- Environmental practices to opine on observed operating standards as compared to World Bank/Chinese requirements.
- Business plan achievability and risks.

The basis of our work was historical operating and other source data principally provided by Yitai, which were evaluated within the context of the BOYD project team's extensive Chinese and broader international mining expertise.

## 1.3 WORK PROGRAM

In August and September 2009, February 2011 and February 2012, a team of BOYD's US and China technical specialists in coal mining (underground), coal processing, geology and reserves, and environmental practices completed a series of visits to the Yitai sites. During these visits, we made firsthand field observations, collected available source data, and discussed historical performance and future plans with Yitai staff and management personnel. BOYD senior technical specialists met with Yitai technical personnel, who made presentations of the geology and resources for the mine plan area and proposed expansion areas. Yitai provided BOYD with copies of the data presented in these meetings and follow-up data at our request. During the mine and plant site visits, detailed discussions were conducted with mine managers and personnel concerning coal resources, mining practices, and future mine and processing plans. Future mine plans presented during our site visits were conceptual and verbal, and Yitai subsequently provided maps showing the planned mine layouts to support the future output projections. BOYD's Beijing office provided technical and translation support as well as logistics.

BOYD was provided the pre-existing resource tonnage estimates for the individual mining right areas that were prepared according to Chinese standards. We conducted an extensive review of the coal resources underlying each mining area and prepared resource and reserve estimates for Yitai using international reporting standards. In this report, we have applied the Australasian Code for Reporting of Mineral Resources and Ore Reserves (also known as the JORC Code) as published by Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Resource and reserve definitions stated in the JORC Code are contained in the Glossary and Definitions section of this report. Our independent resource and reserve estimates were developed from: (1) site visits by BOYD project personnel to observe mines and facilities, (2) information contained in available exploration and geologic reports and exploration data, and (3) BOYD's assessment of current mining operations.

Yitai's reported coal price range as of year end 2011, RMB370/tonne to RMB450/tonne for heating values of 5,100 kcal/kg to 5,500 kcal/kg (as received basis) was utilized to determine economic viability for reserve reporting.

Comprehensive source data were forwarded to BOYD upon initiation of the project. We were also provided with financial projections prepared by Yitai covering the period 2012 — 2014 that included an annual forecasts of raw coal output, operating costs and capital spending.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this CPR was provided by Yitai, the basis of our professional opinion is founded on the technical expertise and broad international experience of the contributing BOYD team members. To ensure that our interpretation of the Yitai data was reasonable, follow-up discussions were conducted with company representatives after our initial analysis to confirm our findings and, where necessary, to collect additional information. Drafts of this report were provided to Yitai and its advisors for the purpose of confirming the accuracy of the information in the document and to provide an opportunity to comment on BOYD's conclusions developed from the project data.

This CPR meets the requirements for HKEx Competent Person's Report and is compliant with relevant rules and reporting standards.

Regarding Hong Kong Listing Rule 18.05(2), BOYD is not aware of any material change that has occurred with the Yitai and Yitai Group mining operations since the effective date of this report, which is 31 December 2011. Regarding Hong Kong Listing Rule 18.05(4), BOYD is not aware of any legal claims or proceedings that would have an influence on Yitai and Yitai Group rights to explore or mine. Regarding Hong Kong Listing Rule 18.05(6), BOYD is not aware of information that is relevant and material to Yitai and Yitai Group business operations beyond that discussed in this report.

The findings and conclusions presented in this CPR are supported by the text, tables, and figures contained herein.

#### 1.4 PROJECT TEAM

The BOYD project team has extensive professional experience in coal resource and mine evaluations. Hong Kong Listing Rule 18.21(1) requires that a Competent Person (CP) must have a minimum of five years experience relevant to the style of mineralization and type of deposit under consideration or to the type of petroleum exploration, reserve estimate (as appropriate) and to the activity which the Mineral Company is undertaking. In addition, Hong Kong Listing Rule 18.21(2) requires that the CP must be a member of good standing of a relevant Recognized Professional Organization (RPO). Key professionals for this project include:

**Mr. Ronald L. Lewis — Chief Operating Officer and Managing Director, BS (Civil Engineering)**

Mr. Lewis has over 40 years of experience in assessment and evaluation of coal mining companies, with specialized expertise in the areas of coal/mineral reserve estimation, opencut and underground mine analysis, and economic assessment of mining operations. He is a Registered Professional Mining Engineer within the United States and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code) and HKEx rules 18.21 and 18.22. Mr. Lewis is the lead Competent Person in preparing the CPR.

**Mr. Dehui (David) Zhong — Managing Director — China, BS (Mining Engineering)**

Mr. Zhong has over 40 years of experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. He last served as the institute's Chief Engineer.

**Mr. James F. Kvitkovich — Vice President, BS (Mining Engineering)**

Mr. Kvitkovich has 30 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer within the United States and is highly experienced with regard to reviewing and evaluating CM and LW mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as

defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code) and HKEx rules 18.21 and 18.22 (Mr. Lewis assumes overall Competent Person responsibility for this report).

**Mr. Paul D. Anderson — Director of Geological Services, BS (Geology)**

Mr. Anderson is a Certified Professional Geologist (AIPG) with 35 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists, and is qualified as a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code) and HKEx rules 18.21 and 18.22 (Mr. Lewis assumes overall Competent Person responsibility for this report).

**Dr. Y. J. Zhang — Senior Mining Engineer, Ph.D. (Mining Engineering)**

Mr. Zhang is a Registered Professional Engineer within the United States with over 20 years of experience in mine construction, ground control, and CM/LW underground coal mining operations in both the United States and China. He has the extensive executive/senior manager level experience in the construction materials industry. Mr. Zhang is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code) and HKEx rules 18.21 and 18.22 (Mr. Lewis assumes overall Competent Person responsibility for this report).

**Mr. Frank A. Hilty — Mining Engineer, BS (Mining Engineering)**

Mr. Hilty has 27 years of experience in assessment of mining and preparation facilities for coal and minerals and of coke-making facilities. Mr. Hilty is highly experienced in coal mineral market analysis in addition to project economic and financial valuations.

**Mr. Jisheng (Jason) Han — Mining Engineer, MS (Mining Engineering)**

Mr. Han has 13 years of mining industry experience in both China and the United States.

**Mr. Donald S. Swartz II — Mining Engineer, BS (Mining Engineering)**

Mr. Swartz has 11 years of mining industry experience, with a focus in operational and engineering aspects of underground mining operations.

**Mr. Hongde (Mark) Liu — Senior Mining Engineer, BS Mining Engineering**

Mr. Liu has 13 years of consulting experience in China, including extensive coal mine design and feasibility study work, project engineering, and coal mine project inspector assignments. Feasibility work encompasses coal mine design planning, development, and shaft sinking.

**Mr. Rongjie (Jeffrey) Li — Geologist, China, ME (Geochemistry), BE (Geology)**

Mr. Li has five years of consulting experience in China, focusing in coal and sedimentary deposit geology, coal exploration, coal resource analysis, exploration program design, drilling monitoring and project coordination.

Curriculum vitae of Mr. Lewis and key team members, Messrs. Kvitkovich and Anderson and Dr. Zhang, are provided in Attachment A, following this report.

## **1.5 REPORT QUALIFYING STATEMENTS**

BOYD is a privately owned consultancy firm with headquarters in the United States and branch overseas offices in Beijing, China and Brisbane, Australia. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation. This report was prepared by a project team with extensive professional experience in mineral resource and mine evaluations. The key professionals for this project are listed in the Introduction section of this report.

In accordance with Hong Kong Listing Rule 18.22, we confirm that Mr. Lewis and other members of the BOYD project team that has performed work associated with this CPR have no economic or beneficial interest (present or contingent) in any of the assets being reported on; are not remunerated with a fee dependent on the findings of the CPR; and are not officers, employees, or proposed officers of the issuer or any group, holding, or associated company of the issuer.

We confirm that BOYD is not a group, holding or associated company of Yitai. None of BOYD's employees are officers or proposed officers of any group, holding or associated company of Yitai. BOYD has no ownership or shareholder interest in Yitai or related companies and assets. There have been no transactions between BOYD and its employees and Yitai or related companies and assets either in the past or present. BOYD does not have any claims outstanding with Yitai or related companies and assets. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by Yitai or the outcome of the Global Offering. BOYD has completed its work in accordance with US and international ethical standards for professional engineering. Yitai has not indemnified BOYD for this assignment.

We have exercised reasonable care in reviewing the information provided, but assumed all historical data have been accurately reported and all forward projections are prepared and/or approved by competent professionals and Yitai management. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our CPR has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by Yitai with expected values, the accuracy of the results and conclusions of this report are contingent upon the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to independently verify the technical and geological information presented in the reference material documents; for example, we have not conducted our own exploration program to verify the exploration data provided by Yitai. We assume the provided data have been prepared by competent engineers and geologists, although we have conducted our own limited due diligence in checking for consistency and reasonableness. Our expertise is in technical and financial mining issues, and BOYD is not qualified to offer, nor do we represent that any of our findings include, matters of a legal or accounting nature. Aspects of Yitai's activities relating to legal issues and matters relating to commercial, accounting, surface land usage, and appraisal are expressly omitted, except as they may relate to technical, operational, or cost aspects of the subject operations. BOYD's independent analyses of the available data have been developed in a manner consistent with industry standards and engineering practices. We believe our conclusions are reasonable assessments of the information provided.

The ability of Yitai, or any mine operator, to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, the securing of required approvals and permits in a timely manner, etc. Unforeseen changes in regulations could also impact performance; although we believe all findings and conclusions to be reasonable, we rely on information developed by others and reflect mining and marketing conditions, and our interpretation of regulations, as of the date of the CPR.

This report only addresses technical (e.g., reserve, mining, etc.) and certain financial (operating costs, capital costs, revenues, etc.) issues. By assignment, BOYD's financial review is limited to mine operating and capital costs and does not consider corporate or other downstream costs. By assignment, we have not independently assessed existing or future coal markets, nor have we developed independent forecasts of sales revenue for the subject operations.

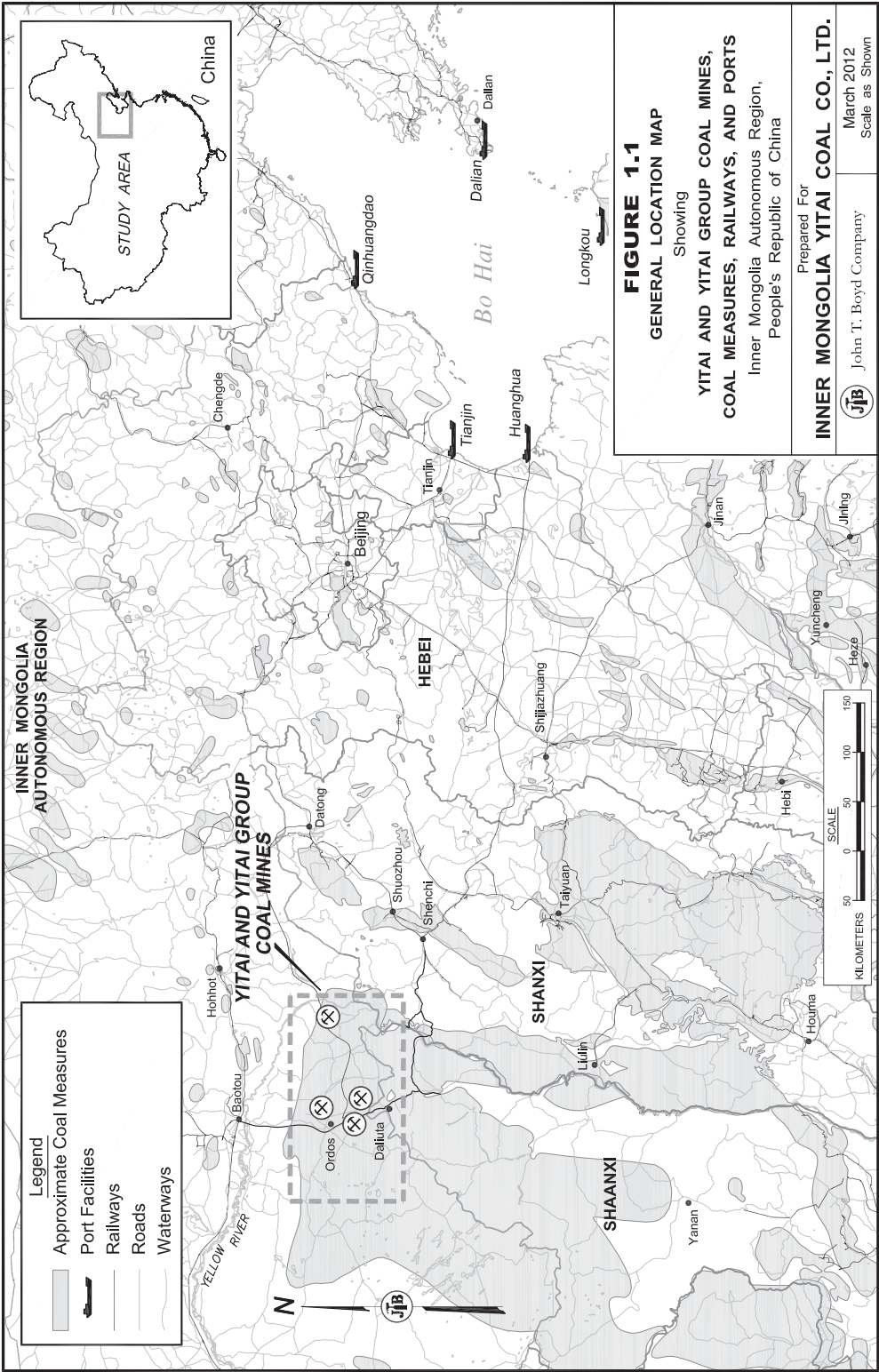
Following this page are:

Figures

- 1.1: General Location Map Showing Yitai and Yitai Group Coal Mines, Coal Measures, Railways, and Ports
- 1.2: Map Showing Mining and Exploration Right Areas and Selected Transportation Infrastructure
- 1.3: Transportation Map Showing Yitai Rail Loadouts and Regional Railways

Respectfully submitted











JOHN T. BOYD COMPANY

By:

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Paul D. Anderson  
Director of Geological Services

---

Dehui (David) Zhong  
Managing Director — China

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James F. Kvitkovich  
Vice President

---

Ronald L. Lewis  
Managing Director and COO

## 2.0 SUMMARY

### 2.1 INTRODUCTION

Yitai was the largest local coal enterprise in Inner Mongolia, China, in terms of revenue in 2010. The company is an established, major, underground coal producer and controls significant tonnages of coal reserves to sustain and expand operations. Yitai's and Yitai Group's current operations include 12 operating coal mines (combined output of 47.77 Mt in 2011) and two additional mines under construction. Yitai also controls four coal preparation plants (under various stages of operation, design, and implementation) and ten loadout stations. Yitai owns an integrated railway network connecting its mines with the national rail transportation system, which provides Yitai with competitive advantages in securing allocation of coal transportation capacity in the national railway system and facilitating its coal sales to the major customers in China's developed coastal regions. The Yitai rail network also minimizes its transportation costs. Coal quality is favorable for domestic steam markets, with generally low sulfur content and marketable calorific values. Yitai and Yitai Group mines are located in western Inner Mongolia, near the boundary of Shaanxi and Shanxi provinces, and within China's largest coal-producing region. The following Yitai and Yitai Group resource areas were evaluated in this CPR:

| Control Type and Mine                                    | Mining Certificate Number | Authorized Mining Right Output Capacity (Mtpa) | Authorized Mining Elevation (m) | Mining Method | Area (km²) | Mining Right          |                            |  |
|----------------------------------------------------------|---------------------------|------------------------------------------------|---------------------------------|---------------|------------|-----------------------|----------------------------|--|
|                                                          |                           |                                                |                                 |               |            | Grant Date (month/yr) | Expiration Date (month/yr) |  |
| Inner Mongolia Yitai Coal Company, Ltd. (Yitai)          |                           |                                                |                                 |               |            |                       |                            |  |
| Mining Rights                                            |                           |                                                |                                 |               |            |                       |                            |  |
| Suancigou (1)                                            | C1000002009121120050702   | 1.20                                           | 860-1,030                       | UG*           | 4.9        | 12 / 2009             | 12 / 2033                  |  |
| Suancigou (2)                                            | C1000002009121110050703   | 12.00                                          | 520-1,060                       | UG            | 44.9       | 12 / 2009             | 4 / 2038                   |  |
| Nalinmiao No. 2                                          | C1500002010071120074300   | 3.00                                           | 1,140-1,300                     | UG            | 21.0       | 7 / 2011              | 7 / 2015                   |  |
| Hongjingta No. 1                                         | 1000000610111             | 3.00                                           | 1,170-1,379                     | UG            | 28.4       | 9 / 2006              | 9 / 2036                   |  |
| Nalinmiao No. 1                                          | C1500002010121120092411   | 1.20                                           | 1,140-1,250                     | UG            | 9.4        | 11 / 2011             | 11 / 2019                  |  |
| Yangwangou                                               | C1000002009021120004801   | 0.60                                           | 1,046-1,159                     | UG            | 1.0        | 9 / 2009              | 6 / 2015                   |  |
| Fuhua                                                    | C1500002010111120079869   | 0.30                                           | 1,100-1,330                     | UG            | 8.6        | 6 / 2011              | 11 / 2013                  |  |
| Kaida                                                    | C1500002010121120092414   | 0.60                                           | 1,170-1,225                     | UG            | 5.5        | 6 / 2011              | 6 / 2013                   |  |
| Exploration Rights                                       |                           |                                                |                                 |               |            |                       |                            |  |
| Talahao                                                  | Under Application***      | 6.00**                                         | —                               | UG            | 42.6       | —                     | —                          |  |
| Bulamao                                                  | Under Application***      | 1.20**                                         | —                               | UG            | 40.2       | —                     | —                          |  |
| Inner Mongolia Yitai Group Company Limited (Yitai Group) |                           |                                                |                                 |               |            |                       |                            |  |
| Mining Rights                                            |                           |                                                |                                 |               |            |                       |                            |  |
| Dadijing                                                 | C1500002011061120115049   | 1.20                                           | 1,115 -1,320                    | UG            | 11.6013    | 06/2011               | 12/2018                    |  |
| Baoshan                                                  | C1500002011071120115196   | 1.20                                           | 1,100 -1,300                    | UG            | 24.9734    | 07/2011               | 12/2018                    |  |
| Dingjiaqu                                                | C1500002011061120115051   | 1.20                                           | 1,120 -1,240                    | UG            | 17.3908    | 06/2011               | 12/2018                    |  |
| Chengyi                                                  | C1500002011061120115048   | 0.60                                           | 1,224 -1,362                    | UG            | 5.079      | 06/2011               | 12/2013                    |  |
| Baijialiang                                              | C1500002011061120115050   | 0.30                                           | 1,242 -1,308                    | UG            | 6.4849     | 06/2011               | 10/2013                    |  |

\* UG = Underground

\*\* Planned greenfield mines

\*\*\* Yitai has obtained approval for defining the boundaries of the mining right areas for Talahao and Bulamao from the Ministry of Land and Resources. Such approval is essential for obtaining the mining rights. By obtaining the approval for defining the boundaries of the mining right areas for the two mines, the exploration rights are no longer in effect. According to Jingtian & Gongcheng Attorneys at Law, Yitai is currently applying for mining right certificates for Talahao Mine and consolidation of Kaida and Bulamao mines. According to Yitai, the Company expects to obtain the mining rights no later than the second half of 2012. Yitai's payments for the exploration rights will be accepted as full payment for the mining rights.

The principal findings of this study are summarized in this chapter and are supported by the text included in the body of this report. This section presents the major findings regarding coal resources, economic evaluation, and environmental overview. Technical description and discussion of mine, CPP, loadout and railway facilities, operating practices, etc., concerning the Yitai assets can be found in their respective sections.

## 2.2 GEOLOGY AND RESOURCES

### 2.2.1 Conclusion

On a global basis, the geological setting or nature of the coal deposits controlled by Yitai are judged to be simple to moderate in complexity (i.e., not geologically complex). The mine and exploration areas evaluated are located within the Dongsheng and Zhunge'er coalfields.

The coal-bearing strata within the Dongsheng Coalfield occur in the Middle and Lower Jurassic-age Yan'an Formation, containing coal seams Nos. 2 through 7. There are several principal coal seams that are uniform in occurrence generally 3 m to 6 m thick and other secondary seams that range in thickness from 1 to 3 m.

The coal-bearing strata within the Zhunge'er Coalfield are contained in two formations, with multiple coal seams Nos. 1 through 10 in stratigraphically descending order. The upper seams (Nos. 1 through 5) occur within the Lower Permian Shanxi Formation, and the lower seams (Nos. 6 through 10) occur within the underlying Upper Carboniferous Taiyuan Formation.

Yitai's geological and geotechnical staff's technical knowledge of the reserve base and associated geologic settings is adequate to support projected long-term mining operations.

Based on our review of the coal resource data and the methodology used to define the resources, our visits to the active mining operations, and interaction with Yitai personnel, we have a high degree of confidence that the resource estimates shown in this report are professionally prepared and representative of the specified mine properties.

BOYD has reviewed the mining and exploration right documentation presented by Yitai with regard to their reserve holdings. To the extent supported by the documentation and from BOYD's standing as a technical expert, we have accepted that Yitai holds the exploration and mining right permits for the areas evaluated in this report. We understand that these rights reference only underground extraction methods.

## 2.2.2 Resources and Reserves

Our estimates prepared in accordance with the JORC Code, of the Measured, Indicated, and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves, as of 31 December 2011 are summarized as follows:

| Control Type & Mine                        | In-Place Resource (Mt) |           |          |          | Recoverable Reserves (Mt) |          |          | Processing Yield % | Marketable Reserves (Mt) |          |          | % of Reserves |
|--------------------------------------------|------------------------|-----------|----------|----------|---------------------------|----------|----------|--------------------|--------------------------|----------|----------|---------------|
|                                            | Measured               | Indicated | Inferred | Total    | Proved                    | Probable | Total    |                    | Proved                   | Probable | Total    |               |
| Inner Mongolia Yitai Coal Company Limited  |                        |           |          |          |                           |          |          |                    |                          |          |          |               |
| Mining Rights                              |                        |           |          |          |                           |          |          |                    |                          |          |          |               |
| Suancigou*                                 | 389.91                 | 805.63    | —        | 1,195.54 | 213.79                    | 446.06   | 659.85   | 70                 | 147.60                   | 311.16   | 458.76   | 79            |
| Nalinmiao 2                                | 25.15                  | 73.56     | 2.31     | 101.02   | 18.30                     | 53.62    | 71.92    | 89                 | 17.72                    | 46.16    | 63.88    | 11            |
| Hongjingta 1                               | 43.01                  | 17.16     | —        | 60.17    | 30.64                     | 9.73     | 40.37    | 89                 | 27.68                    | 8.22     | 35.90    | 6             |
| Nalinmiao 1                                | 14.45                  | —         | —        | 14.45    | 10.10                     | —        | 10.10    | 92                 | 9.26                     | —        | 9.26     | 2             |
| Yangwangou                                 | 8.66                   | —         | —        | 8.66     | 6.19                      | —        | 6.19     | 93                 | 5.75                     | —        | 5.75     | 1             |
| Fuhua                                      | 2.91                   | 1.67      | —        | 4.58     | 2.28                      | 0.51     | 2.79     | 90                 | 2.05                     | 0.45     | 2.50     | —             |
| Kaida                                      | 5.97                   | 0.59      | —        | 6.56     | 4.76                      | 0.39     | 5.15     | 81                 | 3.80                     | 0.35     | 4.15     | 1             |
| Total                                      | 490.06                 | 898.61    | 2.31     | 1,390.98 | 286.06                    | 510.31   | 796.37   |                    | 213.86                   | 366.34   | 580.20   | 100           |
| Exploration Rights                         |                        |           |          |          |                           |          |          |                    |                          |          |          |               |
| Talahao                                    | 498.01                 | 249.36    | 9.58     | 756.95   | 417.79                    | 198.20   | 615.99   | 89                 | 373.25                   | 176.90   | 550.15   | 97            |
| Bulamao (West)                             | 14.44                  | 7.96      | 1.06     | 23.46    | 8.18                      | 5.54     | 13.72    | 79                 | 6.42                     | 4.46     | 10.88    | 2             |
| Bulamao (East)                             | 8.67                   | 1.74      | 0.41     | 10.82    | 6.03                      | 0.77     | 6.80     | 86                 | 5.19                     | 0.68     | 5.87     | 1             |
| Total                                      | 521.12                 | 259.06    | 11.05    | 791.23   | 432.00                    | 204.51   | 636.51   |                    | 384.86                   | 182.04   | 566.90   | 100           |
| Total                                      | 1,011.18               | 1,157.67  | 13.36    | 2,182.21 | 718.06                    | 714.82   | 1,432.88 |                    | 598.72                   | 548.38   | 1,147.10 |               |
| Inner Mongolia Yitai Group Company Limited |                        |           |          |          |                           |          |          |                    |                          |          |          |               |
| Mining Rights                              |                        |           |          |          |                           |          |          |                    |                          |          |          |               |
| Dadijing                                   | 7.45                   | 63.01     | —        | 70.46    | 6.20                      | 48.04    | 54.24    | 95                 | 5.82                     | 45.96    | 51.78    | 58            |
| Baoshan**                                  | 7.40                   | 17.89     | —        | 25.29    | 4.37                      | 11.66    | 16.03    | 91                 | 3.93                     | 10.62    | 14.55    | 17            |
| Dingjiaqu**                                | 11.14                  | 13.00     | 0.31     | 24.45    | 8.73                      | 8.82     | 17.55    | 93                 | 8.10                     | 8.19     | 16.29    | 19            |
| Chengyi                                    | 5.71                   | 2.41      | 0.37     | 8.49     | 3.57                      | 1.53     | 5.10     | 95                 | 3.38                     | 1.44     | 4.82     | 5             |
| Baijialiang                                | 0.05                   | 0.61      | —        | 0.66     | 0.04                      | 0.47     | 0.51     | 96                 | 0.04                     | 0.45     | 0.49     | 1             |
| Total                                      | 31.75                  | 96.92     | 0.68     | 129.35   | 22.91                     | 70.52    | 93.43    |                    | 21.27                    | 66.66    | 87.93    | 100           |
| Total                                      |                        |           |          |          |                           |          |          |                    |                          |          |          |               |
| Mining Rights                              | 521.81                 | 995.53    | 2.99     | 1,520.33 | 308.97                    | 580.83   | 889.80   |                    | 235.13                   | 433.00   | 668.13   | 54            |
| Exploration Rights                         | 521.12                 | 259.06    | 11.05    | 791.23   | 432.00                    | 204.51   | 636.51   |                    | 384.86                   | 182.04   | 566.90   | 46            |
| Total                                      | 1,042.93               | 1,254.59  | 14.04    | 2,311.56 | 740.97                    | 785.34   | 1,526.31 |                    | 619.99                   | 615.04   | 1,235.03 | 100           |

\* Figures reflect 100% interest; Yitai's equity interest is 52%.

\*\* Figures reflect 100% interest; Yitai Group's equity interest is 73%.

Note: Figures may not add due to rounding.

Of the above 14 mines, approximately 82% of the Marketable Reserves are controlled by Yitai (assuming mining rights are obtained for Talahao and Bulamao) and approximately 46% are in the exploration right areas; 50% of the Marketable Reserves are in the Proved classification.

Yitai has obtained approval for defining the boundaries of the mining right areas for the two mines from the Ministry of Land and Resources. Such approval is essential for obtaining the mining rights. By obtaining the right approval for defining the boundaries of the mining areas for the two mines, the exploration rights are no longer in effect. We have been informed by Jingtian & Gongcheng Attorneys at Law, that Yitai is currently applying for mining right certificates for Talahao and consolidation of Kaida and Bulamao mines. According to the Company, it expects to obtain the mining rights no later than the second half of 2012. We have also been informed by Jingtian & Gongcheng Attorneys at Law, that Yitai will not have to pay the mining right fees to obtain the mining rights since the Company has paid the exploration right fees in full.

Inferred resources are less than 1% of total in-place resources. Typically it is reasonable to expect that the majority of Inferred Coal Resources would upgrade to Indicated Coal Resources with additional exploration. However due to the uncertainty associated with Inferred Coal Resources, it should not be assumed that such upgrading will always occur.

Yitai does not yet control the mining rights for the Talahao, Bulamao East, and Bulamao West areas and therefore cannot legally mine the coal at this time. It is reasonable to assume that Yitai will obtain the mining rights based on the Company's past experience and typical procedures in China, but there is no guarantee they will be granted. Yitai has presented plans for developing and mining these areas and has paid exploration right fees. Yitai has also provided documentation showing there is a reasonable expectation that the mining rights will be granted.

BOYD believes that the reserve depletion is accounted for by the depreciation of the mining rights.

### 2.2.3 Coal Quality

Both the Dongsheng and Zhunge'er coalfields support numerous mining operations and are major suppliers of thermal coal in the PRC. Therefore coal quality characteristics in both fields are well known and documented. According to Chinese coal classification, the Yitai mines produce long flame (CY41 and CY42) and non-caking (BN31) coal types.

The coals in the Dongsheng coalfield are characterized by high calorific value, non-caking coal (high-volatile C bituminous rank) with low sulfur content. Calorific value varies with moisture and ash content but is typically 5,500 to 6,000 Kcal/kg on an as-received basis including partings and mining dilution.

Raw coal quality, which excludes partings greater than 0.05 m and mining dilution, is reported as follows:

| <u>Characteristic</u>                     | <u>Typical Range</u> |
|-------------------------------------------|----------------------|
| Moisture % (ad) . . . . .                 | 4 - 9                |
| Ash % (d) . . . . .                       | 5 - 11               |
| Sulfur % (d) . . . . .                    | 0.2 - 0.7            |
| Volatile Matter % (daf) . . . . .         | 33 - 36              |
| Calorific Value Kcal/kg (gr.d.) . . . . . | 6,500 - 7,500        |

The coal seams typically contain few in-seam partings and therefore some mines can produce an acceptable quality of coal product on a screened, raw (without coal washing) basis.

Coal quality in the Zhunge'er Coalfield is high-volatile C bituminous rank with low sulfur content. Calorific value ranges from 4,700 to 5,100 Kcal/kg on an as-received basis including partings and mining dilution.

Raw or in situ coal quality (excluding partings greater than 0.05 m in thickness and mining dilution) is reported as follows:

| <u>Characteristic</u>                     | <u>Typical Range</u> |
|-------------------------------------------|----------------------|
| Moisture % (ad) . . . . .                 | 3 - 5                |
| Ash % (d) . . . . .                       | 22 - 26              |
| Sulfur % (d) . . . . .                    | 0.6 - 0.9            |
| Volatile Matter % (daf) . . . . .         | 37 - 41              |
| Calorific Value kcal/kg (gr.d.) . . . . . | 5,500 - 6,500        |

The major coal seam in the coalfield is the No. 6 Seam, which is typically thick (over 10 m) and contains several in-seam partings and impurities. Coal from this coalfield is typically washed at high gravities to remove rock impurities (i.e., in-seam partings and impurities and mining dilution).



## 2.3 MINE OPERATION

### 2.3.1 Mines

The Yitai and Yitai Group portfolio of mines includes 12 operating fully mechanized (FM) LW operations. Yitai operates seven large and medium-sized underground LW mines that have transitioned to FM, state-of-the-art mining operations by combining multiple small, local mining right areas. This practice has become common as the regulatory officials within PRC seek to maximize reserve recovery by consolidating and modernizing the coal industry. A summary of Yitai mines follows:

| Mine                   | Date of Initial Operation | Current Approved Output Capacity (Mtpa) |                                | Estimated* Remaining Reserve Tonnes as of 31 December 2011 (Mt) | Integrated from Local Mines                        |
|------------------------|---------------------------|-----------------------------------------|--------------------------------|-----------------------------------------------------------------|----------------------------------------------------|
|                        |                           | By Mining Right Certificate             | By Coal Production Certificate |                                                                 |                                                    |
| Suancigou .....        | 8/8/2008                  | 12.0                                    | 12.0                           | 459                                                             | Suancigou, Suancihao, Xiaosuancigou                |
| Nalinmiao No. 2 .....  | 10/1/2006                 | 3.0                                     | 5.0                            | 64                                                              | Nalinmiao No. 2, Nalinmiao No. 4, Hongjingta No. 3 |
| Hongjingta No. 1 ..... | 8/12/2007                 | 3.0                                     | 6.1                            | 36                                                              | Hongjingta No. 2, Wangjiapo, Hongjingta No. 1      |
| Nalinmiao No. 1 .....  | 1/1/2008                  | 1.2                                     | 6.4                            | 9                                                               | Nalinmiao No. 1, Nalinmiao No. 3                   |
| Yangwangou .....       | 9/24/2009                 | 0.6                                     | 1.4                            | 6                                                               | Yangwangou                                         |
| Fuhua .....            | 7/1/2008                  | 0.3                                     | 1.3                            | 3                                                               | Fuhua, Shenshan                                    |
| Kaida .....            | 3/17/2008                 | 0.6                                     | 1.6                            | 4                                                               | Huayuan, Kaida No. 1                               |

\* BOYD estimate of marketable tonnes according to JORC Code classification.

An additional five small to medium sized underground LW mines are operated by Yitai Group. These mines have also transitioned to FM mining operations by combining multiple small local mining right areas. The current approved coal production certificate output level for these mines ranges from 1.2 to 3.0 Mtpa, as follows:

| Mine              | Date of Initial Operation | Current Approved Output Capacity (Mtpa) |                                | Estimated* Remaining Reserve Tonnes as of 31 December 2011 (Mt) | Integrated from Local Mines     |
|-------------------|---------------------------|-----------------------------------------|--------------------------------|-----------------------------------------------------------------|---------------------------------|
|                   |                           | By Mining Right Certificate             | By Coal Production Certificate |                                                                 |                                 |
| Dadijing .....    | 4/1/2008                  | 1.2                                     | 3.0                            | 52                                                              | Dadijing, Dashuigou             |
| Baoshan .....     | 6/1/2007                  | 1.2                                     | 1.9                            | 15                                                              | Baoshan, Qiaojiata, Niujialiang |
| Dingjiaqu .....   | 12/1/2008                 | 1.2                                     | 2.3                            | 16                                                              | Sanhechang No. 2, Dingjiaqu     |
| Chengyi .....     | 2/1/2009                  | 0.6                                     | 1.2                            | 5                                                               | Chengyi, Yelaisetai             |
| Baijialiang ..... | 1/1/2008                  | 0.3                                     | 1.9                            | —**                                                             | Baijialiang, Naomutu            |

\* BOYD estimate of marketable tonnes according to JORC Code classification.

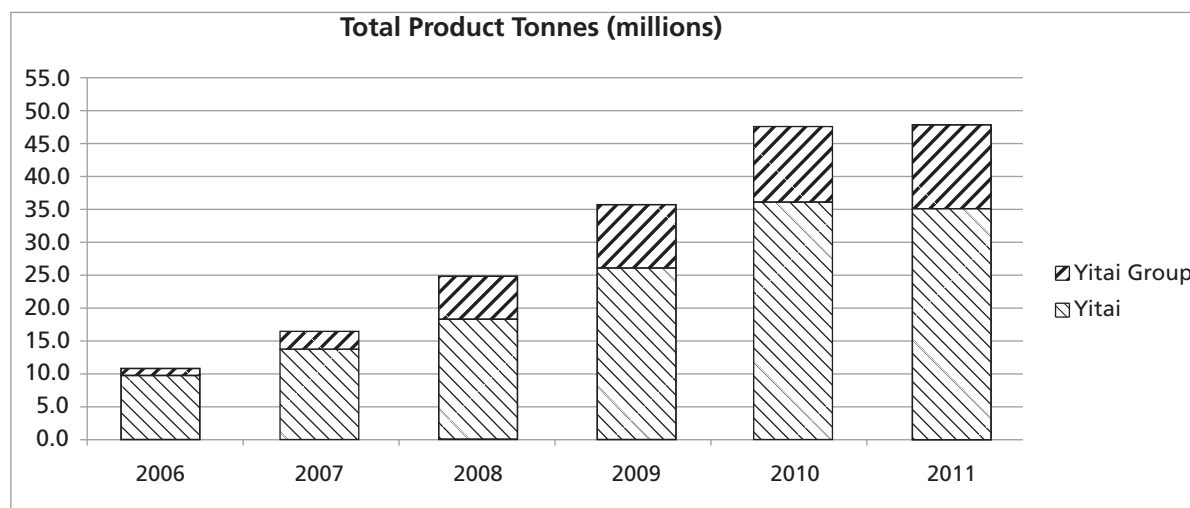
\*\* 0.49 Mt LW reserves.

BOYD visited the 12 subject mines in late August 2009, February 2011 and February 2012. Based on our field observations, the mines are well-capitalized and organized and use FM LW mining systems supported predominantly by roadheader development units. Underground mining conditions are generally favorable, with relatively thick coal seams and minimal seam gradients; depth of mining is shallow (less than 200 m). Third-party service companies provide a supplemental source of workers and are employed to provide certain services in the coal production process on an as-needed basis. Yitai or Yitai Group maintain the overall management of each mine, while the third-party service providers working at the mines report to the general managers appointed by Yitai or Yitai Group at each mine.

Yitai or Yitai Group's reserve base offers the potential for highly efficient LW mine designs comparable to those employed at similar highly mechanized mines in the United States and Australia. High levels of output can be anticipated from the existing and planned LW installations. BOYD considers the Yitai and Yitai Group's mine plans to be appropriate for the geologic and geotechnical settings observed in the current mines and reflect the present understanding of potential mining hazards.

### 2.3.2 Historical Output

Historical output from seven active Yitai mines and five active Yitai Group mines is illustrated below:



Historical production for the Yitai and Yitai Group mines is as follows:

| Yitai Output — Product Tonnes (millions) |               |       |               |       |               |       |               |       |               |       |               |       |
|------------------------------------------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|
| Mine                                     | 2006          |       | 2007          |       | 2008          |       | 2009          |       | 2010          |       | 2011          |       |
|                                          | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW |
| Suancigou                                | —             | —     | —             | 0.58  | —             | 1.46  | —             | 6.36  | —             | 8.18  | —             | 8.38  |
| Nalinmiao No. 2                          | 3.30          | —     | 1.77          | 4.49  | —             | 6.13  | —             | 6.90  | —             | 8.14  | —             | 8.12  |
| Hongjingta No. 1                         | 3.57          | —     | 2.81          | 1.65  | 0.75          | 5.51  | —             | 7.51  | —             | 8.19  | —             | 7.25  |
| Nalinmiao No. 1                          | 2.05          | —     | 1.23          | —     | 0.14          | 1.75  | —             | 2.37  | —             | 5.78  | —             | 6.62  |
| Yangwangou                               | 0.06          | —     | 0.25          | —     | 0.40          | —     | —             | 0.25  | —             | 1.38  | —             | 0.97  |
| Fuhua                                    | —             | —     | —             | 0.04  | —             | 0.62  | —             | 1.21  | —             | 1.33  | —             | 1.37  |
| Kaida                                    | 0.75          | —     | 0.92          | —     | —             | 1.44  | —             | 1.44  | 1.17          | 1.96  | 0.68          | 1.70  |
| Subtotal                                 | 9.73          | —     | 6.98          | 6.76  | 1.29          | 16.91 | —             | 26.04 | 1.17          | 34.96 | 0.68          | 34.41 |
| <b>Yitai Total</b>                       | <b>9.73</b>   |       | <b>13.74</b>  |       | <b>18.20</b>  |       | <b>26.04</b>  |       | <b>36.13</b>  |       | <b>35.09</b>  |       |

| Yitai Output — Product Tonnes (millions) |               |       |               |       |               |       |               |       |               |       |               |       |
|------------------------------------------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|
| Mine                                     | 2006          |       | 2007          |       | 2008          |       | 2009          |       | 2010          |       | 2011          |       |
|                                          | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW |
| Dadijing                                 | 0.63          | —     | 1.33          | —     | 1.71          | 1.34  | 1.37          | 1.90  | 1.50          | 2.27  | 1.42          | 3.04  |
| Baoshan                                  | 0.06          | —     | 0.72          | —     | —             | 1.68  | —             | 1.53  | —             | 1.81  | —             | 2.16  |
| Dingjiaqu                                | 0.04          | —     | 0.17          | —     | 0.13          | —     | —             | 2.21  | —             | 2.80  | —             | 3.05  |
| Chengyi                                  | 0.02          | —     | 0.15          | —     | 0.16          | 0.04  | —             | 0.88  | —             | 1.11  | —             | 0.94  |
| Baijialiang                              | 0.32          | —     | 0.38          | —     | 0.25          | 1.22  | —             | 1.75  | —             | 1.97  | —             | 2.07  |
| Subtotal                                 | 1.06          | —     | 2.74          | —     | 2.25          | 4.28  | 1.37          | 8.27  | 1.50          | 9.96  | 1.42          | 11.26 |
| <b>Yitai Group</b>                       |               |       |               |       |               |       |               |       |               |       |               |       |
| <b>Total</b>                             | <b>1.06</b>   |       | <b>2.74</b>   |       | <b>6.53</b>   |       | <b>9.64</b>   |       | <b>11.46</b>  |       | <b>12.68</b>  |       |
| <b>Yitai/Yitai Group</b>                 |               |       |               |       |               |       |               |       |               |       |               |       |
| <b>Total</b>                             | <b>10.79</b>  |       | <b>16.48</b>  |       | <b>24.73</b>  |       | <b>35.68</b>  |       | <b>47.59</b>  |       | <b>47.77</b>  |       |

Note: Figures may not add due to rounding.

Both Yitai and Yitai Group mines employ modern LW mining techniques with physical mining conditions generally considered among the most favorable observed by BOYD in the world coal mining industry and highly favorable to FM mining operations using LW and roadheaders. The mines successfully managed the transition from drill and blast (DB) mining techniques to FM LW techniques in the 2006 — 2010 period.

### 2.3.3 Staffing

Staffing at the Yitai mines directly involved in coal production and CPP operations totaled 6,224 personnel as of 31 December 2011, with the following breakdown:

| Mine                             | Employees as of 31 December 2011 * |                         |                       |       |
|----------------------------------|------------------------------------|-------------------------|-----------------------|-------|
|                                  | UG                                 | Surface Coal Processing | Surface Service/Other | Total |
| Suancigou . . . . .              | 602                                | —                       | 511                   | 1,113 |
| Nalinmiao No. 2 . . . . .        | 497                                | 12                      | 226                   | 735   |
| Hongjingta No. 1 . . . . .       | 360                                | —                       | 128                   | 488   |
| Nalinmiao No. 1 . . . . .        | 142                                | 55                      | 139                   | 336   |
| Yangwangou . . . . .             | 273                                | 16                      | 106                   | 395   |
| Fuhua . . . . .                  | 231                                | 10                      | 95                    | 336   |
| Kaida . . . . .                  | 386                                | 40                      | 107                   | 533   |
| Subtotal — Yitai . . . . .       | 2,491                              | 133                     | 1,312                 | 3,936 |
| Dadijing . . . . .               | 674                                | —                       | 142                   | 816   |
| Baoshan . . . . .                | 317                                | —                       | 102                   | 419   |
| Dingjiaqu . . . . .              | 260                                | 8                       | 85                    | 353   |
| Chengyi . . . . .                | 203                                | 27                      | 77                    | 307   |
| Baijialiang . . . . .            | 213                                | 39                      | 141                   | 393   |
| Subtotal — Yitai Group . . . . . | 1,667                              | 74                      | 547                   | 2,288 |
| Total . . . . .                  | 4,158                              | 207                     | 1,859                 | 6,224 |

\* Includes third-party service providers.

Labor productivity in 2011 for the Yitai mines was 8,910 and 14,090 product tonnes per employee-year for total mine and underground employees, respectively, which exceeded the average performance level of the international underground coal industry. Labor productivity in 2011 for the Yitai Group mines was 5,540 and 7,610 product tonnes per employee-year for total mine and underground employees, respectively.

| Mines                 | Product Tonnes per Employee-Year |             |
|-----------------------|----------------------------------|-------------|
|                       | Total Mine                       | Underground |
| Yitai . . . . .       | 8,910                            | 14,090      |
| Yitai Group . . . . . | 5,540                            | 7,610       |
| Composite . . . . .   | 7,675                            | 11,490      |

### 2.3.4 Mine Operating Costs

According to information provided by Yitai, average mine operating costs by mine by year are as follows:

| Mine                       | Operating Costs (RMB/ROM tonne) * |      |      |      |      |      |
|----------------------------|-----------------------------------|------|------|------|------|------|
|                            | 2006                              | 2007 | 2008 | 2009 | 2010 | 2011 |
| Suancigou . . . . .        | —                                 | 63   | 90   | 64   | 90   | 104  |
| Nalinmiao No. 2 . . . . .  | 44                                | 56   | 59   | 57   | 78   | 91   |
| Hongjingta No. 1 . . . . . | 40                                | 51   | 46   | 53   | 77   | 65   |
| Nalinmiao No. 1 . . . . .  | 41                                | 49   | 55   | 102  | 60   | 54   |
| Yangwangou** . . . . .     | 54                                | 62   | 85   | 201  | 108  | 137  |
| Fuhua . . . . .            | —                                 | 27   | 70   | 90   | 91   | 85   |
| Kaida . . . . .            | 42                                | 49   | 83   | 95   | 104  | 127  |
| Yitai Average . . . . .    | 41                                | 54   | 60   | 67   | 81   | 85   |

\* Composite costs include a weighted average of drill and blast, and FM output.

\*\* Yangwangou's 2009 results reflect partial year operation using FM LW face.

A breakdown of operating costs on a composite basis is as follows:

| Category                           | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|------------------------------------|----------------------------------|------|------|------|------|------|
|                                    | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| Cash Costs                         |                                  |      |      |      |      |      |
| Materials / Supplies / Maintenance | 2                                | 3    | 7    | 7    | 7    | 7    |
| Power / Fuel                       | 1                                | 1    | 2    | 3    | 3    | 3    |
| Salary & Welfare                   | 2                                | 9    | 8    | 6    | 8    | 9    |
| Production Fees                    | 35                               | 37   | 39   | 45   | 57   | 59   |
| Subtotal – Cash Costs              | 40                               | 50   | 56   | 60   | 75   | 78   |
| Non-Cash Costs                     |                                  |      |      |      |      |      |
| Depreciation                       | 1                                | 3    | 3    | 6    | 7    | 7    |
| Subtotal – Non-Cash Cost           | 1                                | 3    | 3    | 6    | 7    | 7    |
| Total                              | 41                               | 54   | 60   | 67   | 81   | 85   |

\* Average composite costs include a weighted average of DB with FM output achieved with FM LW face methods.

Note: Figures may not add due to rounding.

According to information provided by Yitai Group, average mine operating costs by year are as follows:

| Mine                 | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|----------------------|----------------------------------|------|------|------|------|------|
|                      | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| Dadijing             | 62                               | 74   | 74   | 103  | 102  | 107  |
| Baoshan              | 28                               | 67   | 70   | 69   | 82   | 83   |
| Dingjiaqu            | 50                               | 52   | 111  | 67   | 66   | 67   |
| Chengyi              | 52                               | 55   | 75   | 94   | 100  | 121  |
| Baijialiang          | 45                               | 54   | 72   | 67   | 72   | 73   |
| Yitai Group Average* | 55                               | 67   | 74   | 82   | 85   | 89   |

\* Composite costs include a weighted average of drill and blast, and FM output.

A breakdown of operating costs on a composite basis is as follows:

| Category                  | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|---------------------------|----------------------------------|------|------|------|------|------|
|                           | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| Cash Costs                |                                  |      |      |      |      |      |
| Materials/Supplies        | 4                                | 3    | 6    | 5    | 4    | 7    |
| Maintenance/Repairs       | —                                | —    | 5    | 1    | 2    | 1    |
| Power/Fuel                | 1                                | 1    | 2    | 2    | 3    | 3    |
| Salary & Welfare          | 5                                | 9    | 8    | 7    | 8    | 9    |
| Production Fees           | 38                               | 45   | 47   | 60   | 60   | 62   |
| Subtotal — Cash Costs     | 48                               | 59   | 69   | 75   | 76   | 81   |
| Non-Cash Costs            |                                  |      |      |      |      |      |
| Depreciation              | 7                                | 8    | 5    | 8    | 9    | 8    |
| Subtotal — Non-Cash Costs | 7                                | 8    | 5    | 8    | 9    | 8    |
| TOTAL                     | 55                               | 67   | 74   | 82   | 85   | 89   |

\* Average composite costs include a weighted average of DB with FM output achieved with FM LW face methods.

Note: Figures may not add due to rounding.

Yitai and Yitai Group operating costs are low based on our Chinese coal industry experience and are in-line with BOYD's expectations based on our experience in China and the type of mines, technology employed, and output levels.

Production fees include numerous cost categories, of which the most significant, accounting for over 95% of the category in 2011, are as follows:

- Salaries.
- Production maintenance fee.
- Safety fund fee.
- Environmental recovery fee.
- Mineral resource compensation fee.
- Soil and water conservation fee.
- Coal price adjustment fee (special implementation in mid-2009 in Inner Mongolia).
- Third party development costs (roadway development).
- LW face move expense.
- Mine management fees.
- Equipment leases.
- Mine engineering expense.
- Human resource development.
- Water.

Production fees have increased since 2006 due to increases in government-imposed fees, new cost items related to the implementation of mechanized LW face operations, and higher overhead and management costs. The coal price adjustment fee will be used primarily for the establishment of an official commodity reserve system helping to resolve issues in environmental and ecological restoration of mining areas and as a subsidy to rural area inhabitants.

## **2.4 FUTURE OPERATIONS**

### **2.4.1 Mine Output**

BOYD's review of future operations is based on Yitai's internally prepared three-year mine plans, business projection data submittals, and discussions with corporate and mine management, financial, and engineering staff. The mine plan period for this review is the three-year period, 2012 — 2014. Available mine plan forecasts were evaluated for reasonableness according to recent operating history. Historical data for these mines at their design capabilities are limited at this time.

Yitai and Yitai Group raw coal output projections for the period 2012 through 2014 for the mines are as follows:

| <u>Yitai Mine</u>            | Projected ROM Output<br>(tonnes — millions) |       |       |
|------------------------------|---------------------------------------------|-------|-------|
|                              | 2012                                        | 2013  | 2014  |
| Suancigou . . . . .          | 14.00                                       | 15.00 | 16.00 |
| Nalinmiao No. 2 . . . . .    | 8.20                                        | 9.20  | 10.20 |
| Hongjingta No. 1 . . . . .   | 8.20                                        | 9.20  | 8.20  |
| Nalinmiao No. 1 . . . . .    | 7.00                                        | 3.40  | 4.40  |
| Yangwangou . . . . .         | 1.40                                        | 1.40  | 1.40  |
| Fuhua . . . . .              | 1.30                                        | 1.30  | 1.30  |
| Kaida . . . . .              | 1.70                                        | 2.60  | 2.60  |
| Talahao . . . . .            | —                                           | 3.00  | 6.00  |
| Bulamao . . . . .            | —                                           | 1.60* | 1.60  |
| Subtotal — Yitai** . . . . . | 41.80                                       | 46.70 | 51.70 |

\* Projections based on Kaida Access Option.

\*\* Open pit mining at several mines contributes to Yitai's output as follows:

| <u>Mine</u>                | ROM Output          |      |       |
|----------------------------|---------------------|------|-------|
|                            | 2013                | 2014 | Total |
|                            | (tonnes - millions) |      |       |
| Nalinmiao No. 2 . . . . .  | 1.00                | 2.00 | 3.00  |
| Hongjingta No. 1 . . . . . | 1.00                | 2.00 | 3.00  |
| Nalinmiao No. 1 . . . . .  | 1.00                | 2.00 | 3.00  |
| Kaida . . . . .            | 1.00                | 1.35 | 2.35  |
| Total . . . . .            | 4.00                | 7.35 | 11.35 |

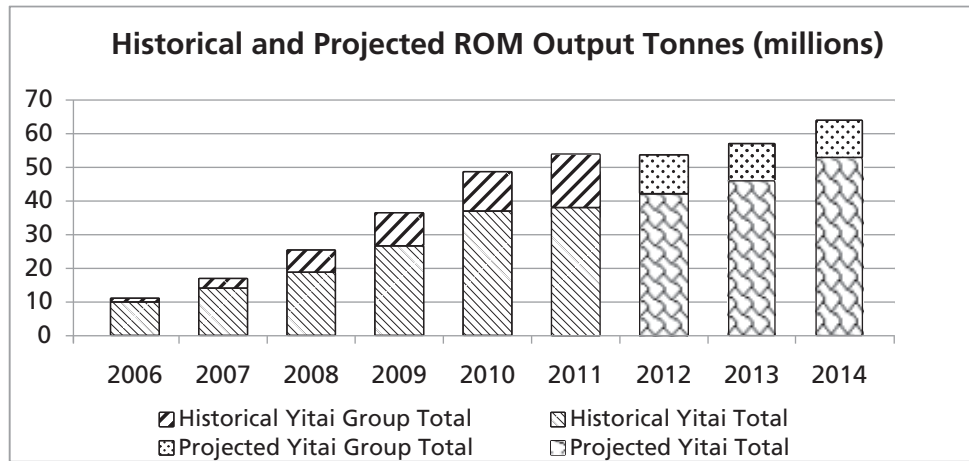
| <u>Yitai Group Mine</u>              | Projected ROM Output<br>(tonnes — millions) |              |              |
|--------------------------------------|---------------------------------------------|--------------|--------------|
|                                      | 2012                                        | 2013         | 2014         |
| Dadijing* . . . . .                  | 4.20                                        | 4.50         | 4.50         |
| Baoshan . . . . .                    | 2.20                                        | 2.20         | 2.20         |
| Dingjiaqu** . . . . .                | 3.00                                        | 3.00         | 3.00         |
| Chengyi . . . . .                    | 1.20                                        | 1.20         | 1.20         |
| Baijialiang*** . . . . .             | 0.80                                        | —            | —            |
| Subtotal — Yitai Group**** . . . . . | 11.40                                       | 10.90        | 10.90        |
| <b>Total . . . . .</b>               | <b>53.20</b>                                | <b>57.60</b> | <b>62.60</b> |

\* Dadijing output projections include 0.90 Mt in 2012 generated from room and pillar mining operations.

\*\* We project that Dingjiaqu will be transitioning into thinner coal reserves in 2013 and LW face output will be affected. Of the 3.0 Mt output projected in 2013 and 2014, 0.5 and 1.0 Mt is generated from room and pillar operations.

\*\*\* Based on BOYD's reserve estimation, we project that Baijialiang mine will deplete FM LW mineable reserves in 2012. Of the 0.80 Mt output projected in 2012, 0.31 Mt is generated from room and pillar mining operations and 0.49 Mt from FM LW operations.

\*\*\*\* Open pit mining at several mines may also contribute to Yitai Group's output; at Dadijing 1.0 Mt annually is projected from open pit operations in 2013 and 2014.



Yitai forecasts continuing growth in overall output through 2014. Yitai output is projected to expand from 35 Mt in 2011 to 52 Mt in 2014, Yitai Group mines are projected to maintain an output level of approximately 11.0 Mtpa in the period 2012-2014. BOYD has reviewed the plans for 2012 — 2014 from the perspective of historical performance, observations and discussions during site visits, and BOYD's extensive PRC experience and concludes the plans are generally achievable.

At Suancigou Mine, Yitai installed a FM sublevel caving LW face in the No. 6U Seam to minimize faulting impacts, beginning in late March 2011. The sublevel caving LW face performance has been improving approaching 40,000 tpd in stable, favorable geological conditions. We anticipate that sublevel caving LW face will improve output performance in 2012. The CPP yield for Suancigou ROM output projected at 85% was 73% in 2011. According to Yitai, Suancigou CPP output is currently being processed to a higher coal quality specification for market acceptance at the ports. The Company anticipates that lower quality specifications will prevail in in-land markets, thereby supporting a higher CPP recovery. In 2013, Yitai is planning to separate the No. 4 Seam and No. 6 Seam ROM output to optimize CPP performance.

The output projections for Nalinmiao No. 2 and Hongjingta No. 1 are supported by their 2011 results of 8.12 Mt and 7.25 Mt, respectively. Nalinmiao No. 2 installed a second FM LW face in the No. 6 Seam in early 2011, which, combined with the existing LW face in the No. 4 Seam, should provide adequate capacity to attain output projections. Nalinmiao No. 1 has conditions similar to those in Nalinmiao No. 2, which should support attainment of its projections. Nalinmiao No. 1's underground produced tonnage in 2013 and 2014 is consistent with thinner seam conditions. Hongjingta No. 1 is anticipated to improve its capabilities in 2012 after the installation of a new high profile (6.3 meter) FM LW face in late 2011. Improved mining conditions are anticipated at Yangwangou Mine. Output projections for Nalinmiao No. 2, Hongjingta No. 1 and Suancigou mines significantly exceed current production certificate output levels.

Fuhua and Kaida output projections assume recovery of LW faces in shallow cover zones. Based on our estimates, Kaida and Fuhua output may be impacted due to projected mining in areas having shallow cover. Yitai maintains that LW mining operations are viable in shallow cover areas (less than 40 m of competent overburden). History of shallow cover mining in the Yitai mines is limited, although Yitai has in several instances operated on sustained basis in shallow cover areas.

LW mining located beneath less than 40 m of cover may be problematic. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. We have adjusted our mine plan projections and reserve estimates accordingly to exclude areas with less than 40 m of overburden depth due to the unpredictability of roof strata behaviour. While low cover areas occur in virtually all of the Yitai operations, we expect this to have a larger impact on the Kaida and Fuhua mining operations through the forecasts period of 2012–2014. While we recognize that Yitai has, in several instances, successfully mined in areas with less than 40 m of overburden depth, the stability of the roof strata in lower overburden zones is difficult to assess until LW face development mining has been completed. Accordingly, the 40 m overburden guideline provides a margin of safety for planning and resource analysis.



Yitai has indicated that additional output may be generated as needed by open pit mining and room and pillar mining of shallow seam zones unsuitable for FM LW mining to meet the output forecasts. Yitai has demonstrated its capability to recover coal resources in shallow cover areas using these methods. These coal resources are not addressed in our reserve analysis.

BOYD has reviewed the plans for 2012 — 2014 and the reserve tonnages for the Yitai Group mines. Based on our review, output plans for the mines, are achievable in our opinion although output from open pit and room and pillar mining may be required to supplement LW face output at Dadijing and Dingjiaqu mines. Room and pillar mining methods are deployed on occasion to recover coal resources not suitable for FM LW mining methods. Depletion of FM LW reserves is expected at the Baijialiang Mine in 2012. Of the 0.8 Mt output projected in 2012, 0.31 Mt is generated from room and pillar mining operations and 0.49 Mt from FM LW operations. We project that Dingjiaqu will be transitioning into thinner LW coal reserves in 2013 and LW face out will be affected. Of the 3.0 Mt output projected in 2013, 0.50 Mt is generated from room and pillar mining operations and 2.50 Mt is produced from FM LW operations. In 2014, 2.00 Mt is projected from FM LW operations and 1.00 Mt from room and pillar operations. Dadijing will continue utilizing room and pillar mining operations for a portion of its output. Output projection for 2012 includes 0.90 Mt, generated from room and pillar mining operations. The Dadijing output projections for 2013 and 2014 include 1.0 Mt annually from open pit operations.

Yitai output projections are based on coal processing of the Suancigou production. Product tonnage projections for 2012, 2013 and 2014 are 11.90, 12.75 and 13.60 Mt, respectively. Raw coal sales are planned for the other Yitai mines. Yitai Group mines product output projections are equivalent to the ROM tonnage; CPP processing is not planned at this time although the Group mines could utilize the Zhunge'erzhao CPP, as required.

Yitai and Yitai Group target staffing projections for the period 2012 to 2014 are summarized as follows:

| Mine                             | Personnel    |                         |                        |              |
|----------------------------------|--------------|-------------------------|------------------------|--------------|
|                                  | UG           | Surface Coal Processing | Surface Service/ Other | Total        |
| Suancigou . . . . .              | 671          | 129                     | 259                    | 1,059        |
| Nalinmiao No. 2 . . . . .        | 331          | 83                      | 129                    | 543          |
| Hongjingta No. 1 . . . . .       | 270          | 36                      | 77                     | 383          |
| Nalinmiao No. 1 . . . . .        | 263          | 42                      | 53                     | 358          |
| Yangwangou . . . . .             | 168          | 56                      | 78                     | 302          |
| Fuhua . . . . .                  | 212          | 6                       | 15                     | 233          |
| Kaida . . . . .                  | 357          | 30                      | 31                     | 418          |
| Subtotal — Yitai . . . . .       | 2,272        | 382                     | 642                    | 3,296        |
| Dadijing . . . . .               | 629          | —                       | 142                    | 771          |
| Baoshan . . . . .                | 348          | —                       | 111                    | 459          |
| Dingjiaqu . . . . .              | 269          | 16                      | 85                     | 370          |
| Chengyi . . . . .                | 219          | 27                      | 77                     | 323          |
| Baijialiang . . . . .            | 213          | 39                      | 141                    | 393          |
| Subtotal — Yitai Group . . . . . | 1,678        | 82                      | 556                    | 2,316        |
| <b>Total*</b> . . . . .          | <b>3,950</b> | <b>464</b>              | <b>1,198</b>           | <b>5,612</b> |

\* Includes third-party service providers.

Projected target staffing levels are lower compared with 31 December 2011 actual staffing at Yitai mining operations. According to Yitai, higher labor force staffing was maintained through 2011 in order to expedite mine upgrades. Higher staffing levels continue in 1H 2012; according to Yitai, reductions in staffing levels are projected in third quarter 2012.

## 2.4.2 Capital Spending

Yitai and Yitai Group projected capital spending of RMB655 million in the 2012-2014 period for the 12 active mines is summarized below:

| Mine                   | Projected Capital Expenditures (RMB-millions) |            |            |            |
|------------------------|-----------------------------------------------|------------|------------|------------|
|                        | 2012                                          | 2013       | 2014       | Total      |
| Suancigou              | 32                                            | 59         | 47         | 138        |
| Nalinmiao No. 2        | 15                                            | 25         | 6          | 45         |
| Hongjingta No. 1       | 32                                            | 26         | 18         | 76         |
| Nalinmiao No. 1        | 33                                            | 29         | 26         | 88         |
| Yangwangou             | 7                                             | 23         | 7          | 37         |
| Fuhua                  | 9                                             | 1          | 1          | 11         |
| Kaida                  | 8                                             | 13         | 3          | 24         |
| Subtotal — Yitai       | 136                                           | 176        | 107        | 419        |
| Dadijing               | 48                                            | 21         | 16         | 85         |
| Baoshan                | 26                                            | 14         | 15         | 55         |
| Dingjiaqu              | 23                                            | 23         | 22         | 68         |
| Chengyi                | 10                                            | 9          | 8          | 27         |
| Baijialiang            | —                                             | —          | —          | —          |
| Subtotal — Yitai Group | 107                                           | 67         | 61         | 235        |
| <b>Total</b>           | <b>243</b>                                    | <b>243</b> | <b>168</b> | <b>655</b> |

Note: Figures may not add due to rounding.

Capital spending by major category as follows:

| Category                                            | Projected Capital Expenditures (RMB millions) |      |      |       |
|-----------------------------------------------------|-----------------------------------------------|------|------|-------|
|                                                     | 2012                                          | 2013 | 2014 | Total |
| Surface Infrastructure                              | 1                                             | 1    | 2    | 4     |
| Mine Openings and Roadway Development               | —                                             | 43   | 36   | 79    |
| Mining, Monitoring and Misc. Equipment and Rebuilds | 237                                           | 181  | 123  | 541   |
| CPP                                                 | 4                                             | 16   | 6    | 26    |
| Other                                               | 2                                             | 2    | 2    | 5     |
| Yitai and Yitai Group Total                         | 243                                           | 243  | 168  | 655   |

Note: Figures may not add due to rounding.

Sustaining capital based on projected raw coal output averages RMB4 per raw tonne of output. In our opinion, this level of sustaining capital at the lowest end of the range required to support the projected output. However, significant mine development expenses that would be considered capital expenditures are included in operating costs. The lower sustaining capital projections are also consistent with the limited service life at several mine. Sustaining capital needs for Suancigou are also limited owing to the mine's recent construction status.

Yitai's capital spending for mine development is projected to decline from recent levels in which the mines were re-capitalized in the transition to modern methods of FM LW mining. Operating mines generally have adequate equipment and infrastructure (including shafts, inclines, belt conveyor systems, electrical systems, pumping systems, etc.) necessary to support projected output levels. Additional openings (shafts, inclines) or extensions of openings may be required for ventilation or to access seams lower in the geologic sequence. However, civil works at the mines typically make up a small component of the total capital spending. Additionally, the operating depths at the Yitai mines are relatively shallow and, therefore, require relatively less spending for coal seam access.

### 2.4.3 Operating Costs

Yitai and Yitai Group operating cost projections for 2012 — 2014 are summarized as follows:

| Mine                   | Projected Operating Costs**<br>(RMB/ROM tonne) |      |      |
|------------------------|------------------------------------------------|------|------|
|                        | 2012                                           | 2013 | 2014 |
| Suancigou .....        | 105                                            | 108  | 110  |
| Nalinmiao No. 2* ..... | 94                                             | 95   | 96   |
| Hongjinta No. 1* ..... | 67                                             | 66   | 68   |
| Nalinmiao No. 1* ..... | 56                                             | 57   | 60   |
| Yangwangou .....       | 140                                            | 146  | 151  |
| Fuhua .....            | 86                                             | 90   | 93   |
| Kaida* .....           | 126                                            | 129  | 135  |
| Yitai Average*** ..... | 88                                             | 94   | 98   |

|                               | Projected Operating Costs**<br>(RMB/ROM tonne) |      |      |
|-------------------------------|------------------------------------------------|------|------|
|                               | 2012                                           | 2013 | 2014 |
| Dadijing* .....               | 105                                            | 109  | 112  |
| Baoshan .....                 | 86                                             | 87   | 89   |
| Dingjiaqu .....               | 68                                             | 70   | 72   |
| Chengyi .....                 | 126                                            | 127  | 130  |
| Baijialiang .....             | 76                                             | —    | —    |
| Yitai Group Average**** ..... | 91                                             | 96   | 100  |

\* Projected open pit mining will impact overall mine costs in 2013 and 2014.

\*\* FM LW mining costs, based on Yitai projections.

\*\*\* Yitai's average costs with open pit mining operations included are projected at RMB93 and RMB97 per ROM tonne in 2013 and 2014, respectively.

\*\*\*\* Yitai Group's average cost with open pit mining operations included are projected at RMB94 and RMB97 per ROM tonne in 2013 and 2014, respectively.

Mine operating cost projections include Labor and Benefits, Materials, Supplies, Power, Water, Maintenance, Engineering, Development Expense, Exploration, Face Moves, Village Moves, Resource Fees, Coal Management Fees, and Administration. Management/overhead employees are accounted for in Yitai overhead costs. Operating cost projections do not include CPP costs or reflect processing yield impacts.

Projected mine operating costs are reasonable based on our experience and the advanced stage of mine capitalization for the Yitai operations. Higher production volumes projected at the Yitai operation result in lower unit costs (RMB/tonne) than projected at the Yitai Group operations. Based on our review, Yitai and Yitai Group mines are anticipated to maintain their low operating cost status relative to the Chinese coal industry.

Yitai and Yitai Group mines low operating costs result from:

- Favorable geologic conditions
- Efficient mine staffing
- Successful implementation of effective FM LW faces and higher capacity infrastructure

### 2.4.4 Greenfield Mines

Yitai presently holds exploration rights for two proposed greenfield operations: Talahao and Bulamiao. Physical mining conditions at Talahao are expected to be similar to the high capacity Yitai operations. A large reserve base should enable Talahao to achieve high levels of output (6.0 Mtpa) from the planned LW installation over a long service life. Initial LW face operation is projected by Yitai in second half 2013, with output of 3.0 Mt in 2013 and 6.0 Mt in 2014.

There are two options under consideration by Yitai for mining Bulamao West and possibly Bulamao East.

- Yitai's Kaida Mine is adjacent to and west of the Bulamao West subarea and will likely be used as the permanent access to Bulamao West (Kaida Access Option). However this option has not yet been approved by the regulatory authorities.
- Alternatively, each subarea has been studied and evaluated for mining operations, with independent openings developed from the Hollow (Independent Access Option). The relevant PDR was provided to BOYD for review.

Our review encompasses both options. Yitai would prefer the Kaida Access Option. We view the Kaida Access Option as a practical solution that will minimize capital cost and allow extraction of Bulamao West reserves through an established mine infrastructure with an accelerated mine development schedule.

Mining conditions in the Bulamao subareas are not as favorable as Talahao, as reflected in its design production capacity of 1.2 Mtpa. Significant areas of coal resources underlie areas where the overlying competent rock cover is less than 40 m. As a result, only the Nos. 6-2 and 6-2L seams are likely to be mineable in Bulamao East, while the Nos. 6-2U and 6-2 are mineable in Bulamao West.

LW mining under less than 40 m of competent rock cover is problematic based on PRC geotechnical studies and general mining experience. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. As discussed elsewhere, we have adjusted our mine plan projections and reserve estimates to exclude areas overlain by less than 40 m of competent rock overburden. Yitai is cognizant of this factor, based on reported plans providing for extraction of Bulamao West reserves from the adjacent Kaida Mine.

The 2013-2014 ROM coal output is projected by Yitai at 1.6 Mtpa, for the Kaida Access Option. The Independent Access Option output projection is 1.2 Mtpa from both subareas combined.

Staffing estimates for each complex at full production are summarized as follows:

| <u>Category</u>                         | <u>Employees</u> |                 |
|-----------------------------------------|------------------|-----------------|
|                                         | <u>Talahao</u>   | <u>Bulamao*</u> |
| Underground Production . . . . .        | 480              | 258             |
| Surface . . . . .                       | 65               | 66              |
| Administration and Tech Staff . . . . . | 51               | 20              |
| Service and Support . . . . .           | 21               | 40              |
| Other . . . . .                         | 11               | —               |
| Total . . . . .                         | 628              | 384             |

\* Bulamao Independent Access Option.

Temporary workers are not planned to be utilized at either operation. Underground labor productivity is projected at 12,500 raw tonnes/employee-year at Talahao. This level of performance should be achievable according to Yitai's experience in Nalinmiao No. 2 and Hongjingta No. 1 mines, which also operate in thick coal seams having highly favorable mining conditions. Underground labor productivity for the Bulamao Independent Access Option is projected at 4,650 raw tonnes/employee-year. Staffing levels projected for Bulamao appear understated based on our experience and actual staffing at established Yitai operations. Bulamao Independent Access Option staffing has not been provided.

Yitai's construction plans indicate a construction schedule of 13 months at Talahao. Yitai's Talahao construction, as reviewed by BOYD, is aggressive; the schedule of the mine development and operation cannot be confirmed because of the uncertainty of the schedule for acquiring mining right approval. To expedite the construction schedule, the Company has commenced site preparation and surface structure construction work in advance of obtaining the mining right certificate. In order to accelerate the mine construction schedule, Yitai plans to develop the 2-2U Seam for LW mining in parallel with extending the access inclines to the 3-1 Seam.

Although final mining plans for Bulamao have not been approved, main roadways have been developed from Kaida into Bulamao West and the initial LW Face has been developed. Surface facilities to support mining activities for the preferred Kaida Access Option are also completed. Yitai output projections assume that Bulamao West mining begins within the first half of 2013. The 2013 Bulamao output projection cannot be confirmed, considering the uncertainty of approval. Presently there is no production schedule for The Bulamao Independent Access Option.

Capital expenditure projections for Talahao and Bulamao Independent Access Option are as follows:

| Category                    | RMB (millions) |         |
|-----------------------------|----------------|---------|
|                             | Talahao        | Bulamao |
| Mine Openings/Roadway       | 305            | 62      |
| Civil Construction          | 197            | 73      |
| Mine Related Equipment      | 467            | 76      |
| Other Equipment             | 21             | 48      |
| Office Facilities           | 122            | —       |
| Installation                | 87             | 27      |
| Construction Loan Interest  | 48             | —       |
| Working Capital             | 28             | 2       |
| Contingency                 | 115            | 23      |
| Land Acquisition/Moving Fee | —              | 2       |
| Other                       | 296            | 10      |
| Total                       | 1,685          | 324     |

Note: Figures may not add due to rounding.

BOYD considers the planned level of capital spending to be adequate for both operations, compared to our PRC coal industry experience. Capital expenditures for the Kaida Access Option have not been provided.

Projected PDR operating costs, based on the design output capacities, are summarized below for each mine:

|                                                 | Talahao                           | Bulamao** |
|-------------------------------------------------|-----------------------------------|-----------|
| Output Raw Tonnes (millions)                    | 6.0                               | 1.2       |
| Category                                        | Operating Cost<br>(RMB/ROM tonne) |           |
| Operating Supplies, Material Usage, and Repairs | 17                                | 30        |
| Power and Fuel                                  | 6                                 | 5         |
| Salary and Welfare                              | 5                                 | 17        |
| Subsidence                                      | 1                                 | 4         |
| Production Maintenance Fee                      | 4                                 | 10        |
| Other                                           | 50                                | 58        |
| Subtotal                                        | 83                                | 124       |
| Depreciation                                    | 11                                | 13        |
| Amortization                                    | 6                                 | 2         |
| Total Operating Cost                            | 101*                              | 139       |

\* Construction loan interest inclusive.

\*\* Bulamao Independent Access Option.

Note: Figures may not add due to rounding.

The PDR cost format follows standard Chinese cost estimation and reporting practices. Projected costs for Talahao and Bulamao are in general agreement with experience at established Yitai operations that have transitioned to FM LW mining. Higher operating costs at Bulamao reflect mining in thinner coal seams and lower productivity. Bulamao's operating cost for salary and welfare would be anticipated to be higher owing to expected higher staffing requirements.

Yitai's operating cost projections for Talahao and Bulamao Kaida Access Option are as follows:

| Cost Category                   | Projected Operating Costs |      |         |      |
|---------------------------------|---------------------------|------|---------|------|
|                                 | Talahao                   |      | Bulamao |      |
|                                 | 2013                      | 2014 | 2013    | 2014 |
|                                 | (RMB/ROM Tonne)           |      |         |      |
| Cash Costs*                     |                           |      |         |      |
| Salary and Welfare .....        | 2                         | 5    | 9       | 9    |
| Materials, Supplies .....       | 6                         | 6    | —       | —    |
| Maintenance .....               | 1                         | 3    | 7       | 7    |
| Power/Fuel .....                | 3                         | 3    | 4       | 4    |
| Coal Washing .....              | —                         | —    | —       | —    |
| Production Fees .....           | 49                        | 48   | 51      | 53   |
| Subtotal — Cash Costs .....     | 61                        | 66   | 70      | 72   |
| Non-Cash Cost                   |                           |      |         |      |
| Depreciation .....              | 10                        | 8    | 3       | 4    |
| Subtotal — Non-Cash Costs ..... | 10                        | 8    | 3       | 4    |
| Total Operating Cost .....      | 71                        | 74   | 73      | 76   |

\* The cost projections do not reflect coal washing costs if required.

Note: Unit operating cost figures may not add due to rounding.

Operating cost projections appear reasonable based on the performance of the existing Yitai and Yitai Group mines.

## 2.5 COAL PREPARATION PLANTS (CPPs)

The extent and degree of coal processing varies according to the presence of in-seam partings. The in situ quality of the coal seams is generally favorable (low in ash content) and coal processing is only required to remove partings and extraneous rock. Coals in the principal mining right areas make well accepted steam coal products. The principal markets for Yitai output are the thermal coal market for power generation and industrial markets.

Presently, Yitai has four CPPs under various stages of construction, design, and implementation, as follows:

| Preparation Facility (CPP) | Planned ROM Processing Capacity (Mtpa) | Product Shipping Mode | Level of Coal Processing | Plant Feed Rate (ROM tph) | Construction Status | Capital Spending (RMB-millions) | Staffing |
|----------------------------|----------------------------------------|-----------------------|--------------------------|---------------------------|---------------------|---------------------------------|----------|
| Suancigou .....            | 16.0                                   | Rail                  | Cr-Screen-PW (+13 mm)    | 3,030                     | Operating*          | 228                             | 161      |
| Zhunge'erzhao .....        | 10.0                                   | Rail                  | Cr-Screen-PW (+13 mm)    | 1,890                     | Operating**         | 512                             | 152      |
| Talahao .....              | 6.0                                    | Rail                  | Cr-Screen-PW (+13 mm)    | 1,140                     | Proposed            | 377                             | 160***   |
| Kaida .....                | 6.0                                    | Truck                 | Cr-Screen-PW (+13 mm)    | 1,140                     | Proposed            | 372                             | 155***   |

Cr — Crushing  
Screen — Screening  
FW — Full Washing  
PW — Partial Washing

\* Phase II (12.0 Mtpa) was completed in 2010 and Phase III (16.0 Mtpa) will be completed as needed for 2013 processing requirements.

\*\* CPP test run started in June 2010.

\*\*\* Projected.

The existing Suancigou CPP (12.0 Mtpa capacity), located at the mine's industrial site, was a jig-equipped plant that began operation in 2008 in Phase I of its construction. The construction of Phase II using dense media vessel and cyclone circuits was completed with capacity expanded to 12.0 Mtpa; initial operation began in February 2010. The CPP has completed the third phase of civil construction for expansion of processing capacity and modification of processing circuitry to provide 16 Mtpa plant processing capacity (total processing capacity for the three phases of construction) using dense media vessel and cyclone circuits.

The processing equipment for the third phase has not been purchased as yet as mine output in 2012 is projected to be 12 Mt and the Phase III processing capacity will not be needed in 2012. As mine output expands in 2013 and beyond, the full 16 Mtpa capacity will be needed.

Zhunge'erzhao CPP is designed to wash coal from Yitai and Yitai Group mines and additional coal purchased from third-party local coal mines. These operations are smaller, less productive mines operating in thinner coal seams that require additional blending, material handling, and washing capabilities. Accordingly, the CPP circuitry is more elaborate than the Suancigou expansion or the proposed Talahao and Kaida CPPs, which serve only their highly productive mining operations. The Zhunge'erzhao CPP can fully utilize the existing Yitai railway and truck transportation system.

ROM material at the four CPPs is initially screened to plus/minus 200 mm for large rock removal. Remaining material is crushed to minus 200 mm. Coal is screened and sized at 13-mm, with the plus 13-mm coal conveyed to the coarse circuit in the CPPs for washing in dense media vessels. The minus 13-mm material is either bypassed to product or processed in the two-product dense media cyclone circuit, depending on ash content and market requirements.

## 2.6 COAL TRANSPORTATION

### 2.6.1 Railway Assets

Yitai currently operates approximately 398 km of railway organized along a corridor that will ultimately provide a more direct route to potential consumers located in eastern China and to east coast exporting ports. Yitai railways provide the first east-west rail link between the Ordos (Dongsheng) and Zhunge'er coalfields, minimizing transportation times and increasing efficiency. As rail connections improve with the National Railway (NRC) as well as third-party railways, the market region for Dongsheng-produced coals is expected to expand. Primary Yitai rail assets are: Inner Mongolia Yitai Zhundong Railway Co. Ltd. (Zhundong) and Huzhun Railway. Additionally, a 27 km branch line, servicing Suancigou Mine, has access to the Zhundong railway branch at Zhunge'er.

Current and future capacities for each railway/branch are as follows:

| Railway/Branch | Carry Capacity (Mtpa) |      |      |
|----------------|-----------------------|------|------|
|                | 2012                  | 2015 | 2020 |
| Zhundong*      | 64                    | 83   | 150  |
| Huzhun*        | 39                    | 88   | 128  |
| Suancigou.     | 20                    | 20   | 20   |

\* Carrying capacities shown reflect the capacities of the double track segments.

We have reviewed supporting data provided by Yitai regarding projected carrying capacity of The Company's railways. Yitai carrying capacity estimates are based on studies prepared by China Railway First Survey & Design Institute. While we have not performed a detailed review of the underlying analyses and assumptions contained in those studies, it is our opinion that Yitai's projected carrying capacity is in line with the China Railway's conclusions.

The integrated railway network owned by Yitai connects its mines with the national rail transportation system, which provides Yitai with competitive advantages in securing allocation of coal transportation capacity in the national railway system and facilitating its coal sales to the major customers in China's developed coastal regions. The Yitai rail network also minimizes its transportation costs.

### 2.6.2 Coal Loadout Stations

Facilitating rail movement of Yitai-produced coals, Yitai controls ten operating coal loadout stations which provide rail access for Yitai and third-party-produced coals. Suancigou and Zhunge'erzhao stations utilize loop tracks with batch loading capabilities. The Tanggongta Station has a linear track with coal loaded using an in-line batch loading arrangement. The remaining loadout stations have linear track arrangements with end-loaders used for coal loading.



Yitai plans to construct six additional coal-to-rail loadout stations. Talahao Station will provide dedicated rail service for coal distribution from the company's planned Talahao Mine. Hongqinghe and Wulongsu loadout stations are planned to access the Ordos South and Zhunshuo railways, respectively. Yitai has not provided detailed information for the loadout stations; however, it is expected Talahao's capacity will be similar to that of the proposed mine (6 Mtpa). Neither of these railways are expected to be operational before 2012. Yitai has estimated future throughput for their loadout stations to reach 57.3 million tonnes by 2012.

## 2.7 ENVIRONMENTAL OVERVIEW

BOYD has determined that Yitai and Yitai Group have implemented appropriate environmental protection measures in response to national environmental protection laws. Generally, the company's environmental protection work is comparable to similar mining enterprises elsewhere in the PRC. Based on our site visits, BOYD opines that environmental protection practices at Yitai and Yitai Group's mining operations operate adequately. While the particulars of current environmental practices may need to be upgraded at some mines, there do not appear to be environmental constraints to future coal mining operations. In our opinion, in meeting the relevant requirements as required by national laws, the environmental protection practices of Yitai and Yitai Group comply with the PRC and World Bank's requirements for environmental protection related to coal mining activities.

## 3.0 GEOLOGY AND RESOURCES

### 3.1 GEOLOGY

On a global basis, the geological setting or nature of the coal deposits controlled by Yitai and Yitai Group is judged to range from simple to moderate (i.e., not geologically complex).

#### 3.1.1 Dongsheng Coalfield

The Dongsheng Coalfield is the northern part of the Shenfu Dongsheng Coalfield, one of the largest coal-producing fields in the world and the largest coalfield in China, which is situated on the boundary of Yulin Prefecture, Shaanxi Province, and the southern part of Ordos City administrative area in Inner Mongolia. Yitai Group mines and Yitai mines (other than Suancigou and Yangwangou mines) are located in this coalfield. The area is part of the Early and Middle Jurassic coal-bearing Ordos Basin and formed as a successive basin on the platform.

Most of the coalfield is covered by unconsolidated and poorly consolidated Quaternary and Tertiary alluvial and loess deposits ranging up to 90 m in thickness, and exposures of the Jurassic stratigraphy are limited to valleys where the alluvium has been eroded. The coal-bearing strata occur in the Middle and Lower Jurassic-age Yan'an Formation, containing coal seams Nos. 2 through 7. There are several principal coal seams that are uniform in occurrence generally 3 to 6 m thick and other secondary seams that range in thickness from 1 to 3 m.

Depth of cover ranges from the seam subcrop to up to 200 m. There are burned areas along seam outcrops in the valleys where the seams caught fire and baked the overlying rock strata to a reddish orange color. Drill hole data have shown that some burned areas extend to over 40 m of cover; however, most of the burned areas cover a narrow band along the seam outcrops. In some areas, the thickness of consolidated rock above the seams has been eroded to less than 40 m. This occurs in valleys and also in areas where the Jurassic strata is overlain by thick alluvium and loess. Generally, the structure of the strata is a gentle monocline, with a southwest dip ranging from 1 to 5 degrees, and faulting is not common. The seams have low methane content and are subject to spontaneous combustion. The coals in the Yan'an Formation are characterized by high calorific value, non-caking coal (low bituminous rank), with high volatile and low sulfur content. Calorific value varies with moisture and ash content but is typically 5,500 to 6,000 Kcal/kg as-received basis.

### 3.1.2 Zhunge'er Coalfield

The Zhunge'er Coalfield is located in Inner Mongolia, along the northeast portion of the Ordos Table Syncline. Two of the Yitai mines, Suancigou and Yangwangou, are located in this coalfield.

The coal-bearing strata are contained in two formations, with multiple coal seams Nos. 1 through 10 in stratigraphically descending order. The upper seams (Nos. 1 through 5) occur within the Lower Permian Shanxi Formation, and the lower seams (Nos. 6 through 10) occur within the underlying Upper Carboniferous Taiyuan Formation.

The cessation of coal deposition marks the top of the Taiyuan Formation, which is overlain by Permian-aged strata. After deposition of the Permian strata, the area was uplifted and eroded. In some areas, all Permian strata have been completely eroded as well as portions of the underlying coal-bearing strata. Shallow coal was oxidized during this period. Localized areas of oxidized coal as documented by closely spaced drilling will be encountered during mining and are expected to cause short-term disruption of mining and coal processing.

Subsidence of the area ended the erosional period, and Jurassic-aged strata were then unconformably deposited over the Permian and Carboniferous strata. The Jurassic strata are unconformably overlain over most of the area by unconsolidated and poorly consolidated Quaternary and Tertiary deposits, ranging from 0 to 50 m typically and up to 130 m at maximum in thickness. This stratum has been eroded to form the present typical rugged topography.

Depth of cover (overburden) to the principal coal seams ranges from 50 to 550 m. Generally, the structure of the strata is a gentle monocline, with a west dip from 5 to 10 degrees in the basin. Faulting is common and sink holes have been documented.

Coal quality is high-volatile C bituminous rank with low sulfur content. Calorific value ranges from 4,700 to 5,100 Kcal/kg on an as-received basis.

## 3.2 RESOURCE SOURCE DATA

In September 2009, February 2011 and February 2012, BOYD geologists and engineers met with Yitai's technical personnel. During these meetings Yitai made presentations of the geology, coal resources, and mine plans for each mining and exploration right area. Yitai provided BOYD with detailed geologic reports and mine feasibility studies. In addition, BOYD mining engineers visited all active mines. During the mine site visits, discussions with mine managers and personnel were conducted concerning coal resources.

In order to prepare an independent assessment of the coal resources, Yitai and Yitai Group provided with the following data:

1. Geologic reports.
2. Geologic data, including tables containing drill hole data and logs and coal quality analyses.
3. Resource tables and maps for each seam.
4. Other data, including hydrologic drilling and mapping, geophysical logs, etc.
5. Feasibility Study Reports and Preliminary Design Reports.

The geologic reports for mining and exploration right areas contained the following:

1. Location and Geography.
2. Regional Geologic, Mine Geology, Coal Seam Geology.
3. Coal Quality.
4. Hydrology.

5. Engineering Geology.
6. Environmental Geology.
7. Exploration Status.
8. Resource Assessment.
9. Resource Calculations.

The reports also included various supporting maps, sections, and figures.

Feasibility Study Reports and Preliminary Design Reports cover general mine design aspects, including geology, resource/reserve data, mine development, initial LW face layout, equipment, ventilation, safety, coal preparation, underground and surface facilities, environmental protection, economic issues (projected capital expenditures, costs, and profits), etc.

These reports also included the following information:

1. Maps showing mining barriers that define the mining districts within each area;
2. Mine plans showing main development roadways, gate roads, and initial LW faces;
3. Maps showing the layout of surface facilities; and
4. Other design maps.

The resource and mine feasibility maps provided by Yitai show drill hole and mine measurement locations, seam thickness and structure, faults, geologic and hydrologic features, mining rights limits, barrier areas, and surface features. Resource polygons were shown with polygon identification number, area, seam thickness, dip, and in-place tonnage data.

The number of drill holes and mine measurements defining the coal resources are shown on the following table:

| <u>Mine Area</u>           | <u>Drill Holes</u> | <u>Mine Measurements</u> |
|----------------------------|--------------------|--------------------------|
| Suancigou . . . . .        | 107                | —                        |
| Nalinmiao No. 2 . . . . .  | 24                 | 66                       |
| Hongjingta No. 1 . . . . . | 30                 | 92                       |
| Nalinmiao No. 1 . . . . .  | 19                 | 92                       |
| Yangwangou . . . . .       | 7                  | 3                        |
| Fuhua . . . . .            | 18                 | 14                       |
| Kaida . . . . .            | 22                 | 33                       |
| Talahao . . . . .          | 131                | —                        |
| Bulamao (East) . . . . .   | 37                 | —                        |
| Bulamao (West) . . . . .   | 26                 | —                        |
| Dadijing . . . . .         | 42                 | 97                       |
| Baoshan . . . . .          | 21                 | 12                       |
| Dingjiaqu . . . . .        | 26                 | 13                       |
| Chengyi . . . . .          | 15                 | 25                       |
| Baijialiang . . . . .      | 3                  | 16                       |

The geologic teams prepared in-place coal resource tonnage estimates for each seam, by each resource area, according to standards established by the PRC Government for this coal classification and grade. Under applicable thermal coal standards, all underground mineable seams greater than 0.8 m in thickness are included in the resource estimates. In accordance with PRC Government resource estimation protocol, geologists used a polygon method to define individual area subdivisions used to calculate in-place resources. A detailed accounting of all in-place coal tonnage is maintained to track exploitation of a strategic national asset and provide a basis for mining right fee determination.

Polygon tables corresponding to the resource maps include polygon identification, polygon area, average thickness, in-place tonnes, and hole references used to determine seam thickness tonnage calculation.

We reviewed the in-place resource estimates prepared by the respective exploration teams and found that the estimates were reasonable, prepared in accordance with PRC Government standards, and supported by available source exploration data. However, it is important to understand that these estimates represent an inventory of coal occurrence, as required by the PRC, and include significant tonnage that is judged by both BOYD and the Chinese mine design groups to be not economically mineable. This non-economically mineable tonnage includes thin, erratic, and high sulfur seams that will not be recovered; areas under villages, roads, railroads, and industrial areas that will not be moved; and coal to be left in barriers along property boundaries and in mine facility and roadway areas.

By assignment, resource and reserve estimates prepared in this report are compliant with the Australasian Code for Reporting of Mineral Resources and Ore Reserves, also known as the JORC Code. In the JORC Code, resources should only include portions of the deposit that have reasonable prospects for eventual economic extraction and should not include inventory coal.

Since the in-place estimates prepared by the exploration teams contain significant uneconomic inventory coal, they are not JORC compliant and could not be used for purposes of this report. Therefore, BOYD prepared new estimates for the specified resource areas.

### 3.3 RESOURCE CLASSIFICATION

In reporting resources for the valuation of mining properties, most international classification systems recognize two major factors that must be considered, namely:

- Geologic assurance of existence.
- Economic viability.

All systems require that the degree of geological assurance of existence be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements). Economic viability of resources is usually reported in economic and subeconomic categories. The terms Resource and Reserve are commonly used in the reporting of coal tonnage, but the usage or definition applied to these terms can vary.

Estimates of coal resources and reserves in this report have been prepared in accordance with the JORC Code. Relevant JORC Code definitions are found in the Glossary and Definitions section.

Coal resources in this report represent only coal occurrence that has reasonable prospects for eventual economic extraction. The classification of coal resources and reserves is based on the spacing of observation points (drill holes and mine measurements) that define coal occurrence and quality. In assigning resource classification, both structural and depositional complexity were evaluated on order to determine the appropriate observation point spacing to define Measured, Indicated and Inferred Coal Resources.

In this report, the spacing between points of observation used to define resources are as follows:

| <u>Category</u> | <u>Spacing</u> |
|-----------------|----------------|
| Measured        | 500m-750m      |
| Indicated       | 1,000m-1,500m  |
| Inferred        | 2,000m         |

The 750-m spacing for Measured and the 1,500-m spacing for Indicated were used for seams that demonstrated unique uniform occurrence. Projections of resources in any category beyond any point of observation do not exceed one-half of the defined spacing. We have assigned these spacing criteria based on our independent assessment of the site-specific geologic conditions at each mine. We believe the points of observation spacings used in this report are appropriate and provide the required level of geological assurance.

In assessing economic viability, BOYD has reviewed historical cost data and future projections as provided by Yitai for the current active Yitai and Yitai Group mines. The Yitai and Yitai Group mines have demonstrated economic viability in the historical review period; that is, the mines have shown significant positive operating margins during the review period. We have also reviewed future projections as provided by Yitai for current active Yitai and Yitai Group mines, completed LOM plans based on Yitai's future projections and conducted extensive discussions with Yitai management. Our review indicates that the current active Yitai and Yitai Group mines will continue to generate significant positive operating margins at present coal prices on the basis that the reserves projected for mining are similar in depositional characteristics as the reserves currently mined. We also reviewed the projections for the mines under construction, Talahao and Bulamao, and found that on the basis of the present performance of the Yitai and Yitai Group mines, Talahao and Bulamao will generate significant positive operating margins at present coal prices. Yitai and Yitai Group economic projections are discussed in their respective sections of this report.

### 3.4 ESTIMATION METHODS

We have prepared resource and reserve estimates for the 12 mining right areas and 2 exploration right areas controlled by Yitai and Yitai Group. BOYD developed criteria to assess the economic viability of each seam resource area based on:

1. Mine plan feasibility studies.
2. Current mining economics.
3. Seam thickness and areal extent.
4. Geological considerations.

We reviewed mine plans, costs, and other data and developed economic analyses and life-of-mine plans to evaluate the coal resources. A minimum seam thickness (coal and parting) limit ranging from 1.0 to 1.8 m has been used in our mapping, reflecting the practical operating height limits of the longwall (LW) face equipment proposed for the areas. Using these criteria, many of the thin seams (inventory coal) estimated in the team's geologic reports were excluded from our resource estimates. Areas where there were less than 40 m of competent roof strata between the coal seam and overlying alluvium were evaluated according to Yitai's site specific experience and success in recovering shallow (defined as less than 40 m of competent roof strata) areas.

In-Place Resources were estimated within areas defined by various barriers shown on maps from the mining feasibility studies. These maps showed the main roadway development and potential LW face areas. The LW face areas are defined by barriers for the main roadways; villages, industrial areas, roads, and railroads that would not be moved; unmined coal barriers to be left adjacent to property boundaries; and underlying mine facilities. In-Place Resources were estimated within each area that could be economically accessed from the main roadways. The resource maps from the geologic studies combined with barriers from the feasibility studies were used as a basis in preparing our estimates. In-Place Resources were estimated with each resource area for each seam (coal and partings) using the following coal and parting densities:

| <u>Ash % (dry basis)</u> |                     | <u>Specific Gravity (g/cm<sup>3</sup>)</u> |
|--------------------------|---------------------|--------------------------------------------|
|                          | Dongsheng Coalfield |                                            |
| 6 to 8                   |                     | 1.30                                       |
| 8 to 10                  |                     | 1.32                                       |
| 10 to 14                 |                     | 1.34                                       |
|                          | Zhunge'er Coalfield |                                            |
| 22 to 24                 |                     | 1.47                                       |
| 24 to 26                 |                     | 1.49                                       |
| 26 to 28                 |                     | 1.50                                       |
| Partings                 |                     | 2.10                                       |

To develop estimates of Recoverable and Marketable Reserves, BOYD developed a life-of-mine plan for each mineable seam in each area showing the main roadways and LW faces. Recoverable Reserves include the as-mined coal, including in-seam partings, mining dilution, and moisture gain. Marketable Reserves represent the final product after coal washing or screening.

BOYD used various criteria shown below to estimate Recoverable and Marketable Reserves:

1. Vertical Seam Recovery.
2. Geologic Recovery.
3. Mining Dilution.
4. Mining Moisture Gain.
5. Preparation Plant Yield and Moisture Gain.

### 3.4.1 Vertical Seam Recovery

Coal extraction is performed primarily using FM LW and sublevel caving LW mining methods. For mines using lower profile equipment in thin seams, minimum cutting height is 1.0 m, with a maximum height ranging from 2.5 to 2.8 m. In thicker seams where higher profile equipment is used, a 1.5 to 1.8 m minimum and 6.0 m maximum thickness is recovered. In the thick seams in the Zhunge'er Coalfield a LW face with cutting height up to 4.0 meters and sublevel caving capabilities is utilized. It is assumed that 100% of the initial LW cut is recovered and 75% of the overlying coal up to 12 m thick is recovered, for a combined maximum vertical recovery of 16 m. Only coal that could be recovered within the maximum cutting height of the mining equipment was included in the reserve estimates. Seam thickness by mine and seam is as follows:

| Control Type & Mine               | Seam | Thickness (m) |         |      |
|-----------------------------------|------|---------------|---------|------|
|                                   |      | Coal          | Parting | Seam |
| Inner Mongolia Yitai Coal Company |      |               |         |      |
| Mining Rights                     |      |               |         |      |
| Suancigou                         | 4    | 3.3           | 0.9     | 4.2  |
|                                   | 5    | 2.6           | 0.5     | 3.1  |
|                                   | 6U   | 11.5          | 1.2     | 12.7 |
|                                   | 6    | 5.4           | 0.8     | 6.2  |
| Nalinmiao No. 2                   | 4-1  | 4.3           | 0.4     | 4.7  |
|                                   | 4-2  | 2.1           | 0.3     | 2.4  |
|                                   | 6-2  | 6.4           | —       | 6.4  |
| Hongjingta No. 1                  | 6-2U | 2.3           | 0.1     | 2.4  |
|                                   | 6-2  | 5.4           | 0.3     | 5.7  |
| Nalinmiao No. 1                   | 6-2U | 1.9           | —       | 1.9  |
|                                   | 6-2  | 5.8           | 0.1     | 5.9  |
|                                   | 6-2L | 3.2           | —       | 3.2  |
| Yangwangou                        | 6    | 9.0           | 1.8     | 10.8 |
|                                   | 9    | 2.8           | 0.1     | 2.9  |
| Fuhua                             | 6    | 1.9           | 0.1     | 2.0  |
| Kaida                             | 6-2U | 2.1           | 0.2     | 2.3  |
|                                   | 6-2L | 1.7           | —       | 1.7  |
| Exploration Rights                |      |               |         |      |
| Talahao                           | 2-2U | 3.6           | 0.4     | 4.0  |
|                                   | 3-1  | 3.0           | 0.1     | 3.1  |
|                                   | 4-1  | 2.6           | 0.1     | 2.7  |
|                                   | 5-1  | 5.8           | —       | 5.8  |
|                                   | 6-1M | 1.3           | —       | 1.3  |
|                                   | 6-2M | 2.3           | 0.3     | 2.6  |
| Bulamao (West)                    | 6-2  | 1.6           | —       | 1.6  |
|                                   | 6-2U | 2.1           | 0.3     | 2.4  |
| Bulamao (East)                    | 6-2  | 1.8           | —       | 1.8  |
|                                   | 6-2L | 1.5           | —       | 1.5  |

| Control Type & Mine                | Seam | Thickness (m) |         |      |
|------------------------------------|------|---------------|---------|------|
|                                    |      | Coal          | Parting | Seam |
| Inner Mongolia Yitai Group Company |      |               |         |      |
| Dadijing . . . . .                 | 3-2  | 3.2           | 0.2     | 3.4  |
|                                    | 4-2  | 3.2           | 0.1     | 3.3  |
|                                    | 5-1  | 1.5           | —       | 1.5  |
|                                    | 5-2  | 1.7           | —       | 1.7  |
| Baoshan . . . . .                  | 6    | 2.7           | 0.3     | 3.0  |
| Dingjiaqu. . . . .                 | 4-2  | 2.4           | 0.1     | 2.5  |
|                                    | 5-2  | 1.3           | —       | 1.3  |
| Chengyi . . . . .                  | 5    | 1.7           | —       | 1.7  |
| Baijialiang . . . . .              | 6    | 1.2           | —       | 1.2  |
|                                    | 4-2  | 3.2           | —       | 3.2  |

### 3.4.2 Geologic Recovery

Life-of-mine plans were developed to efficiently recover coal within the resource areas. However, geologic factors such as faulting, erratic seam occurrence, thin competent rock thickness, paleochannel occurrence, and other geologic factors result in less than 100% recovery within the mine plan area. The geologic conditions of each area were assessed and a geologic recovery factor was assigned to the mine plan ranging from 75% to 90%. For 12 of 35 seams a 75% factor was assigned; for 10 seams, 80%; for 12 seams, 85%; and for 1 seam, 90%.

### 3.4.3 Mining Dilution

Mining dilution is the rock contamination from roof and floor rock strata that are mined with the coal seam during the normal mining process. BOYD has estimated mining dilution for all seams at 0.1 m. This factor is based on the seam thickness and planned mining equipment to be utilized in the resource areas. A 2.3 specific gravity density factor is used for calculating mining dilution tonnage.

### 3.4.4 Moisture Gain

Spray water is commonly used throughout the mining process to control dust liberated during mining and coal handling. A two percentage point gain in raw coal tonnage is assigned to account for moisture gain during mining.

### 3.4.5 Preparation Plant Yield and Moisture Gain

Yitai currently produces both raw and washed product from its mines. Seams with in-seam partings and higher coal ash content are typically washed in coal preparation plants, while seams with few or no in-seam partings and low coal ash content are screened to remove rock dilution and sold raw.

BOYD's preparation plant yields for reserve determination range from 53% to 73% in the Zhunge'er Coalfield, where the seams contain significant partings and have high coal ash content, and from 72% to 96% in the Dongsheng Coalfield, which has fewer in-seam partings and low coal ash content. These factors include a 95% plant efficiency factor and the following factors:

- 3% of the in-seam parting and mining dilution portions of the as-mined product remain in the washed product (misplaced material during processing).
- 3% moisture gain is applied to the washed coal.

The CPPs are capable of adjusting product qualities based on the requirements of customers or markets.



### 3.5 Resource/Reserve Estimates

Our estimates prepared in accordance with the JORC Code, of the Measured, Indicated, and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves, as of 31 December 2011 are summarized as follows:

| Control Type & Mine                        | In-Place Resource (Mt) |           |          |          | Recoverable Reserves (Mt) |          |          | Processing<br>Yield % | Marketable Reserves (Mt) |          |          | % of<br>Reserves |
|--------------------------------------------|------------------------|-----------|----------|----------|---------------------------|----------|----------|-----------------------|--------------------------|----------|----------|------------------|
|                                            | Measured               | Indicated | Inferred | Total    | Proved                    | Probable | Total    |                       | Proved                   | Probable | Total    |                  |
| Inner Mongolia Yitai Coal Company Limited  |                        |           |          |          |                           |          |          |                       |                          |          |          |                  |
| Mining Rights                              |                        |           |          |          |                           |          |          |                       |                          |          |          |                  |
| Suancigou* .....                           | 389.91                 | 805.63    | —        | 1,195.54 | 213.79                    | 446.06   | 659.85   | 70                    | 147.60                   | 311.16   | 458.76   | 79               |
| Nalinmiao 2 .....                          | 25.15                  | 73.56     | 2.31     | 101.02   | 18.30                     | 53.62    | 71.92    | 89                    | 17.72                    | 46.16    | 63.88    | 11               |
| Hongjingta 1 .....                         | 43.01                  | 17.16     | —        | 60.17    | 30.64                     | 9.73     | 40.37    | 89                    | 27.68                    | 8.22     | 35.90    | 6                |
| Nalinmiao 1 .....                          | 14.45                  | —         | —        | 14.45    | 10.10                     | —        | 10.10    | 92                    | 9.26                     | —        | 9.26     | 2                |
| Yangwangou .....                           | 8.66                   | —         | —        | 8.66     | 6.19                      | —        | 6.19     | 93                    | 5.75                     | —        | 5.75     | 1                |
| Fuhua .....                                | 2.91                   | 1.67      | —        | 4.58     | 2.28                      | 0.51     | 2.79     | 90                    | 2.05                     | 0.45     | 2.50     | —                |
| Kaida .....                                | 5.97                   | 0.59      | —        | 6.56     | 4.76                      | 0.39     | 5.15     | 81                    | 3.80                     | 0.35     | 4.15     | 1                |
| Total .....                                | 490.06                 | 898.61    | 2.31     | 1,390.98 | 286.06                    | 510.31   | 796.37   |                       | 213.86                   | 366.34   | 580.20   | 100              |
| Exploration Rights                         |                        |           |          |          |                           |          |          |                       |                          |          |          |                  |
| Talahao .....                              | 498.01                 | 249.36    | 9.58     | 756.95   | 417.79                    | 198.20   | 615.99   | 89                    | 373.25                   | 176.90   | 550.15   | 97               |
| Bulamao (West) .....                       | 14.44                  | 7.96      | 1.06     | 23.46    | 8.18                      | 5.54     | 13.72    | 79                    | 6.42                     | 4.46     | 10.88    | 2                |
| Bulamao (East) .....                       | 8.67                   | 1.74      | 0.41     | 10.82    | 6.03                      | 0.77     | 6.80     | 86                    | 5.19                     | 0.68     | 5.87     | 1                |
| Total .....                                | 521.12                 | 259.06    | 11.05    | 791.23   | 432.00                    | 204.51   | 636.51   |                       | 384.86                   | 182.04   | 566.90   | 100              |
| Total .....                                | 1,011.18               | 1,157.67  | 13.36    | 2,182.21 | 718.06                    | 714.82   | 1,432.88 |                       | 598.72                   | 548.38   | 1,147.10 |                  |
| Inner Mongolia Yitai Group Company Limited |                        |           |          |          |                           |          |          |                       |                          |          |          |                  |
| Mining Rights                              |                        |           |          |          |                           |          |          |                       |                          |          |          |                  |
| Dadijing .....                             | 7.45                   | 63.01     | —        | 70.46    | 6.20                      | 48.04    | 54.24    | 95                    | 5.82                     | 45.96    | 51.78    | 58               |
| Baoshan** .....                            | 7.40                   | 17.89     | —        | 25.29    | 4.37                      | 11.66    | 16.03    | 91                    | 3.93                     | 10.62    | 14.55    | 17               |
| Dingjiaqu** .....                          | 11.14                  | 13.00     | 0.31     | 24.45    | 8.73                      | 8.82     | 17.55    | 93                    | 8.10                     | 8.19     | 16.29    | 19               |
| Chengyi .....                              | 5.71                   | 2.41      | 0.37     | 8.49     | 3.57                      | 1.53     | 5.10     | 95                    | 3.38                     | 1.44     | 4.82     | 5                |
| Baijialiang .....                          | 0.05                   | 0.61      | —        | 0.66     | 0.04                      | 0.47     | 0.51     | 96                    | 0.04                     | 0.45     | 0.49     | 1                |
| Total .....                                | 31.75                  | 96.92     | 0.68     | 129.35   | 22.91                     | 70.52    | 93.43    |                       | 21.27                    | 66.66    | 87.93    | 100              |
| Total                                      |                        |           |          |          |                           |          |          |                       |                          |          |          |                  |
| Mining Rights .....                        | 521.81                 | 995.53    | 2.99     | 1,520.33 | 308.97                    | 580.83   | 889.80   |                       | 235.13                   | 433.00   | 668.13   | 54               |
| Exploration Rights .....                   | 521.12                 | 259.06    | 11.05    | 791.23   | 432.00                    | 204.51   | 636.51   |                       | 384.86                   | 182.04   | 566.90   | 46               |
| Total .....                                | 1,042.93               | 1,254.59  | 14.04    | 2,311.56 | 740.97                    | 785.34   | 1,526.31 |                       | 619.99                   | 615.04   | 1,235.03 | 100              |

\* Figures reflect 100% interest; Yitai's equity interest is 52%.

\*\* Figures reflect 100% interest; Yitai Group's equity interest is 73%.

Note: Figures may not add due to rounding.

Of the above 14 mines, approximately 82% of the Marketable Reserves are controlled by Yitai (assuming mining rights are obtained for Talahao and Bulamao) and approximately 46% are in the exploration right areas; 50% of the Marketable Reserves are in the Proved classification.

Yitai has obtained approval for defining the boundaries of the mining right areas for the two mines from the Ministry of Land and Resources. Such approval is essential for obtaining the mining rights. By obtaining the right approval for defining the boundaries of the mining areas for the two mines, the exploration rights are no longer in effect. We have been informed by Jingtian & Gongcheng Attorneys at Law, that Yitai is currently applying for mining right certificates for Talahao Mine and consolidation of Kaida and Bulamao mines. According to the Company, it expects to obtain the mining rights no later than the second half of 2012. We have also been informed by Jingtian & Gongcheng Attorneys at Law, that Yitai will not have to pay the mining right fees to obtain the mining rights since the Company has paid the exploration right fees in full.

Yitai does not yet control the mining rights for the Talahao, Bulamao East, and Bulamao West areas and therefore cannot legally mine the coal. While it is reasonable to assume that Yitai will obtain the mining rights based on the company's past experience and typical procedures in China, there is no guarantee they will be granted. Yitai has presented plans for developing and mining these areas and has paid exploration right fees. Yitai has also provided documentation showing there is a reasonable expectation that the mining rights will be granted.

Tonnage in the northern part of the Talahao Exploration Right area has been included in our estimates. Although development in the area, including villages, industrial structures, and roads, is significant, Yitai and the local government plan to move the villages and other structures at a budget totaling RMB616.6 million. Yitai has provided a mine plan and started to apply for various permissions for mining in this area.

Inferred resources are less than 1% of total in-place resources. Typically, it is reasonable to expect that the majority of Inferred Coal Resources would upgrade to Indicated Coal Resources with additional exploration. However, due to the uncertainty associated with Inferred Coal Resources, it should not be assumed that such upgrading will occur.

### 3.6 COAL QUALITY

Both the Dongsheng and Zhunge'er coalfields support numerous mining operations and are major suppliers of thermal coal in China. Therefore, coal quality characteristics in both fields are well known and documented.

The coals in the Dongsheng coalfield are characterized by high calorific value non-caking coal (high-volatile C bituminous rank) with low sulfur content. Calorific value varies with moisture and ash content but is typically 5,500 to 6,000 Kcal/kg on an as-received basis including partings and mining dilution.

Raw coal quality excluding partings greater than 0.05 m and mining dilution is reported as follows:

| <u>Characteristic</u>                 | <u>Typical Range</u> |
|---------------------------------------|----------------------|
| Moisture % (ad) .....                 | 4 - 9                |
| Ash % (d) .....                       | 5 - 11               |
| Sulfur % (d) .....                    | 0.2 - 0.7            |
| Volatile Matter % (daf) .....         | 33 - 36              |
| Calorific Value Kcal/kg (gr.d.) ..... | 6,500 - 7,500        |

The coal seams typically contain few in-seam partings, and therefore, some mines can produce an acceptable screened raw product without coal washing.

Coal quality in the Zhunge'er Coalfield is high-volatile C bituminous rank with low sulfur content. Calorific value ranges from 4,700 to 5,100 Kcal/kg on an as-received basis including partings and mining dilution.

Raw coal quality, excluding partings greater than 0.05 m and mining dilution, is reported as follows:

| <u>Characteristic</u>                 | <u>Typical Range</u> |
|---------------------------------------|----------------------|
| Moisture % (ad) .....                 | 3 - 5                |
| Ash % (d) .....                       | 22 - 26              |
| Sulfur % (d) .....                    | 0.6 - 0.9            |
| Volatile Matter % (daf) .....         | 37 - 41              |
| Calorific Value kcal/kg (gr.d.) ..... | 5,500 - 6,500        |

The major coal seam in the coalfield is the No. 6 Seam, which is typically thick (over 10 m) and contains several in-seam partings and impurities. Coal from this coalfield is typically washed at high gravities to remove in-seam partings and impurities and mining dilution.

### 3.7 MINING AND EXPLORATION RIGHTS

#### 3.7.1 Overview

Coal resources in China are owned by the state as established in the PRC Mineral Resources Law. The Law and related Administrative Measures on the Mineral Resources Production Registration, which governs certain aspects of mineral and coal resources control for exploitation (including the granting of new and the renewal

of existing mining right permits), are administered by the Ministry of Land and Resources (MLR). Exploration right permits, mining right permits, and land use rights are granted by the MLR or relevant local mineral resource bureau before exploration or mining operations can be undertaken in defined mining right areas. Mining right permits are granted for specified periods of time, after which the rights may be extended upon application.

### 3.7.2 Mining Rights and Coal Production Certificate Review

BOYD has not completed an independent legal evaluation of the status of Yitai and Yitai Group mining and exploration rights, but has reviewed the documentation for the certificates related to its current mining and future operations. It is our understanding that Yitai and Yitai Group hold the mining rights (direct control as authorized by the MLR) on their own behalf or through controlling interests for all the mines. Yitai does not yet control the mining rights for the Talahao, Bulamao East, and Bulamao West areas and therefore cannot legally mine the coal. However, we have included these areas separately in our estimates since Yitai has provided documentation that shows there is a reasonable expectation that the mining rights will be granted. A summary of the mining right information is shown in the following table.

| Mining Right Area        | Mining Certificate Number | Authorized Output Capacity (Mtpa) | Authorized Mining Elevation (m) | Mining Method | Area (km <sup>2</sup> ) | Mining Right Grant Date (month/yr) | Expiration (month/yr) |
|--------------------------|---------------------------|-----------------------------------|---------------------------------|---------------|-------------------------|------------------------------------|-----------------------|
| <b>Yitai Mines</b>       |                           |                                   |                                 |               |                         |                                    |                       |
| Suancigou (1)            | C1000002009121120050702   | 1.20                              | 860 -1,030                      | UG*           | 4.9397                  | 12/2009                            | 12/2033               |
| Suancigou (2)            | C1000002009121110050703   | 12.00                             | 520 -1,060                      | UG            | 44.878                  | 12/2009                            | 04/2038               |
| Nalinmiao No. 2          | C1500002010071120074300   | 3.00                              | 1,140 -1,300                    | UG            | 20.9631                 | 07/2011                            | 07/2015               |
| Hongjingta No. 1         | 1000000610111             | 3.00                              | 1,170 -1,379                    | UG            | 28.4145                 | 09/2006                            | 09/2036               |
| Nalinmiao No. 1          | C1500002010121120092411   | 1.20                              | 1,140 -1,250                    | UG            | 9.3874                  | 11/2011                            | 11/2019               |
| Yangwangou               | C1000002009021120004801   | 0.60                              | 1,046 -1,159                    | UG            | 1.0337                  | 9/2009                             | 6/2015                |
| Fuhua                    | C1500002010111120079869   | 0.30                              | 1,100 -1,330                    | UG            | 8.5732                  | 6/2011                             | 11/2013               |
| Kaida                    | C1500002010121120092414   | 0.60                              | 1,170 -1,225                    | UG            | 5.5426                  | 6/2011                             | 6/2013                |
| Talahao                  | Under Application**       | 6.00***                           | —                               | UG            | 42.6208                 | —                                  | —                     |
| Bulamao (East & West)    | Under Application**       | 1.20***                           | —                               | UG            | 40.2062                 | —                                  | —                     |
| <b>Yitai Group Mines</b> |                           |                                   |                                 |               |                         |                                    |                       |
| Dadijing                 | C1500002011061120115049   | 1.20                              | 1,115 -1,320                    | UG            | 11.6013                 | 06/2011                            | 12/2018               |
| Baoshan                  | C1500002011071120115196   | 1.20                              | 1,100 -1,300                    | UG            | 24.9734                 | 07/2011                            | 12/2018               |
| Dingjiaqu                | C1500002011061120115051   | 1.20                              | 1,120 -1,240                    | UG            | 17.3908                 | 06/2011                            | 12/2018               |
| Chengyi                  | C1500002011061120115048   | 0.60                              | 1,224 -1,362                    | UG            | 5.079                   | 06/2011                            | 12/2013               |
| Baijialiang              | C1500002011061120115050   | 0.30                              | 1,242 -1,308                    | UG            | 6.4849                  | 06/2011                            | 10/2013               |

\* UG = Underground

\*\* Yitai has obtained approval for defining the boundaries of the mining right areas for Talahao and Bulamao from the Ministry of Land and Resources. Such approval is essential for obtaining the mining rights. By obtaining the approval for defining the boundaries of the mining right areas for the two mines, the exploration rights are no longer in effect. According to Jingtian & Gongcheng Attorneys at Law, Yitai is currently applying for mining right certificates for Talahao Mine and consolidation of Kaida and Bulamao mines. According to Yitai, the Company expects to obtain the mining rights no later than the second half of 2012. Yitai's payments for the exploration rights will be accepted as full payment for the mining rights.

\*\*\* Planned greenfield mines.

In addition to mining right permit, the coal production certificate, which is granted by the coal industry administrative bureaus, is mandated documentation for coal mines legal operation. It is usually the last permit granted and requires mines to maintain their production levels at authorized capacities. Although higher output authorizations can be occasionally granted by regulatory bodies, production certificates should be updated accordingly to prevent operators from breaching regulations. It is our understanding that Yitai and Yitai Group hold the coal production certificates on their behalf of the mines. A summary of the coal production certificate information is shown in below:

| Mine              | Coal Production Certificate Number | Authorized Output Capacity (Mtpa) | Mining Method | Certificate Grant Date | Expiration Date |
|-------------------|------------------------------------|-----------------------------------|---------------|------------------------|-----------------|
| Yitai Mines       |                                    |                                   |               |                        |                 |
| Suancigou         | 201527230413                       | 12.00                             | FM LW         | 7/14/2010              | 6/30/2092       |
| Nalinmiao No. 2   | 201527230025                       | 5.00                              | FM LW         | 9/18/2009              | 7/31/2026       |
| Hongjingta No. 1  | 201527230376                       | 6.10                              | FM LW         | 9/18/2009              | 5/12/2023       |
| Nalinmiao No. 1   | 201527230007                       | 6.40                              | FM LW         | 4/15/2010              | 4/30/2013       |
| Kaida             | 201527230002                       | 1.60                              | FM LW         | 4/15/2010              | 12/31/2013      |
| Yangwangou        | 201527230010                       | 1.40                              | FM LW         | 4/15/2010              | 4/30/2016       |
| Fuhua             | 201527280368                       | 1.30                              | FM LW         | 4/15/2010              | 4/30/2013       |
| Yitai Group Mines |                                    |                                   |               |                        |                 |
| Dadijing          | 201527280154                       | 3.00                              | FM LW         | 4/15/2010              | 12/31/2023      |
| Baoshan           | 201527280369                       | 1.90                              | FM LW         | 4/15/2010              | 12/31/2025      |
| Dingjiaqu         | 201527280378                       | 2.30                              | FM LW         | 4/15/2010              | 12/31/2023      |
| Chengyi           | 201527230041                       | 1.20                              | FM LW         | 4/15/2010              | 4/30/2019       |
| Baijialiang       | 201527280139                       | 1.90                              | FM LW         | 4/16/2010              | 4/30/2017       |

### 3.7.3 Mining Rights Permit Renewal

On the basis of documentation provided by Yitai, both Yitai and Yitai Group have valid mining right permits for the present operating mines for the specified periods. By PRC law, the maximum holding period (term) for mining right permits is 30 years. The MLR has the legal authority to renew an existing mining right permit that is expiring. It is typical practice in other major coal-producing nations for governments to extend the term of the mining rights for the economic life of the reserves.

### 3.7.4 Land Use Rights

Generally, the surface lands in the Yitai and Yitai Group mining right areas belong to the PRC government. For mining right areas where underground mining methods are applied, land use rights are not needed, although the surface area required for the mine's surface facilities does require the payment of land usage fees.

### 3.7.5 Resource Recovery

PRC laws and regulations governing the mining of coal resources require coal mine operators to attain overall resource recovery rates that may be uneconomical to achieve in practice. Failure to achieve applicable recovery rates as set by the responsible central government ministry in a timely manner can expose a coal producer to penalties such as revocation of the coal mine's production permit. A responsible person, typically the highest ranking geologist/engineer, prepares an annual report to the MLR detailing changes in resources over the year. Based on our discussions with Yitai officials, the coal production units take resource recovery seriously and employ measures to comply with mandated recovery rates, including secondary recovery mining activity in some instances. Yitai's mine plans demonstrate a concern for maximizing resource recovery.

## 4.0 YITAI MINES

### 4.1 Introduction

Yitai mines are located in western Inner Mongolia, near the boundary of Shaanxi and Shanxi provinces and within one of China's largest coal-producing regions. Operations in this region are among the largest underground mines in the PRC, and also rank among the world's largest mines.

The Yitai portfolio of mines includes seven operating large and medium-sized underground LW mines that have transitioned to FM state-of-the-art mining operations by combining multiple small, local mining right areas. This practice has become common as the regulatory officials within the PRC seek to maximize reserve recovery by consolidating and modernizing the coal industry. A summary of Yitai operating mines follows:

| Mine             | Date of Initial Operation | Current Approved Output Capacity (Mtpa) |                                | Estimated* Remaining Reserve Tonnes as of 31 December 2011 (Mt) | Integrated from Local Mines                        |
|------------------|---------------------------|-----------------------------------------|--------------------------------|-----------------------------------------------------------------|----------------------------------------------------|
|                  |                           | By Mining Right Certificate             | By Coal Production Certificate |                                                                 |                                                    |
| Suancigou        | 8/8/2008                  | 12.0                                    | 12.0                           | 459                                                             | Suancigou, Suancihao, Xiaosuancigou                |
| Nalinmiao No. 2  | 10/1/2006                 | 3.0                                     | 5.0                            | 64                                                              | Nalinmiao No. 2, Nalinmiao No. 4, Hongjingta No. 3 |
| Hongjingta No. 1 | 8/12/2007                 | 3.0                                     | 6.1                            | 36                                                              | Hongjingta No. 2, Wangjiapo, Hongjingta No. 1      |
| Nalinmiao No. 1  | 1/1/2008                  | 1.2                                     | 6.4                            | 9                                                               | Nalinmiao No. 1, Nalinmiao No. 3                   |
| Yangwangou       | 9/24/2009                 | 0.6                                     | 1.4                            | 6                                                               | Yangwangou                                         |
| Fuhua            | 7/1/2008                  | 0.3                                     | 1.3                            | 3                                                               | Fuhua, Shenshan                                    |
| Kaida            | 3/17/2008                 | 0.6                                     | 1.6                            | 4                                                               | Huayuan, Kaida No. 1                               |

\* BOYD estimate of marketable tonnes according to JORC Code classification.

Field observations made during the BOYD site visits indicated the mines are well-capitalized, using FM LW mining systems supported predominantly by roadheader development units. Underground mining conditions are favorable in terms of coal seam continuity and minimal seam gradients, depth of mining is relatively shallow overburden (less than 200 m) with sufficient reserves and mining thickness to facilitate large-scale production. Contract workers to supplement full-time mine personnel are employed on an as-needed basis for development, production and other services.

Yitai operations at the time of our site visits are summarized below:

| Mine             | BOYD Visit                     | UG Mining Techniques | No. of LW Faces | Source of LW Face Equipment | Off-Site Coal Transportation Mode |
|------------------|--------------------------------|----------------------|-----------------|-----------------------------|-----------------------------------|
| Suancigou        | 24/08/09 & 19/02/11 & 05/02/12 | LW/RH/SC             | 2               | D                           | R                                 |
| Nalinmiao No. 2  | 25/08/09 & 18/02/11 & 03/02/12 | LW/RH                | 2               | D                           | T to RLST                         |
| Hongjingta No. 1 | 25/08/09 & 18/02/11 & 03/02/12 | LW/RH                | 1               | D                           | T to RLST                         |
| Nalinmiao No. 1  | 26/08/09 & 18/02/11 & 04/02/12 | LW/RH                | 1               | D                           | T to RLST                         |
| Yangwangou       | 24/08/09 & 19/02/11 & 05/02/12 | LW/RH/SC             | 1               | D                           | T to RLST                         |
| Fuhua            | 24/08/09 & 17/02/11 & 03/02/12 | LW/RH                | 1               | D                           | T to RLST                         |
| Kaida            | 26/08/09 & 18/02/11 & 04/02/12 | LW/RH/SLC            | 1               | D                           | T to RLST                         |

**Note:**

|                 |                       |                             |
|-----------------|-----------------------|-----------------------------|
| SLC = Slicing   | CM = Continuous Miner | RLST = Rail Loading Station |
| LW = Longwall   | R = Rail              | D = Domestic                |
| RH = Roadheader | T = Truck             | SC = Sublevel Caving        |

## 4.2 Conclusion

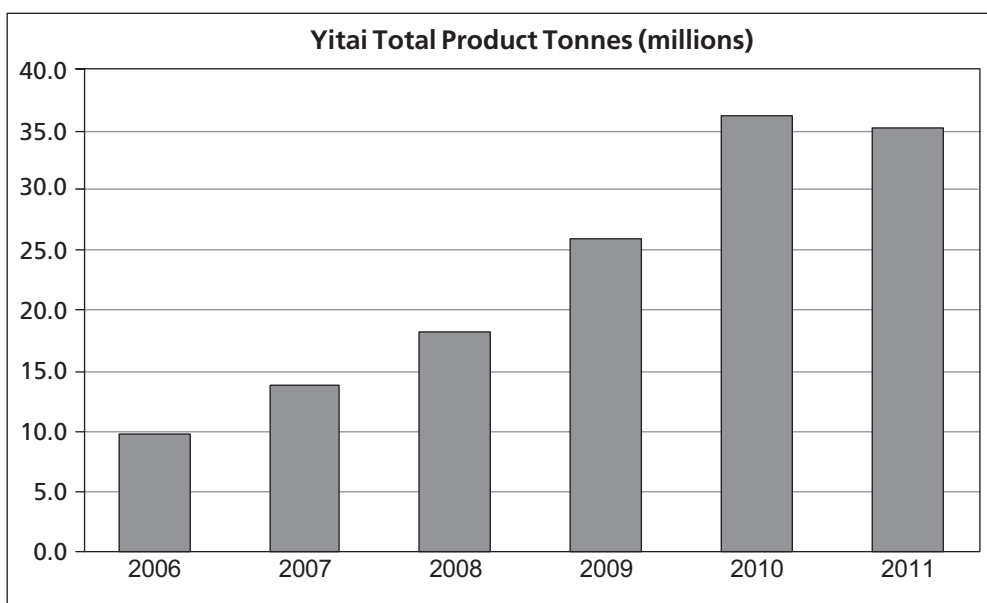
Yitai is a modern, large-scale underground coal producer. Physical mining conditions in the Yitai LW mines are among the best observed by BOYD in the world coal mining industry and are highly favorable for fully-mechanized mining operations using LW, roadheader and CM equipment. Yitai's reserve base offers the potential for highly efficient LW mine designs comparable to those employed at similar highly mechanized mines in the United States and Australia. High levels of output can be anticipated from the existing and planned LW installations. BOYD considers the Yitai mine plans to be appropriate for the geologic and geotechnical settings observed in the current mines and reflect the present understanding of potential mining hazards. Coal quality is favorable for domestic steam markets and is generally low in sulfur content with marketable calorific values.

Yitai's mines are at an advanced stage of capitalization with FM LW faces operating in each mine. There are no evident constraints preventing Yitai from attaining output projections for the 2012–2014 period.

### 4.3 Historical Production

Yitai's recent historical production figures are shown below:

| Mine       | Yitai Output - Product Tonnes (millions) |       |               |       |               |       |               |       |               |       |               |       |
|------------|------------------------------------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|
|            | 2006                                     |       | 2007          |       | 2008          |       | 2009          |       | 2010          |       | 2011          |       |
|            | Drill & Blast                            | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW | Drill & Blast | FM LW |
|            | (millions)                               |       |               |       |               |       |               |       |               |       |               |       |
| Suancigou  | —                                        | —     | —             | 0.58  | —             | 1.46  | —             | 6.36  | —             | 8.18  | —             | 8.38  |
| Nalinmiao  |                                          |       |               |       |               |       |               |       |               |       |               |       |
| No. 2      | 3.30                                     | —     | 1.77          | 4.49  | —             | 6.13  | —             | 6.90  | —             | 8.14  | —             | 8.12  |
| Hongjingta |                                          |       |               |       |               |       |               |       |               |       |               |       |
| No. 1      | 3.57                                     | —     | 2.81          | 1.65  | 0.75          | 5.51  | —             | 7.51  | —             | 8.19  | —             | 7.25  |
| Nalinmiao  |                                          |       |               |       |               |       |               |       |               |       |               |       |
| No. 1      | 2.05                                     | —     | 1.23          | —     | 0.14          | 1.75  | —             | 2.37  | —             | 5.78  | —             | 6.62  |
| Yangwangou | 0.06                                     | —     | 0.25          | —     | 0.40          | —     | —             | 0.25  | —             | 1.38  | —             | 0.97  |
| Fuhua      | —                                        | —     | —             | 0.04  | —             | 0.62  | —             | 1.21  | —             | 1.33  | —             | 1.37  |
| Kaida      | 0.75                                     | —     | 0.92          | —     | —             | 1.44  | —             | 1.44  | 1.17          | 1.96  | 0.68          | 1.70  |
| Subtotal   | 9.73                                     | —     | 6.98          | 6.76  | 1.29          | 16.91 | —             | 26.04 | 1.17          | 34.96 | 0.68          | 34.41 |
| Total      |                                          | 9.73  |               | 13.74 |               | 18.20 |               | 26.04 |               | 36.13 |               | 35.09 |



### 4.4 Employment and Labor Practices

Yitai had 3,936 mine-related, registered employees as of 31 December 2011 summarized as follows:

| Category                | Mine                   |                   |                     |                   |            |           |            | Total        |
|-------------------------|------------------------|-------------------|---------------------|-------------------|------------|-----------|------------|--------------|
|                         | Suancigou              | Nalinmiao<br>No.2 | Hongjingta<br>No. 1 | Nalinmiao<br>No.1 | Yangwangou | Fuhua     | Kaida      |              |
|                         | As of 31 December 2011 |                   |                     |                   |            |           |            |              |
| UG .....                | 602                    | 497               | 360                 | 142               | 273        | 231       | 386        | 2,491        |
| Surface – Coal          |                        |                   |                     |                   |            |           |            |              |
| Processing .....        | —                      | 12                | —                   | 55                | 16         | 10        | 40         | 133          |
| Surface – Service ..... | <u>511</u>             | <u>226</u>        | <u>128</u>          | <u>139</u>        | <u>106</u> | <u>95</u> | <u>107</u> | <u>1,312</u> |
| Total* – 2011 .....     | 1,113                  | 735               | 488                 | 336               | 395        | 336       | 533        | 3,936        |

\* Total includes third-party service providers.

Yitai's approach to staffing follows practices comparable to similar regional producers and is much lower than that of other coalfields within China, which utilize more labor-intensive mining methods. Comparison on the use and numbers of contract employees cannot be made due to varying personnel numbers and lack of documentation both internationally and at Yitai operations. The present personnel complement for the headquarters, management support staff, and auxiliary management production support staff is adequate for the planned scale of operations and expected to remain relatively constant over the plan period.

Yitai provides basic mandatory retirement pension, medical, industrial accident, and unemployment benefits. Other benefits provided include welfare, medical insurance premiums, and allowances for festivals and holidays.

Labor costs on an output basis and as a component of overall production costs are low. Yitai average annual direct underground worker compensation ranges from RMB45,000 to RMB100,000. While high for the PRC coal industry generally, anticipated high labor productivity should compensate for the higher wages.

The company's high compensation structure is necessary within the region to assure recruitment and retention of highly qualified personnel.

#### Average Salary Structure (31 December 2011) – RMB per year

| Mine                       | UG Face Workers | UG Services | Surface Service |
|----------------------------|-----------------|-------------|-----------------|
| Suancigou . . . . .        | 100,000         | 80,000      | 40,000          |
| Nalinmiao No. 2 . . . . .  | 90,000          | 60,000      | 40,000          |
| Hongjingta No. 1 . . . . . | 80,000          | 60,000      | 40,000          |
| Nalinmiao No. 1 . . . . .  | 60,000          | 48,000      | 32,000          |
| Yangwangou . . . . .       | 45,000          | 35,000      | 25,000          |
| Fuhua . . . . .            | 70,000          | 40,000      | 35,000          |
| Kaida . . . . .            | 60,000          | 37,500      | 30,000          |

It is generally accepted that many underground mines in China rely on workers who are not full-time regular employees. Contract services manning is not readily available. Use of contract services can be significant in some instances. BOYD's labor efficiency calculations include only direct regular payroll employees in order to be readily comparable to other mine labor data. As discussed above, data on support personnel not directly assigned to mine activities are not readily available.

Yitai's labor efficiency (output tonnes divided by payroll personnel count) compares favorably to the international coal industry. Yitai's average labor efficiency for 2011 detailed by mine is as follows:

| Mine                       | 2011 Output<br>Tonnes<br>(million) | Employees |             | Tonnes Per Employee-<br>Year |             |
|----------------------------|------------------------------------|-----------|-------------|------------------------------|-------------|
|                            |                                    | Mine      | Underground | Mine                         | Underground |
| Suancigou . . . . .        | 8.381                              | 1,113     | 602         | 7,530                        | 13,920      |
| Nalinmiao No. 2 . . . . .  | 8.120                              | 735       | 497         | 11,050                       | 16,340      |
| Hongjingta No. 1 . . . . . | 7.244                              | 488       | 360         | 14,850                       | 20,120      |
| Nalinmiao No. 1 . . . . .  | 6.623                              | 336       | 142         | 19,710                       | 46,640      |
| Yangwangou . . . . .       | 0.967                              | 395       | 273         | 2,450                        | 3,540       |
| Fuhua . . . . .            | 1.366                              | 336       | 231         | 4,060                        | 5,910       |
| Kaida . . . . .            | 2.384                              | 533       | 386         | 4,470                        | 6,180       |
| Yitai Total . . . . .      | 35.085                             | 3,936     | 2,491       | 8,910                        | 14,090      |

Factors contributing to high labor productivity at Yitai operations are as follows:

1. Yitai mines generally operate in thick seams ranging from 3 to 6 m in coal thickness.
2. Physical mining conditions are generally good and highly favorable for coal production.
3. Yitai has transitioned to state-of-the-art mining equipment, supported by relatively new and high capacity infrastructure.
4. The technology transformation will allow Yitai to utilize staffing practices similar to those employed in US and Australian mines.



5. Mining operations, since transition, are relatively new and have limited an extent of mined-out workings between the production faces and the surface access points. This controls (minimizes) labor support requirements.
6. Run-of-mine coal generally requires minimal processing, with low reject levels.
7. Use of rubber-tired diesel vehicles is a highly effective means of transporting materials and personnel underground. Yangwangou is the only Yitai operation utilizing rail transport.

#### 4.5 Operating Cost

According to information provided by Yitai, average mine operating costs by mine by year are as follows:

| Mine                       | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|----------------------------|----------------------------------|------|------|------|------|------|
|                            | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| Suancigou . . . . .        | —                                | 63   | 90   | 64   | 90   | 104  |
| Nalinmiao No. 2 . . . . .  | 44                               | 56   | 59   | 57   | 78   | 91   |
| Hongjingta No. 1 . . . . . | 40                               | 51   | 46   | 53   | 77   | 65   |
| Nalinmiao No. 1 . . . . .  | 41                               | 49   | 55   | 102  | 60   | 54   |
| Yangwangou** . . . . .     | 54                               | 62   | 85   | 201  | 108  | 137  |
| Fuhua . . . . .            | —                                | 27   | 70   | 90   | 91   | 85   |
| Kaida . . . . .            | 42                               | 49   | 83   | 95   | 104  | 127  |
| Yitai Average . . . . .    | 41                               | 54   | 60   | 67   | 81   | 85   |

\* Average composite costs include a weighted average of drill and blast, with FM output based on data provided by Yitai.

\*\* Yangwangou's 2009 results reflect partial year operation using FM LW face.

Note: Figures may not add due to rounding.

A breakdown of the composite operating costs by general cost category is as follows:

| Category                                     | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|----------------------------------------------|----------------------------------|------|------|------|------|------|
|                                              | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| Cash Costs                                   |                                  |      |      |      |      |      |
| Materials / Supplies / Maintenance . . . . . | 2                                | 3    | 7    | 7    | 7    | 7    |
| Power / Fuel . . . . .                       | 1                                | 1    | 2    | 3    | 3    | 3    |
| Salary & Welfare . . . . .                   | 2                                | 9    | 8    | 6    | 8    | 9    |
| Production Fees . . . . .                    | 35                               | 37   | 39   | 45   | 57   | 59   |
| Subtotal – Cash Costs . . . . .              | 40                               | 50   | 56   | 60   | 75   | 78   |
| Non-Cash Costs                               |                                  |      |      |      |      |      |
| Depreciation . . . . .                       | 1                                | 3    | 3    | 6    | 7    | 7    |
| Subtotal – Non-Cash Cost . . . . .           | 1                                | 3    | 3    | 6    | 7    | 7    |
| Total . . . . .                              | 41                               | 54   | 60   | 67   | 81   | 85   |

\* Average composite costs include a weighted average of DB with FM output achieved with FM LW face methods.

Note: Figures may not add due to rounding.

Production fees have increased since 2006 due to increases in government-related fees, costs related to the implementation of mechanized LW face operations, and higher overhead and management costs.

The average cash operating costs of most of our operating mines increased from 2009 to 2010 primarily because the Inner Mongolia government required coal enterprises in Inner Mongolia to contribute to a coal price regulation fund that it managed since the second half of 2009. The average cash operating costs for Nalinmiao No.1 Mine and Yangwangou Mine decreased substantially from 2009 to 2010 primarily due to the decrease of the fees for moving from one working face to another. The average cash operating costs of most of our operating mines increased from 2010 to 2011 primarily due to the increase in relocation compensation.

## 4.6 Future Operations

BOYD's review of future Yitai operations is based on Yitai's internally prepared mine plans and business projection data submittals and discussions with corporate and mine management, financial, and engineering staff. The mine plan period for this review is the three-year period, 2012–2014. Available mine plan forecasts were evaluated for reasonableness according to recent operating history.

### 4.6.1 Output Projections

Based on nominal output rates, the Yitai mine reserve base is generally adequate for the period 2012–2014. BOYD has not identified significant geological (non-reserve) or mining-related issues during our review that would prevent the Yitai mines from achieving projected raw coal output levels. Yitai has made adjustments to its plans and operations to assure attainment of the output forecasts. The Yitai 2012–2014 production forecasts is summarized below:

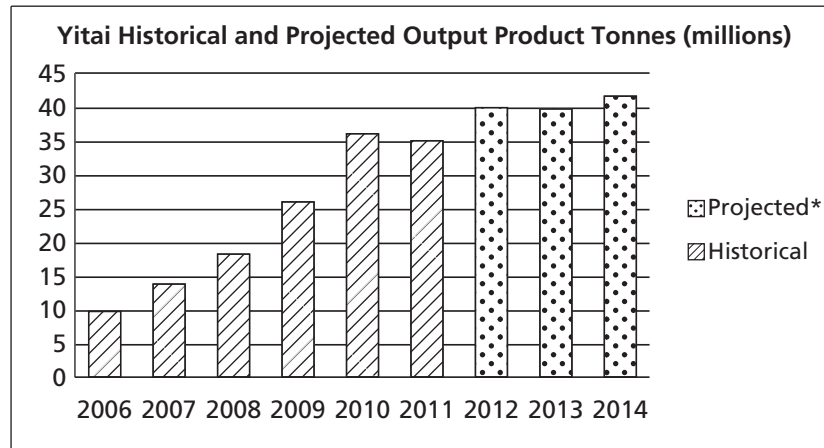
| <u>Mine</u>                | Yitai Output Projections<br>ROM Output* |       |       |
|----------------------------|-----------------------------------------|-------|-------|
|                            | 2012                                    | 2013  | 2014  |
|                            | (tonnes - millions)                     |       |       |
| Suancigou . . . . .        | 14.00                                   | 15.00 | 16.00 |
| Nalinmiao No. 2 . . . . .  | 8.20                                    | 9.20  | 10.20 |
| Hongjingta No. 1 . . . . . | 8.20                                    | 9.20  | 8.20  |
| Nalinmiao No. 1 . . . . .  | 7.00                                    | 3.40  | 4.40  |
| Yangwangou . . . . .       | 1.40                                    | 1.40  | 1.40  |
| Fuhua . . . . .            | 1.30                                    | 1.30  | 1.30  |
| Kaida . . . . .            | 1.70                                    | 2.60  | 2.60  |
| Total** . . . . .          | 41.80                                   | 42.10 | 44.10 |

| <u>Mine</u>                | Yitai Output Projections<br>Product Output* |       |       |
|----------------------------|---------------------------------------------|-------|-------|
|                            | 2012                                        | 2013  | 2014  |
|                            | (tonnes - millions)                         |       |       |
| Suancigou . . . . .        | 11.90                                       | 12.75 | 13.60 |
| Nalinmiao No. 2 . . . . .  | 8.20                                        | 9.20  | 10.20 |
| Hongjingta No. 1 . . . . . | 8.20                                        | 9.20  | 8.20  |
| Nalinmiao No. 1 . . . . .  | 7.00                                        | 3.40  | 4.40  |
| Yangwangou . . . . .       | 1.40                                        | 1.40  | 1.40  |
| Fuhua . . . . .            | 1.30                                        | 1.30  | 1.30  |
| Kaida . . . . .            | 1.70                                        | 2.60  | 2.60  |
| Total . . . . .            | 39.70                                       | 39.85 | 41.70 |

\* Suancigou's ROM output is processed in the Suancigou CPP; ROM output from Yitai's other mines is sold without CPP processing.

\*\* Open pit mining at several mines contributes to Yitai's output as follows:

| <u>Mine</u>                | ROM Output          |      |       |
|----------------------------|---------------------|------|-------|
|                            | 2013                | 2014 | Total |
|                            | (tonnes - millions) |      |       |
| Nalinmiao No. 2 . . . . .  | 1.00                | 2.00 | 3.00  |
| Hongjingta No. 1 . . . . . | 1.00                | 2.00 | 3.00  |
| Nalinmiao No. 1 . . . . .  | 1.00                | 2.00 | 3.00  |
| Kaida . . . . .            | 1.00                | 1.35 | 2.35  |
| Total . . . . .            | 4.00                | 7.35 | 11.35 |



\* Output projections for Talahao and Bulamao are excluded.

Yitai forecasts continuing growth in output through 2014. BOYD has reviewed the plans for 2012–2014 from the perspective of historical performance and site visits and believes the plans are generally achievable.

At Suancigou Mine, Yitai installed a FM sublevel caving LW face in the No. 6U Seam to minimize faulting impacts, beginning in late March 2011. The sublevel caving LW face performance has been improving, approaching 40,000 tpd in stable, favorable geological conditions. Suancigou's favorable conditions include: coal seam thickness, low seam gradient, coal seam strength supporting ready caving breakage, roof strata that support development and collapse well during LW mining and low methane gas emissions. We anticipate that sublevel caving LW face will improve output performance in 2012. The CPP yield for Suancigou ROM output projected at 85% was 73% in 2011. According to Yitai, Suancigou CPP output is currently being processed to a higher coal quality specification for market acceptance at the ports. The Company anticipates that lower quality specifications will prevail in in-land markets, thereby supporting a higher CPP recovery. In 2013, Yitai is planning to separate the No. 4 Seam (higher ash) and No. 6 Seam (lower ash) ROM output to optimize CPP performance. This may be accomplished either with a separate incline access for the No. 4 Seam or a stacked incline conveyor arrangement.

The output projections for Nalinmiao No. 2 and Hongjingta No. 1 are supported by their 2011 results of 8.12 Mt and 7.25 Mt, respectively. Nalinmiao No. 2 installed a second FM LW face in the No. 6 Seam in early 2011, which, combined with the existing LW face in the No. 4 Seam, should provide adequate capacity to attain output projections. Nalinmiao No. 1 has conditions similar to those in Nalinmiao No. 2, which should support attainment of its projections in 2012. Nalinmiao No. 1's underground produced tonnage in 2013 and 2014 is consistent with thinner seam conditions. Hongjingta No. 1 is anticipated to improve its capabilities in 2012 with the installation of a new high profile (6.3 meter) FM LW face in late 2011. Improved mining conditions are anticipated at Yangwangou Mine. Output projections for Nalinmiao No. 2, Hongjingta No. 1 and Suancigou mines significantly exceed current production certificate output levels.

Fuhua and Kaida output projections assume recovery of LW faces in shallow cover zones. Based on our estimates, Kaida and Fuhua output may be impacted due to projected mining in areas having shallow cover. Yitai maintains that LW mining operations are viable in shallow cover areas (less than 40 m of competent overburden). History of shallow cover mining in the Yitai mines is limited, although Yitai has in several instances successfully operated on a sustained basis in shallow cover areas.

LW mining located beneath less than 40 m of cover may be problematic. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. We have adjusted our mine plan projections and reserve estimates accordingly to exclude areas with less than 40 m of overburden depth due to the unpredictability of roof strata behaviour. While low cover areas occur in virtually all of the Yitai operations except for Suancigou, we expect this to have a larger impact on the Kaida and Fuhua mining operations through the forecast period of 2012–2014. While we recognize that Yitai has, in several instances, successfully mined in areas with less than 40 m of overburden depth, the stability of

the roof strata in lower overburden zones is difficult to assess until LW face development mining has been completed. Accordingly, the 40 m overburden guideline provides a margin of safety for planning and resource analysis.

Yitai has indicated that additional output may be generated as needed by open pit mining and room and pillar mining of shallow seam zones unsuitable for FM LW mining to meet the output forecasts. Yitai has demonstrated its capability to recover coal resources in shallow cover areas using these methods. These coal resources are not addressed in our reserve analysis.

Yitai is gradually moving toward increasing LW face lengths up to 300 meters to improve operating efficiency. Other factors that may favorably impact operations in the future include:

- Further acquisitions of LW face equipment with improved capabilities and higher reliability.
- Improvements in operator performance through training and experience.
- Less delay time related to repairs and maintenance through improved labor force maintenance skills.
- Installation of higher capacity infrastructure.

The two planned greenfield expansion mines at Bulamao and Talahao are discussed in the respective sections of this report. Yitai continues to evaluate additional mine projects through exploration and development of geological studies. According to Yitai, the company has the intent of merging Dongda No. 2 Mine, which is adjacent to Hongjingta No. 1's northern boundary, into its holdings. Dongda No. 2 Mine has output capacity of 1.2 Mtpa and 3.0 Mtpa for Nos. 6-1 and 6-2 seams, respectively. Extension of certain mines into adjacent coal rights, which are not currently controlled by Yitai, would permit Yitai to: extend the operating life of the associated mine, possibly increase LW face lengths, and/or optimize mining projections. The affected mines would require new openings, but acquisition of adjoining coal would provide opportunities for significantly enhancing operations and increasing output over time (such as connecting Bulamao with established infrastructure at the Kaida operation). BOYD has not evaluated the coal resources or reviewed mining plans for these potential projects.

Depletion rate represents the rate of exhaustion of reserves of a mine. In the context of this CPR, depletion rate of a mine refers to the exhaustion rate of marketable reserves as of December 31, 2011 on the basis of aggregate projected output from 2012 to 2014. The depletion rates for Yitai mines are as follows:

| Mine                     | Marketable Reserves (Mt)<br>As of 31 December 2011* | 2012 to 2014            |                    |
|--------------------------|-----------------------------------------------------|-------------------------|--------------------|
|                          |                                                     | Projected Output (Mt)** | Depletion Rate (%) |
| Suancigou .....          | 458.8                                               | 38.3                    | 8                  |
| Nalinmiao No.2*** .....  | 63.9                                                | 24.6                    | 39                 |
| Hongjingta No.1*** ..... | 35.9                                                | 22.6                    | 63                 |
| Nalinmiao No.1*** .....  | 9.3                                                 | 11.8                    | 100                |
| Yangwangou .....         | 5.8                                                 | 4.2                     | 73                 |
| Fuhua .....              | 2.5                                                 | 3.9                     | 100                |
| Kaida*** .....           | 4.2                                                 | 4.6                     | 100                |

\* Reflect BOYD's reserve estimation which only includes minable reserves suitable for FM LW mining method.

\*\* Reflect Yitai's projections which include FM LW mining and DB mining operations where applicable.

\*\*\* Reserve and output from open pit operations excluded.

#### 4.6.2 Projected Staffing

Yitai's projected target staffing at full output capacity is as follows:

| Category                        | Personnel |                 |                  |                 |            |       |       |
|---------------------------------|-----------|-----------------|------------------|-----------------|------------|-------|-------|
|                                 | Suancigou | Nalinmiao No. 2 | Hongjingta No. 1 | Nalinmiao No. 1 | Yangwangou | Fuhua | Kaida |
| UG .....                        | 671       | 331             | 270              | 263             | 168        | 212   | 357   |
| Surface — Coal Processing ..... | 129       | 83              | 36               | 42              | 56         | 6     | 30    |
| Surface — Service .....         | 259       | 129             | 77               | 53              | 78         | 15    | 31    |
| Total* .....                    | 1,059     | 543             | 383              | 358             | 302        | 233   | 418   |

\* Total includes third-party service providers.

The category at largest variance to plan projections is the surface-service category, which accounts for most of the higher than projected staffing. According to Yitai, reductions in staffing levels are projected in third quarter of 2012. Yitai's projected average labor productivity at full output by mine is as follows:

| Mine                   | Projected ROM Output at Full Production Capacity (Mt) | Employees |             | ROM Tonnes Per Employee-Year |             |
|------------------------|-------------------------------------------------------|-----------|-------------|------------------------------|-------------|
|                        |                                                       | Mine      | Underground | Mine                         | Underground |
| Suancigou .....        | 14.0                                                  | 1,059     | 671         | 13,220                       | 20,860      |
| Nalinmiao No. 2 .....  | 8.2                                                   | 543       | 331         | 15,100                       | 24,770      |
| Hongjingta No. 1 ..... | 8.2                                                   | 383       | 270         | 21,410                       | 30,370      |
| Nalinmiao No. 1 .....  | 7.0                                                   | 358       | 263         | 19,550                       | 26,620      |
| Yangwangou .....       | 1.4                                                   | 302       | 168         | 4,640                        | 8,330       |
| Fuhua .....            | 1.3                                                   | 233       | 212         | 5,580                        | 6,130       |
| Kaida .....            | 1.7                                                   | 418       | 357         | 4,070                        | 4,760       |
| Total .....            | 41.8                                                  | 3,296     | 2,272       | 12,680                       | 11,710      |

#### 4.6.3 Projected Capital Expenditures

Historical capital expenditure data were not available. Yitai's projected future capital expenditures for the active mines are summarized below:

| Mine                   | Projected Capital Expenditures |      |      |       |
|------------------------|--------------------------------|------|------|-------|
|                        | 2012                           | 2013 | 2014 | Total |
|                        | (RMB-millions)                 |      |      |       |
| Suancigou .....        | 32                             | 59   | 47   | 138   |
| Nalinmiao No. 2 .....  | 15                             | 25   | 6    | 45    |
| Hongjingta No. 1 ..... | 32                             | 26   | 18   | 76    |
| Nalinmiao No. 1 .....  | 33                             | 29   | 26   | 88    |
| Yangwangou .....       | 7                              | 23   | 7    | 37    |
| Fuhua .....            | 9                              | 1    | 1    | 11    |
| Kaida .....            | 8                              | 13   | 3    | 24    |
| Yitai Total            | 136                            | 176  | 107  | 419   |

Note: Figure may not add due to rounding.

Capital spending by major category is as follows:

| Description                                          | Projected Capital Expenditures |      |      |       |
|------------------------------------------------------|--------------------------------|------|------|-------|
|                                                      | 2012                           | 2013 | 2014 | Total |
|                                                      | (RMB-millions)                 |      |      |       |
| Surface Infrastructure .....                         | 1                              | 1    | 2    | 4     |
| Mine Openings and Roadway .....                      | —                              | 22   | 15   | 37    |
| Mining, Monitoring, Misc. Equipment & Rebuilds ..... | 131                            | 137  | 84   | 352   |
| CPP .....                                            | 4                              | 16   | 6    | 26    |
| Other .....                                          | —                              | —    | —    | —     |
| Total .....                                          | 136                            | 176  | 107  | 419   |

Note: Figure may not add due to rounding.

Sustaining capital based on projected raw coal output is RMB4 per tonne, which is at the lowest end of the range of likely requirements in our opinion to support the projected output. However, significant mine development expenses that would be considered capital expenditures are included in operating costs. The lower sustaining capital projections are also consistent with the limited service life of several mines. Sustaining capital needs for Suancigou are also limited owing to the mine's recent construction status.

Yitai's capital spending for mine development is projected to decrease from recent levels in which the mines were re-capitalized and transitioned to modern methods of FM LW mining. Operating mines generally have adequate equipment and infrastructure (including shafts, inclines, belt conveyor systems, electrical systems, pumping systems, etc.) necessary to support projected output levels. Additional openings (shafts, horizontals) or extensions of existing openings may be required for ventilation or to access seams lower in the geologic sequence. However, civil works at the mines are typically a small component of the total capital cost typical in international mechanized mine settings. Additionally, the operating depths are relatively shallow and, therefore, require relatively less work to access the coal seam(s).

#### 4.6.4 Projected Operating Costs

Yitai's future operating costs reflect FM LW mining methods employed in favorable conditions and Yitai's output projections. Operating cost projections on an ROM basis are as follows:

| Mine                    | Projected Operating Costs** |      |      |
|-------------------------|-----------------------------|------|------|
|                         | 2012                        | 2013 | 2014 |
|                         | (RMB/ROM tonne)             |      |      |
| Suancigou .....         | 105                         | 108  | 110  |
| Nalinmiao No. 2* .....  | 94                          | 95   | 96   |
| Hongjingta No. 1* ..... | 67                          | 66   | 68   |
| Nalinmiao No. 1* .....  | 56                          | 57   | 60   |
| Yangwangou .....        | 140                         | 146  | 151  |
| Fuhua .....             | 86                          | 90   | 93   |
| Kaida* .....            | 126                         | 129  | 135  |
| Average*** .....        | 88                          | 94   | 98   |

\* Projected open pit mining will impact overall mine costs in 2013 and 2014.

\*\* FM LW mining costs, based on Yitai projections.

\*\*\* Yitai's average costs with open pit mining operations included are projected at RMB93 and RMB97 per ROM tonne in 2013 and 2014, respectively.

Operating cost projections include: Labor, Benefits, Materials, Supplies, Power, Water, Maintenance, Engineering, Development Expense, Exploration, Face Moves, Village Moves, Resource Fees, Coal Management Fees, Administration, and Misc. Others. Other management/overhead employees are accounted for in Yitai overhead costs. Operating cost projections do not include CPP costs or reflect processing yield impacts.

A breakdown of Yitai's projected FM LW operating costs by category, on a composite basis, is as follows:

| Cost Category                   | Projected Operating Costs*<br>(RMB/ROM tonne) |      |      |
|---------------------------------|-----------------------------------------------|------|------|
|                                 | 2012                                          | 2013 | 2014 |
| Cash Costs                      |                                               |      |      |
| Salary and Welfare .....        | 10                                            | 11   | 13   |
| Materials, Supplies .....       | 6                                             | 8    | 9    |
| Maintenance .....               | 2                                             | 3    | 4    |
| Power/Fuel .....                | 2                                             | 3    | 4    |
| Coal Washing Expense .....      | 2                                             | 2    | 2    |
| Production Fees .....           | 56                                            | 56   | 55   |
| Subtotal — Cash Costs .....     | 79                                            | 84   | 86   |
| Non-Cash Costs                  |                                               |      |      |
| Depreciation .....              | 9                                             | 10   | 11   |
| Subtotal — Non-Cash Costs ..... | 9                                             | 10   | 11   |
| Total .....                     | 88                                            | 94   | 98   |

\* FM LW mining costs based on Yitai projections.

Note: Figures may not add due to rounding.

Assuming that ROM output projections are achieved in the 2012–2014 period, the operating cost projections appear reasonable and consistent with recent historical costs.

#### 4.7 Safety

The standard used by the PRC coal industry to measure and compare safety performance is the fatality rate (average number of fatalities) per 1.0 Mt of raw coal production. From the data provided by Yitai, its mines did not experience any fatalities and serious bodily injuries in the period 2006–2011.

Yitai's operating cost projections appear attainable at the projected output levels. Projected operating costs are reasonable based on our experience and advanced stage of capitalization for the Yitai operations.

Based on our site visits, the company's practices follow appropriate standards for the type of hazards expected. All mines employ underground monitoring systems comprised of multiple stations recording methane and CO contents that are remotely monitored in surface control rooms. Air quantities appear adequate for diluting methane that is liberated during mining. Based on BOYD's observations during site visits, the mines appeared to be operating in a safe manner. On the LW faces visited by BOYD, monitoring station and hand-held methane monitors indicated relatively low levels of methane on the LW faces.

Other customary safety practices such as coal dust suppression, spillage control, and adequate roof and rib support were also observed during the BOYD site visits. Yitai mines have also taken proactive steps to minimize coal and coal dust accumulations outside of the face areas. We believe that the health and safety practices are in-line with those observed at larger PRC mining companies.

Yitai has implemented safety training programs covering proper work procedures and work practices at all of their operations to provide for worker safety and has established a good basis for its safety systems to support expanded future mine operations.

Provisions for safety training are largely guided by the State Administration of Worker Safety (SAWS). SAWS is in ultimate charge of worker safety at the national level and oversees officials at the provincial, coal mine bureau, and coal producer levels. The State Administration of Coal Mine Safety (SACMS) provides regulatory oversight of the mine site safety inspectors. The safety inspectors act independently of coal mine management. A safety training center is maintained at the coal producer level for training lower level personnel.

Yitai reports their coal mines are heavily monitored by several levels of government: county, city, and region. Inner Mongolia takes the lead role in mine regulation, although city and county regulations also must be followed.



#### 4.8 Coal Quality

Yitai's mining operations generally produce low sulfur coals, classified principally as "long-flame" (CY41 and CY42) according to the Chinese coal classification system. Typical coal quality is shown below, although for individual mining right areas and seams, certain coal quality parameters may fall outside of this range:

| Characteristic<br>(as-received basis) | Parameter   |
|---------------------------------------|-------------|
| Moisture (%)                          | 7-17        |
| Ash (%)                               | 7-28        |
| Sulfur (%)                            | 0.2-0.9     |
| Volatile Matter (%)                   | 22-27       |
| Heat Content (Kcal/kg)                | 4,500-6,000 |

Coal quality by mine, based on coal test report data provided by Yitai, are as follows:

| Quality Characteristic             | Yitai Coal Quality Summary By Mine (As-Received Basis)* |                    |                     |                    |            |       |       |
|------------------------------------|---------------------------------------------------------|--------------------|---------------------|--------------------|------------|-------|-------|
|                                    | Suancigou                                               | Nalinmiao<br>No. 2 | Hongjingta<br>No. 1 | Nalinmiao<br>No. 1 | Yangwangou | Fuhua | Kaida |
| Moisture (%)                       | 9.7                                                     | 14.1               | 14.4                | 13.1               | 10.3       | 15.0  | 14.8  |
| Ash (%)                            | 28.3                                                    | 6.9                | 7.4                 | 5.7                | 27.1       | 7.3   | 4.7   |
| Sulfur (%)                         | 0.4                                                     | 0.2                | 0.2                 | 0.1                | 0.9        | 0.4   | 0.2   |
| Volatile Matter (%)                | 25.9                                                    | 27.9               | 28.1                | 27.8               | 24.2       | 25.5  | 28.5  |
| Gross Calorific Value<br>(Kcal/kg) | —                                                       | 6,050              | 5,970               | 6,220              | —          | 6,020 | 6,250 |
| Net Calorific Value<br>(Kcal/kg)   | 4,340                                                   | 5,790              | 5,700               | 5,960              | 4,270      | 5,760 | 5,980 |

\* Based upon coal quality test data for Jul-Dec 2011 provided by Yitai, which may not reflect typical analysis.

The extent and degree of coal processing vary according to the quality of the individual coal seam(s) being mined (i.e., presence of in-seam partings and seam ash content). In lower ash seams, screening is typically used to remove partings and extraneous rock; mechanical washing to upgrade the in situ coal quality is usually not necessary in these instances. Product ash varies with seam variations but is generally suitable for market requirements. Yitai's coal output is utilized as steam (thermal) coal products for use in the chemical, industrial, and power generation markets.

Presently, the Suancigou Mine is the only Yitai operation to utilize a CPP. The remaining operations rely on a combination of screening, crushing, and hand-picking to increase product quality. However, Yitai plans to construct additional CPPs to process (wash) future output from the Nalinmiao No. 1, Nalinmiao No. 2, and Kaida mines.

#### 4.9 Operating Practices

Yitai mines operate according to standard practices, although there may be differences in actual application at specific mines. The mines typically operate approximately 300 production days per year. This schedule permits 40 to 50 maintenance/idle days annually. Several major holiday periods are observed over the course of the year (including New Year, Lunar New Year, May Day, and National Day) and account for 10 to 15 calendar days of nonproduction. The typical employee works 5 or 6 days per week, as required by the mines. On a typical production day, three 8-hour shifts are worked, allowing for approximately 18 to 20 hours of production and 4 to 6 hours of repair, maintenance, and support. Yitai's mine scheduling practices are typical of the PRC coal industry.

Mine surface facilities at the major underground mines are well-established complexes and provide accommodations for all aspects of the mining operation, including administration and mine manager offices, materials and parts storage, shower rooms, locker rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. Living quarters for single men are often provided near the mine site.

Yitai's underground mines typically use shallow angle inclines (except for Yangwangou) to access the seams for mining activities and to accommodate the use of rubber-tired vehicles. These types of openings are appropriate for shallow coal reserve deposits such as those found in the Yitai mining right areas. Air shafts (intake or return) are used in mines where the workings have extended a sufficient distance from the initial access inclines to warrant their construction. A summary of Yitai mine openings by mine follows:

| Mines                      | Mine Openings      | Gradient (degrees) | Length (m) | Dimension (m) | Function                     |
|----------------------------|--------------------|--------------------|------------|---------------|------------------------------|
| Suancigou . . . . .        | Main Incline       | 16                 | 1,029      | 5.5 x 4.5     | Intake, Belt                 |
|                            | Service Incline    | 6                  | 2,290      | 5.5 x 4.5     | Intake, Rubber-tire Access   |
|                            | Air Return Shaft   | 90                 | 352        | 5.5 m dia     | Return                       |
| Nalinmiao No. 2 . . . . .  | Main Incline       | 8                  | 732        | 5.0 x 4.0     | Intake, Belt                 |
|                            | Service Incline    | 6                  | 826        | 5.0 x 4.0     | Intake, Rubber-tire Access   |
|                            | Service Incline -2 | 6                  | 259        | 5.0 x 4.0     | Intake, Rubber-tire Access   |
|                            | Air Return Shaft   | 90                 | 146        | 4.0 m dia     | Return                       |
| Hongjingta No. 1 . . . . . | Main Incline       | 8                  | 337        | 4.0 x 4.0     | Intake, Belt                 |
|                            | Service Incline    | 6                  | 433        | 4.0 x 3.8     | Intake, Rubber-tire Access   |
|                            | Service Incline -2 | 5.5                | 484        | 5.0 x 4.0     | Intake, Rubber-tire Access   |
|                            | Air Return Shaft   | 90                 | 170        | 4.0 m dia     | Return                       |
| Nalinmiao No. 1 . . . . .  | Main Incline       | 14                 | 202        | 4.2 x 3.6     | Intake, Belt                 |
|                            | Service Incline    | 6                  | 303        | 5.2 x 3.8     | Intake, Rubber-tire Access   |
|                            | Air Return Shaft   | 90                 | 91         | 4.0 m dia     | Return                       |
| Yangwangou . . . . .       | Main Incline       | 22                 | 400        | 3.0 x 2.7     | Intake, Belt                 |
|                            | Service Incline    | 25                 | 328        | 3.0 x 3.2     | Intake, 600 mm, 30 kg/m rail |
|                            | Air Return Shaft   | 90                 | 192        | 3.0 m dia     | Return                       |
| Fuhua . . . . .            | Main Incline       | 2                  | 40         | 3.2 x 2.9     | Intake, Belt                 |
|                            | Service Incline    | 2                  | 40         | 3.2 x 3.1     | Intake, Rubber-tire Access   |
|                            | Air Return Incline | 2                  | 40         | 3.2 x 2.6     | Return, Exit                 |
| Kaida . . . . .            | Main Incline       | 6                  | 143        | 3.5 x 3.2     | Intake, Belt                 |
|                            | Service Incline    | 6                  | 56         | 5.2 x 3.8     | Intake, Rubber-tire Access   |
|                            | Air Return Incline | 6                  | 56         | 5.2 x 3.8     | Return, Exit                 |

LW technology (FM) is the preferred Chinese method of coal production deriving from an institutional PRC Government emphasis on maximizing reserve recovery and concentrating mining in larger operations. LW methods generally (but not always) are higher in recovery than any other method found in the coal industry. Maximizing resource recovery remains a concern of mine officials, and mine plans must demonstrate this approach. According to Yitai, the responsible regulating bodies monitor its resource recovery efforts, and no interference is anticipated so long as the company is demonstrating that it is attempting to maximize recovery.

All Yitai operations have transitioned to FM LW mining. Only Suancigou Mine utilizes imported LW face technology produced by Joy and DBT. Remaining LW faces are equipped with domestic face equipment, typically ranging in length from 150 to 300 m. Yitai is gradually lengthening its faces as the geotechnical characteristics of operating in shallow cover reserves are better understood and the company becomes more comfortable with the capabilities of FM LW face technology. LW face strike lengths vary according to the configuration of the mining right areas or other features defining the mineable reserve. Strike lengths range from 1,000 to 4,000 m. Long strike lengths enable Yitai to reduce face development requirements and lower overall operating costs. A summary of active LW panels visited by BOYD follows:

| Mine                       | Active LW Face | Width (m) | Original Strike Length (m) | Shield Width (m) | No. of Shields (m) | Cutting Height (m) |
|----------------------------|----------------|-----------|----------------------------|------------------|--------------------|--------------------|
| Suancigou . . . . .        | 6107           | 240       | 2,800                      | 1.75             | 142                | 2.6 - 4.6          |
| Nalinmiao No. 2 . . . . .  | 621-05         | 240       | 3,000                      | 1.75             | 142                | 2.8 - 6.1          |
| Hongjingta No. 1 . . . . . | 62202          | 246       | 1,760                      | 1.75             | 146                | 2.8 - 6.1          |
| Nalinmiao No. 1 . . . . .  | 326-04         | 240       | 2,800                      | 1.75             | 142                | 2.8 - 6.1          |
| Yangwangou . . . . .       | 6201           | 117       | 400                        | 1.50             | 77                 | 1.7 - 3.2          |
| Fuhua . . . . .            | 1602           | 180       | 400                        | 1.50             | 122                | 1.3 - 2.8          |
| Kaida . . . . .            | 3602U          | 200       | 710                        | 1.50             | 123                | 1.1 - 2.2          |

Yitai utilizes full extraction, high profile, cutting techniques with the exception of Suancigou and Yangwangou mines. At Suancigou, sublevel caving techniques are utilized in the No. 6U Seam. Sublevel caving equipment is utilized at the Yangwangou Mine due to reserve configuration and limitations on LW face dimensions. Domestic LW face manufacturing capabilities have recently expanded with the fabrication of full extraction faces with higher cutting heights, up to 6.5 m.

Following the transition to FM LWs, the Yitai LW operations have the potential to be highly efficient and productive. Nearby mines operating in similar conditions are among the world's most productive mines in terms of labor efficiency and output. LW equipment performance and reliability should continue to improve, and Yitai will continue to take measures to improve and upgrade its infrastructure, in particular, the critical belt conveyor systems. Higher capacity belt conveyor systems are essential for capturing the productivity of modern LW systems.

LW face retreat rates vary according to the face lengths, seam thickness, mining conditions, equipment, and infrastructure. On the basis of our site visit observations, the newly installed FM LW faces appear to be capable of face retreat rates in the range of 350 to 500 m per month (assuming 3.0 to 5.5 m thick, 200 to 300 m wide faces).

LW face equipment are assigned to a specific mine unless there is a need for a major rebuild of the shields. Other components, such as shearers and armored face conveyors (AFC), can be moved from mine to mine if the equipment is compatible. Typical rebuild interval is 5 Mt for LW shearers, 15 Mt for powered supports (shields), and 5 Mt for AFC/stage loader/crusher assemblies. Because of the opening heights and use of rubber-tired equipment, faces can be removed easily from the mines and transported to the shops for refurbishing and rebuilding.

Following international LW practices, a spare AFC and other LW face equipment are installed in the next successive LW face setup in advance of the completion of mining in the current face to allow rapid LW restart. Face transfers have been accomplished in less than 14 calendar days, comparable to some of the best performances at US and Australian mines.

Yitai development methods follow PRC mining practices. Main and gate roadways vary by mine, according to seam thickness and designed use, but are typical of regional operations. Single-roadway gate development is utilized at all mining operations other than Suancigou Mine (which utilizes CMs and dual gate road development). Generally a 20 to 30 m barrier pillar is maintained between gate roads of parallel LW faces. Main roadways typically consist of between three to five openings depending on haulage and ventilation requirements.

Roadheader sections are used as the primary means for development of LW gates and main roadways in Yitai mines, supplemented by conventional drilling and blasting techniques as needed in rock roadways and when developing connections between seams. Development rates using roadheaders are projected at 400 to 500 m/month in gate roads, supported by continuous haulage (narrow 1.0-m-width flexible belt conveyor) equipment. Experience suggests the roadheader units are capable of developing LW gates in sufficient time to stay ahead of LW retreat.

Typical LW crews consist of 12 employees on a production shift:

- 2 Shearer Operators
- 1 Headgate Attendant
- 2 Shield Support Movers
- 1 Face Pump Attendant
- 6 Utility/Maintenance

Three to eight employees are assigned on a maintenance shift.

Development crews generally consist of 12 employees:

- 2 Roadheader/CM Operators
- 4 Roof Bolters/Screening
- 2 Haulage/Roof Bolters
- 4 Utility/Maintenance

Eight to twelve employees are assigned on a maintenance shift to advance permanent belt structure and perform roof bolting.

Roof bolting using resin anchorage is routinely used to reinforce mine openings in the LW mines. Standard roof bolt length is 1.8 to 2.1 m. Typical roof bolting pattern is to install four to six bolts on a 1.0-m spacing across an opening and a 1.0- to 1.25-m spacing between rows. Roof installation includes plates and header blocks to control exposed roof layers. Wire mesh screen is used in permanent roadways and in areas of unstable roof. Mine openings needed for life of mine and/or to house electrical installations are shotcrete treated.

Generally, a thin coal layer is left in place in the roof to avoid exposing the roof rock strata. This practice enhances roof control measures and minimizes rock or out-of-seam dilution (contamination of the ROM coal material). In the occasional areas where the mine roof is weak or broken, supplemental roof bolting and wire mesh is utilized. Headgate and tailgate support typically are minimal, consisting of hydraulic supports set 20 m outby the LW face on retreat. Cable bolting, typically 5 m length, is installed in areas where the main roof needs supplemental support. In general, LW gate and mainline development support practices and requirements are among the least intensive in the world LW industry, reflecting the generally favorable mining conditions in the Yitai mines.

LW mine plans are optimized to maximize the recovery of reserves by LW mining technique. In reserve areas that cannot be effectively mined using LW techniques, room-and-pillar techniques are proposed to satisfy resource recovery mandates.

It is anticipated that LW faces can generally work through minor faults where vertical displacements are in the range of 1 to 3 m. Larger displacement faults are typically handled by stopping the face and setting up on the other side of the fault line. Large displacement faults (8 m or higher) result in the shortening of face strike lengths to match the fault line as the gate road gradients begin to be too steep for the development and belt conveyor equipment, and the amount of rock to be cut exceeds prudent operating practice.

Yitai's approach to underground transport is comparable to those employed in the world's most advanced mines. Rubber-tired diesel vehicles (buses, vans, small trucks, tractors, front-end loaders, etc.) are used throughout the majority of mines for transporting personnel, supplies, parts, materials, equipment, infrastructure components, etc. Due to the high standard of care for roadways, the rubber-tired vehicles are a highly effective means of transport. The generally shallow nature of the mines' facilities, accessed using shallow angle inclines, is conducive to the use of rubber-tired vehicles. Similarly, coal hoisting equipment is not employed at the mines (except for Yangwangou Mine).

Belt conveyor installations in terms of size, capacity, and standards of care are comparable to those employed in the international coal industry. All of the mines utilize belt conveyor systems of varying capacities to transport the coal from mining faces to the surface. Yitai's belt conveyor systems have evolved in terms of capacity as the mines have transitioned to FM LW mining. The highest capacity main incline conveyor (1.8 m width) is installed in Suancigou Mine with an estimated capacity of 4,200 tph. LW face conveyor capacities for the LW faces are sized to exceed their associated gate and mainline conveyors in order to handle peak loading conditions.

A summary of Yitai mines' main incline belt conveyors follows:

| Mine                       | Main Incline Belt Conveyors |            |                |            |
|----------------------------|-----------------------------|------------|----------------|------------|
|                            | Width (m)                   | Length (m) | Capacity (tph) | Power (Kw) |
| Suancigou . . . . .        | 1.8                         | 1,060      | 4,200          | 4x 1400    |
| Nalinmiao No. 2 . . . . .  | 1.4                         | 750        | 2,500          | 2 x 630    |
| Hongjingta No. 1 . . . . . | 1.4                         | 500        | 2,500          | 2 x 400    |
| Nalinmiao No. 1 . . . . .  | 1.2                         | 1,320      | 1,800          | 2 x 560    |
| Yangwangou . . . . .       | 1.0                         | 350        | 800            | 2 x 200    |
| Fuhua . . . . .            | 1.0                         | 300        | 400            | 2 x 75     |
| Kaida . . . . .            | 1.0                         | 143        | 800            | 2 x 315    |

Although under-designed from an international perspective, Yitai belt conveyor designs afford higher loading capabilities than those found at typical PRC mines. BOYD anticipates that continued progress toward higher capacity conveyor systems to accommodate peak production surges will be incorporated in new mine designs. At present, underground bunkering usage and capacity is minimal.

Yitai mines utilize 10 kV underground mine power distribution systems. Ventilation inclines/shafts are used to supply power to the high capacity LW gear and conveyor system. Surface distribution voltage on the local grid providing power to the mine site transformer is at 35 kV. Electricity is purchased off of the regional power grids with renewable contracts.

Water inflows experienced at the Yitai mines are typical of the region and are within the capabilities of well-designed pumping stations. The underground mines have sufficient water-handling systems. All mines have designed effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata. LW subsidence is especially problematic in that the aquifers lying above the actively mined coal seam are disturbed, causing water to flow into the mine workings. Mandatory practice requires that redundant principal pumps be installed to allow for repairs and routine maintenance and to accommodate water surges during periods of high surface precipitation. Pumping systems vary in capacity according to type of mining and site specific water-bearing strata characteristics. Water control in the roadways and faces was observed to be well organized and effective. Typical practice is to harden roadway surfaces with concrete and construct ditches to route water flows to transfer sumps. Pipelines carry the bulk of the water to the main sump, where it is pumped to the surface, and discharged to settling basins. Typically, the discharged water is used in mine applications (sprays, firefighting equipment, etc.), processing plant applications or used for surface vegetation irrigation. Water for firefighting and dust suppression sprays is distributed underground using a gravity flow system.

Based on flame-length tests, coal dust generated by the Yitai mining operations is classified as having explosive potential if ignited. Standard measures to control dust include:

- Reducing float dust as much as possible by using water sprays in the development and LW face areas (equipment-mounted typically on shearers and road headers), along belt conveyor installations and underground transfer points (bunkers, chutes, etc.).
- Limiting ventilation air velocities to minimize fugitive dust pick-up.
- Removal of coal debris along belt conveyor lines and in the development faces with washing of roadways as required.
- Wet drilling techniques for development and LW coal face blasting.
- Periodic cleaning and re-whitening of roadways as needed.
- Installation of self-dumping hanging water bags in gates and other roadways.
- Water injection in coal seams prior to mining.

Yitai mines utilize exhausting type main fans with auxiliary backups as required by regulation. Main fans are generally installed at the surface opening of a return incline (or return air shaft). Mine ventilation air quantities entering the mine are determined according to mine size. Recognizing the low methane generation of the seams and the relatively few openings utilized underground, air quantities are adequate and do not present an issue for endangering the mine workforce or preservation of the physical plant. Roadheader and CM sections use flexible duct tubing and standard auxiliary fans for face ventilation. The auxiliary fans force fresh air from the main or gate intake air streams into the working face area, thereby clearing the working area of dust, methane, and other gases generated during mining. These arrangements follow international practices for face ventilation.

The Yitai mines do not utilize bleeder systems, gob de-gas holes, or remote bleeder shaft fan (using high-pressure centrifugal fans) techniques. The depth of mining at the Yitai mines is relatively shallow by world coal mining experience, and the gas content of the seams is relatively low. Methane control is not a significant operating concern at the Yitai mines due to lower rate of gas liberation.

Typical of lower rank coals, the coal seams in the Yitai mines are rated as having significant potential for spontaneous combustion. Proper sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection and mud injection, are planned by Yitai. Eliminating gob ventilation also serves to minimize the potential for gob fires due to spontaneous combustion.

## 5.0 YITAI GROUP MINES

### 5.1 Introduction

Yitai Group operates five underground coal mining operations located in western Inner Mongolia Autonomous Region within China's largest coal-producing region, which is near the boundary of Shaanxi and Shanxi provinces and Inner Mongolia Autonomous Region. Some of the largest underground mines in China, which rank among the world's largest mines, are in this region.

Yitai Group mines are small to medium-sized underground LW mines that have transitioned to FM mining operations by combining multiple small local mining right areas. The current approved coal production certificate output level for these mines ranges from 1.2 Mtpa to 3.0 Mtpa, as follows:

| Mine                   | Yitai Group Equity Interest (% owned) | Date of Initial Operation | Current Approved Output Capacity (Mtpa) |                                | Estimated* Remaining Reserve Tonnes as of 31 December 2011 (Mt) | Integrated from Local Mines       |
|------------------------|---------------------------------------|---------------------------|-----------------------------------------|--------------------------------|-----------------------------------------------------------------|-----------------------------------|
|                        |                                       |                           | By Mining Right Certificate             | By Coal Production Certificate |                                                                 |                                   |
| Dadijing . . . . .     | 100.0                                 | 4/1/2008                  | 1.2                                     | 3.0                            | 52                                                              | Dadijing, Dashiugou               |
| Baoshan . . . . .      | 73.0                                  | 6/1/2007                  | 1.2                                     | 1.9                            | 15                                                              | Baoshan, Qiaojiaata, Niujiailiang |
| Dingjiaqu . . . . .    | 73.0                                  | 12/1/2008                 | 1.2                                     | 2.3                            | 16                                                              | Sanhechang No. 2, Dingjiaqu       |
| Chengyi . . . . .      | 100.0                                 | 2/1/2009                  | 0.6                                     | 1.2                            | 5                                                               | Chengyi, Yelaisetai               |
| Baijiailiang . . . . . | 100.0                                 | 1/1/2008                  | 0.3                                     | 1.9                            | —**                                                             | Baijiailiang, Naomutu             |

\* BOYD estimate of marketable tonnes according to JORC Code classification.

\*\* 0.49 Mt LW reserves.

BOYD visited the subject mines in late August 2009, February 2011 and February 2012. Based on our field observations, the mines are well-capitalized and organized, using FM LW mining systems supported predominantly by roadheader development units. Underground mining conditions are generally favorable, with relatively thick coal seams and minimal seam gradients; depth of mining is shallow (less than 200 m). Third-party service companies are employed to provide works on an as needed basis to conduct development, production, and other services.

Yitai Group active mining operations at the time of BOYD's site visits are summarized below:

| Mine        | BOYD Visit Date                      | Mining Techniques | No. of LW Faces | Manufacturing Source of LW Face | Off-Site Coal Transportation |
|-------------|--------------------------------------|-------------------|-----------------|---------------------------------|------------------------------|
| Dadijing    | 30/08/2009 & 18/02/2011 & 02/02/2012 | LW/RH/DB          | 1               | D                               | T to RLST/C                  |
| Baoshan     | 30/08/2009 & 17/02/2011 & 02/02/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |
| Dingjiaqu   | 27/08/2009 & 17/02/2011 & 02/02/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |
| Chengyi     | 31/08/2009 & 17/02/2011 & 02/02/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |
| Baijialiang | 30/08/2009 & 17/02/2011 & 02/02/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |

Note:

LW = Longwall  
RH = Roadheader  
DB = Drill and Blast

D = Domestic  
C = Customer

T = Truck  
RLST = Rail Loading Station

## 5.2 Conclusion

Yitai Group mines employ modern LW mining techniques. Physical mining conditions, which in several mines are generally considered among the best observed by BOYD in the world coal mining industry, are highly favorable for FM mining operations using LW and roadheaders. Although the mines only evolved from drill and blast (DB) mining techniques to FM LW using domestic equipment in the 2008 —2009 period, the transition appears to be successful and the mine operations are running smoothly. Yitai Group's mine plans appear appropriate for the geologic and geotechnical settings observed in the current mines and consider known or potential mining hazards.

Coal quality is generally low in sulfur content and considered favorable for domestic steam markets.

The capital budgets for Yitai Group mines for the next three years appear reasonable. There are no evident constraints preventing Yitai Group mines from attaining output projections for 2012 —2014 period, as long as the higher-than-approved output level is permitted by government administration.

## 5.3 Historical Production

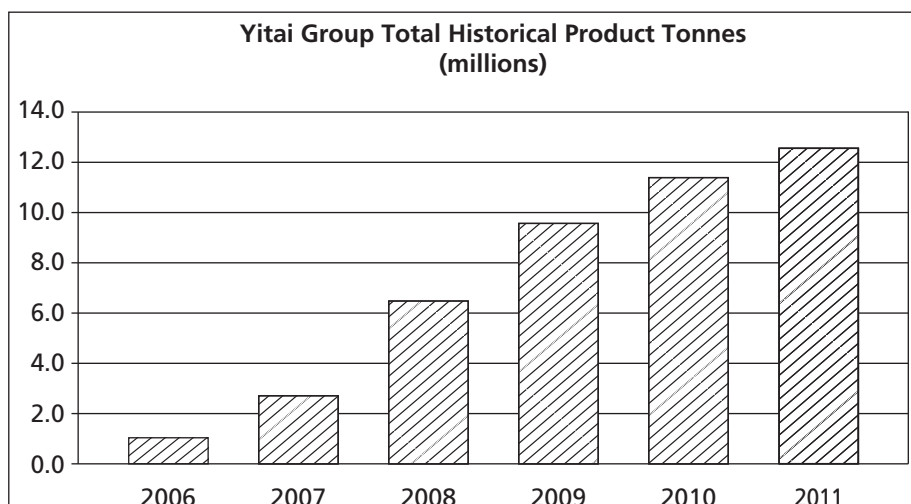
Yitai Group's historical production in the past six years has been increasing, especially in the years 2008 and 2009, when the mines transitioned to FM LW techniques, as shown below:

|                     | Yitai Group Output — Tonnes (millions) |    |      |    |      |      |       |      |      |       |      |      |       |      |       |       |
|---------------------|----------------------------------------|----|------|----|------|------|-------|------|------|-------|------|------|-------|------|-------|-------|
|                     | 2006                                   |    | 2007 |    | 2008 |      |       | 2009 |      |       | 2010 |      |       | 2011 |       |       |
| Mine                | DB                                     | FM | DB   | FM | DB   | FM   | Total | DB   | FM   | Total | DB   | FM   | Total | DB   | FM    | Total |
| Dadijing . . . . .  | 0.63                                   | —  | 1.33 | —  | 1.71 | 1.34 | 3.05  | 1.37 | 1.90 | 3.27  | 1.50 | 2.27 | 3.77  | 1.42 | 3.04  | 4.46  |
| Baoshan . . . . .   | 0.06                                   | —  | 0.72 | —  | —    | 1.68 | 1.68  | —    | 1.53 | 1.53  | —    | 1.81 | 1.81  | —    | 2.16  | 2.16  |
| Dingjiaqu . . . .   | 0.04                                   | —  | 0.17 | —  | 0.13 | —    | 0.13  | —    | 2.21 | 2.21  | —    | 2.80 | 2.80  | —    | 3.05  | 3.05  |
| Chengyi . . . . .   | 0.02                                   | —  | 0.15 | —  | 0.16 | 0.04 | 0.20  | —    | 0.88 | 0.88  | —    | 1.11 | 1.11  | —    | 0.94  | 0.94  |
| Baijialiang . . . . | 0.32                                   | —  | 0.38 | —  | 0.25 | 1.22 | 1.47  | —    | 1.75 | 1.75  | —    | 1.97 | 1.97  | —    | 2.07  | 2.07  |
| Total . . . . .     | 1.06                                   | —  | 2.74 | —  | 2.25 | 4.28 | 6.53  | 1.37 | 8.27 | 9.64  | 1.50 | 9.96 | 11.46 | 1.42 | 11.26 | 12.68 |

DB = Drill & Blast, FM = Fully Mechanized

Note: Figures may not add due to rounding.





Yitai Group's raw output is sold without CPP processing.

#### 5.4 Employment and Labor Practices

Yitai Group engages third-party service providers to provide the main source of personnel for development and production work. Yitai Group mines had 2,288 mine-related, registered employees as of 31 December 2011 (of which 246 are Yitai Group personnel) summarized as follows:

| Category                        | Employees as of 31 December 2011 |       |           |       |           |       |           |       |             |       |           |       |
|---------------------------------|----------------------------------|-------|-----------|-------|-----------|-------|-----------|-------|-------------|-------|-----------|-------|
|                                 | Dadijing                         |       | Baoshan   |       | Dingjiaqu |       | Chengyi   |       | Baijialiang |       | Total*    |       |
|                                 | Yitai Gp.                        | Other | Yitai Gp. | Other | Yitai Gp. | Other | Yitai Gp. | Other | Yitai Gp.   | Other | Yitai Gp. | Other |
| Underground . . . . .           | 19                               | 655   | 19        | 298   | —         | 260   | —         | 203   | —           | 213   | 38        | 1,629 |
| Surface — Coal Processing . . . | —                                | —     | —         | —     | 4         | 4     | 12        | 15    | 32          | 7     | 48        | 26    |
| Surface — Services . . . . .    | 24                               | 118   | 23        | 79    | 56        | 29    | 32        | 45    | 25          | 116   | 160       | 387   |
| Subtotal . . . . .              | 43                               | 773   | 42        | 377   | 60        | 293   | 44        | 263   | 57          | 336   | 246       | 2,042 |
| Total* . . . . .                | 816                              |       | 419       |       | 353       |       | 307       |       | 393         |       | 2,288     |       |

\* Total includes the third-party service providers.

Yitai Group's employment approach is also commonly used at other mines in the PRC to varying extents. The third-party service providers are generally composed of experienced workers from other coal-producing areas. Yitai Group's personnel are generally involved in mine management only. The overall staffing level is comparable to similar regional coal producers and is much lower than that of other coal-producing areas within the PRC using more labor-intensive mining techniques. The present personnel complement for the headquarters, management support staff, and auxiliary management production support staff is adequate for the planned scale of operations and expected to remain relatively constant over the plan period.

Typical LW crews consist of 12 employees on a production shift:

- 2 Shearer Operators
- 1 Headgate Attendant
- 2 Shield Support Movers
- 1 Face Pump Attendant
- 6 Utility / Maintenance

Three to eight employees are assigned on a maintenance shift.

Roadheader sections are widely adopted by Yitai Group mines as the main development method for main roadways and LW gates, while drill and blast heads are used only at the development of roadways in rock, which follows general Chinese practices. Single-roadway gate development is utilized at all FM LW mining operations. At Dadijing Mine, a room and pillar section is used to mine the No. 2 Seam using room and pillar method due to the shallower mining depth. The Yitai Group mines develop three main roadways for coal transportation by belt conveyor, service transportation, and air return. Development rates using roadheaders are projected at 400 to 500 m per month in coal seams and the roadheader units used in Yitai Group mines are capable of satisfying the LW replacement frequency.

Development crews generally consist of 12 employees:

- 2 Roadheader / CM Operators
- 4 Roof Bolters / Screening
- 2 Haulage / Roof Bolters
- 4 Utility / Maintenance

Eight to twelve employees are assigned on a maintenance shift to advance permanent belt structure and perform roof bolting.

For direct company employees, Yitai Group provides basic mandatory retirement pension, medical, industrial accident, and unemployment benefits. Other benefits provided include welfare, medical insurance premiums, and allowances for festivals and holidays.

Labor costs on an output basis and as a component of overall production costs at Yitai Group mines are quite low in comparison to the major international coal industries. Yitai Group average annual direct underground worker compensation ranges from RMB50,000 to RMB80,000. While high for the PRC coal industry generally, anticipated high labor productivity should compensate for the higher wages. The company's high compensation structure is necessary within the region to assure highly qualified personnel can be recruited and retained. The service workers are paid less, ranging from RMB30,000 to RMB60,000 per year.

| Mine              | Yitai Group Mines Average Salary Structure<br>(as of 31 December 2011) |                           |                  |
|-------------------|------------------------------------------------------------------------|---------------------------|------------------|
|                   | UG Face Workers                                                        | UG Services<br>(RMB/year) | Surface Services |
| Dadijing .....    | 80,000                                                                 | 50,000                    | 40,000           |
| Baoshan .....     | 75,000                                                                 | 45,000                    | 30,000           |
| Dingjiaqu .....   | 60,000                                                                 | 40,000                    | 30,000           |
| Chengyi .....     | 50,000                                                                 | 35,000                    | 17,000           |
| Baijialiang ..... | 80,000                                                                 | 60,000                    | 40,000           |

Yitai Group provided the current and projected three-year period labor structure for its mines, with detailed breakdowns for the third-party service providers. However, comparable data for past years are not readily available.

Yitai Group's labor efficiency (output tonnes divided by payroll personnel count) is comparable to the international coal industry.

Yitai Group's average labor efficiency for 2011 detailed by mine is as follows:

| Mine                      | 2011<br>Output Tonnes<br>(millions) | Number of Employees |             | Productivity,<br>tonnes/employee-yr. |             |
|---------------------------|-------------------------------------|---------------------|-------------|--------------------------------------|-------------|
|                           |                                     | Mine                | Underground | Mine                                 | Underground |
| Dadijing                  | 4.463                               | 816                 | 674         | 5,470                                | 6,620       |
| Baoshan                   | 2.161                               | 419                 | 317         | 5,160                                | 6,820       |
| Dingjiaqu                 | 3.055                               | 353                 | 260         | 8,650                                | 11,750      |
| Chengyi                   | 0.938                               | 307                 | 203         | 3,050                                | 4,620       |
| Baijialiang               | 2.069                               | 393                 | 213         | 5,260                                | 9,710       |
| Yitai Group Total/Average | 12.685                              | 2,288               | 1,667       | 5,540                                | 7,610       |

Note: Figures may not add due to rounding.

## 5.5 Operating Cost

According to information provided by Yitai Group, average mine operating costs by year are as follows:

| Mining Method:<br>Mine | Operating Costs |      |      |      |    |      |     |      |     |     |
|------------------------|-----------------|------|------|------|----|------|-----|------|-----|-----|
|                        | 2006            | 2007 | 2008 | 2009 |    | 2010 |     | 2011 |     |     |
|                        | DB              | DB   | DB   | FM   | DB | FM   | DB  | FM   | DB  | FM  |
|                        | (RMB/ROM tonne) |      |      |      |    |      |     |      |     |     |
| Dadijing               | 62              | 74   | 68   | 83   | 89 | 114  | 101 | 103  | 117 | 102 |
| Baoshan                | 28              | 67   | —    | 70   | —  | 69   | —   | 82   | —   | 83  |
| Dingjiaqu              | 50              | 52   | 111  | —    | —  | 67   | —   | 66   | —   | 67  |
| Chengyi                | 52              | 55   | 91   | 13   | —  | 94   | —   | 100  | —   | 121 |
| Baijialiang            | 45              | 54   | 58   | 75   | —  | 67   | —   | 72   | —   | 73  |
| Yitai Group Average    | 55              | 67   | 74   | 75   | 89 | 81   | 101 | 82   | 117 | 86  |
| Total Average          | 55              | 67   | 74   |      | 82 |      | 85  |      | 89  |     |

Note: Figures may not add due to rounding.

A breakdown of operating costs on a composite basis is as follows:

| Category                  | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|---------------------------|----------------------------------|------|------|------|------|------|
|                           | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
|                           | (RMB/ROM tonne)                  |      |      |      |      |      |
| Cash Costs                |                                  |      |      |      |      |      |
| Materials/Supplies        | 4                                | 3    | 6    | 5    | 4    | 7    |
| Maintenance/Repairs       | —                                | —    | 5    | 1    | 2    | 1    |
| Power/Fuel                | 1                                | 1    | 2    | 2    | 3    | 3    |
| Salary & Welfare          | 5                                | 9    | 8    | 7    | 8    | 9    |
| Production Fees           | 38                               | 45   | 47   | 60   | 60   | 62   |
| Subtotal — Cash Costs     | 48                               | 59   | 69   | 75   | 76   | 81   |
| Non-Cash Costs            |                                  |      |      |      |      |      |
| Depreciation              | 7                                | 8    | 5    | 8    | 9    | 8    |
| Subtotal — Non-Cash Costs | 7                                | 8    | 5    | 8    | 9    | 8    |
| TOTAL                     | 55                               | 67   | 74   | 82   | 85   | 89   |

\* Average composite costs include a weighted average of DB with FM output achieved with FM LW face methods.

Note: Figures may not add due to rounding.

Production fees have increased since 2006 in response to increases in government-related fees, new cost items related to the implementation of mechanized LW face operations, and higher overhead and management costs.

## 5.6 Future Operations

BOYD's review of future Yitai Group operations is based on three-year mine plans and business projection data submittals and discussions with corporate and mine management, financial, and engineering staff. The mine plan period for this review is 2012 — 2014. BOYD has reviewed and opined on the reasonableness of Yitai Group's internally prepared mine plan forecasts. We have considered recent operating history, and BOYD's knowledge of the PRC coal industry.

### 5.6.1 Output Projections

Based on nominal output rates, the Yitai Group mines' reserve base is adequate for the period 2012-2014, except for the Baijialiang Mine, where the coal resources will deplete in 2012. BOYD has not identified significant geological (non-reserve) or mining-related issues during our review that would prevent the Yitai Group mines from achieving projected raw coal output levels. The Yitai Group 2012-2014 production forecasts is summarized below:

| Yitai Group Mine      | Projected ROM Output |       |       |
|-----------------------|----------------------|-------|-------|
|                       | 2012                 | 2013  | 2014  |
|                       | (tonnes -millions)   |       |       |
| Dadijing*             | 4.20                 | 4.50  | 4.50  |
| Baoshan               | 2.20                 | 2.20  | 2.20  |
| Dingjiaqu**           | 3.00                 | 3.00  | 3.00  |
| Chengyi               | 1.20                 | 1.20  | 1.20  |
| Baijialiang***        | 0.80                 | —     | —     |
| Yitai Group Total**** | 11.40                | 10.90 | 10.90 |

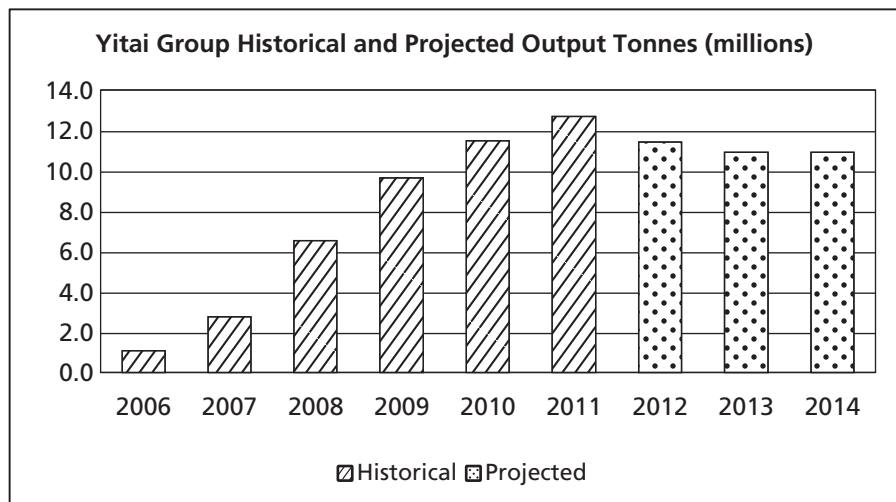
\* Dadijing output projections include 0.90 Mt of room and pillar output in 2012.

\*\* We project that Dingjiaqu will be transitioning into thinner coal reserves in 2013 and LW face output will be affected. Of the 3.0 Mt output projected in 2013, 0.50 Mt is generated from room and pillar operations and 2.50 Mt from FM LW operations. In 2014, 2.00 Mt is projected from FM LW operations and 1.00 Mt from room and pillar operations.

\*\*\* Based on BOYD's reserve estimation, we project that Baijialiang mine will deplete its FM LW reserves in 2012. Of the 0.80 Mt output projection in 2012, 0.31 Mt is projected from room and pillar mining operations and 0.49 Mt from FM LW operations.

\*\*\*\* Open pit mining at several mines may contribute to Yitai Group's output; at Dadijing 1.0 Mt annually is projected from open pit operations in 2013 and 2014.

Yitai Group output projections on a product output tonnage basis are equivalent to the ROM tonnage; that is, CPP processing is not reflected. Yitai Group may utilize Zhunge'erzhao CPP depending on raw coal quality and market requirements.



The Yitai Group forecasts projects relatively level production with output of approximately 11.0 Mt in the period 2012-2014. BOYD has reviewed the plans for 2012-2014 and the reserve tonnages in the Yitai Group mines. Based on our review, the output plans for the mines are achievable in our opinion although output from open pit and room and pillar mining may be required to supplement LW face output at Dadijing and Dingjiaqu mines. Depletion of FM LW reserves is expected at the Baijialiang Mine in 2012. Of the 0.8 Mt output projected in 2012, 0.31 Mt is generated from room and pillar mining operations and 0.49 Mt from FM LW operations. We project that Dingjiaqu will be transitioning into thinner LW coal reserves in 2013 and LW face output will be affected. Of the 3.0 Mt output projected in 2013, 0.50 Mt is generated from room and pillar mining operations and 2.50 Mt is produced from FM LW operations. In 2014, 2.00 Mt is projected from FM LW operations and 1.00 Mt from room and pillar operations. Dadijing will continue utilizing room and pillar mining operations for a portion of its output. Output projection for 2012 includes 0.90 Mt, generated from room and pillar mining operations. The transition from drill and blast practices to FM LW technology has been accomplished in all Yitai Group mines, and the mine infrastructures in these mines have been shown to be capable of supporting the proposed output levels. Room and pillar mining method are deployed to recover coal resources not suitable for FM LW mining methods and supplement LW face output. Yitai Group mines product projections are equivalent to the ROM tonnage; CPP processing is not planned at this time although the Group mines could utilize, the Zhunge'erzhao CPP, as required.

Depletion rate represents the rate of exhaustion of reserves of a mine. In the context of this CPR, depletion rate of a mine refers to the exhaustion rate of marketable reserves as of December 31, 2011 on the basis of aggregate projected output from 2012 to 2014. The depletion rates for Yitai Group mines are as follows:

| Mine        | Marketable Reserves (Mt)<br>As of 31 December 2011* | 2012 to 2014            |                    |
|-------------|-----------------------------------------------------|-------------------------|--------------------|
|             |                                                     | Projected Output (Mt)** | Depletion Rate (%) |
| Dadijing*** | 51.8                                                | 11.2                    | 22                 |
| Baoshan     | 14.6                                                | 6.6                     | 45                 |
| Dingjiaqu   | 16.3                                                | 9.0                     | 55                 |
| Chengyi     | 4.8                                                 | 3.6                     | 75                 |
| Baijialiang | 0.5                                                 | 0.8                     | 100                |

\* Reflect BOYD's reserve estimation which only includes minable reserves suitable for FM LW mining method.

\*\* Reflect Yitai Group's projections which include FM LW mining and DB mining operations where applicable.

\*\*\* Reserve and output from open pit operations excluded.

## 5.6.2 Projected Staffing

Projected staffing (including third-party service providers) at full output capacity is shown as follows:

| Category     | Employees at Full Production |       |            |       |            |       |            |       |             |       |              |       |
|--------------|------------------------------|-------|------------|-------|------------|-------|------------|-------|-------------|-------|--------------|-------|
|              | Dadijing                     |       | Baoshan    |       | Dingjiaqu  |       | Chengyi    |       | Baijialiang |       | Total        |       |
|              | Yitai Gp.                    | Other | Yitai Gp.  | Other | Yitai Gp.  | Other | Yitai Gp.  | Other | Yitai Gp.   | Other | Yitai Gp.    | Other |
| Underground  | 19                           | 610   | 21         | 327   | —          | 269   | —          | 219   | —           | 213   | 40           | 1,638 |
| Surface      | —                            | —     | —          | —     | 4          | 12    | 12         | 15    | 32          | 7     | 48           | 34    |
| Service      | 24                           | 118   | 25         | 86    | 56         | 29    | 32         | 45    | 25          | 116   | 162          | 394   |
| Subtotal     | 43                           | 728   | 46         | 413   | 60         | 310   | 44         | 279   | 57          | 336   | 250          | 2,066 |
| <b>Total</b> | <b>771</b>                   |       | <b>459</b> |       | <b>370</b> |       | <b>323</b> |       | <b>393</b>  |       | <b>2,316</b> |       |

Yitai Group's projected average labor productivity at full output by mine is as follows:

| Mine                            | Projected Full Operation Output Tonnes (Mt) | Employees |             | Productivity (Tonnes/employee-yr.) |             |
|---------------------------------|---------------------------------------------|-----------|-------------|------------------------------------|-------------|
|                                 |                                             | Mine      | Underground | Mine                               | Underground |
| Dadijing .....                  | 4.20                                        | 771       | 629         | 5,450                              | 6,710       |
| Baoshan .....                   | 2.20                                        | 459       | 348         | 4,790                              | 6,320       |
| Dingjiaqu .....                 | 3.00                                        | 370       | 269         | 8,110                              | 11,150      |
| Chengyi .....                   | 1.20                                        | 323       | 219         | 3,720                              | 5,480       |
| Baijialiang .....               | 0.80                                        | 393       | 213         | 2,040                              | 3,760       |
| Yitai Group Total/Average ..... | 11.40                                       | 2,316     | 1,678       | 4,920                              | 6,790       |

### 5.6.3 Projected Capital Expenditures

Historical capital expenditure data were not available. Yitai Group projected future capital expenditures are summarized below:

| Mine                    | Projected Capital Expenditures (RMB millions) |      |      |       |
|-------------------------|-----------------------------------------------|------|------|-------|
|                         | 2012                                          | 2013 | 2014 | Total |
| Dadijing .....          | 48                                            | 21   | 16   | 85    |
| Baoshan .....           | 26                                            | 14   | 15   | 55    |
| Dingjiaqu .....         | 23                                            | 23   | 22   | 68    |
| Chengyi .....           | 10                                            | 9    | 8    | 27    |
| Baijialiang .....       | —                                             | —    | —    | —     |
| Yitai Group Total ..... | 107                                           | 67   | 61   | 235   |

Capital spending by major category is as follows:

| Category                                                 | Projected Capital Expenditures (RMB millions) |      |      |       |
|----------------------------------------------------------|-----------------------------------------------|------|------|-------|
|                                                          | 2012                                          | 2013 | 2014 | Total |
| Surface Infrastructure .....                             | —                                             | —    | —    | —     |
| Mine Openings and Roadway Development .....              | —                                             | 21   | 21   | 42    |
| Mining, Monitoring, and Misc. Equipment & Rebuilds ..... | 105                                           | 45   | 39   | 189   |
| CPP .....                                                | —                                             | —    | —    | —     |
| Other .....                                              | 2                                             | 2    | 2    | 5     |
| Yitai Group Total .....                                  | 107                                           | 67   | 61   | 235   |

Note: Figures may not add due to rounding.

Sustaining capital based on projected raw coal output is RMB6.6 per tonne, which is at the low end of the range of likely requirements in our opinion to support the projected output level. However, we recognize significant mine development expenses that would be considered capital expenditures are included in operating costs. The closure of Baijialiang Mine in 2012 will also provide opportunities for equipment transfers to other Group mines. Sustaining capital expenditures are highly sensitive to equipment replacement cycles, the scheduling of which can vary in the short term.

It is BOYD's opinion that it is reasonable for Yitai Group to use domestic FM LW equipment rather than imported LW equipment at their mines, mainly for the following reasons:

- *Smaller reserve bases:* The overall reserve base at the Yitai Group mines is small. Consequently, the output level is relatively low to provide a reasonable mine life. Domestic equipment has been widely adopted at similar output levels, and the advantages of imported equipment over domestic are less significant with the given output levels and reserve bases.
- *Simpler geological conditions:* Fewer faults in the mines and fewer partings in coal seam have been encountered compared with some other mines in China, which are favorable factors for domestic equipment reliability.

- *Available experience:* The third-party service providers used in underground mining operations are frequently involved in smaller mining operations and are familiar with domestic LW equipment.

BOYD believes it is not necessary to expand the output capacities and make a major upgrade of FM LW equipment to imported equipment in Yitai Group mines due to the limited reserve conditions. The current domestic faces in our opinion are capable of sustaining the projected production plans, although routine maintenance and replacement due to normal wear and tear are required.

Since the transition to FM LW technology has been completed, Yitai Group's capital spending is projected to be used for sustaining the current production level. Operating mines generally have adequate equipment and infrastructure (including shafts, inclines, belt conveyor systems, electrical systems, pumping systems, etc.) necessary to support projected output levels. Additional openings (shafts, inclines) or extensions of openings may be required for ventilation or to access deeper occurring coal seams and/or more remote areas of the reserve. The operating depths are relatively shallow and, therefore, require relatively less excavation work. Thus, the impact of access projects on capital spending would be relatively small.

#### 5.6.4 Projected Operating Costs

Yitai Group future operating cost projections reflecting FM LW mining methods employed in favorable conditions are as follows:

|                        | Projected<br>Operating Costs**<br>(RMB/ROM tonne) |      |      |
|------------------------|---------------------------------------------------|------|------|
|                        | 2012                                              | 2013 | 2014 |
| Dadijing*              | 105                                               | 109  | 112  |
| Baoshan                | 86                                                | 87   | 89   |
| Dingjiaqu              | 68                                                | 70   | 72   |
| Chengyi                | 126                                               | 127  | 130  |
| Baijialiang            | 76                                                | —    | —    |
| Yitai Group Average*** | 91                                                | 96   | 100  |

\* Projected open pit mining will impact overall mine costs in 2013 and 2014.

\*\* FM LW mining costs based on Yitai projections.

\*\*\* Yitai Group's average cost with open pit mining operations included are projected at RMB94 and RMB97 per ROM tonne in 2013 and 2014, respectively.

Operating cost projections include Labor, Benefits, Material, Supplies, Power, Water, Maintenance, Engineering, Development Expense, Exploration, Face Moves, Village Moves, Resource Fees, Coal Management Fees, Administration, and Misc. Others. Other management/overhead employees are accounted for in Yitai overhead costs. Operating cost projections do not include possible CPP costs or reflect possible processing yield impacts.



A breakdown of Yitai Group projected FM LW operating costs, on a composite basis, is as follows:

| Category                            | Projected Operating Costs*<br>(RMB/ROM tonne) |      |      |
|-------------------------------------|-----------------------------------------------|------|------|
|                                     | 2012                                          | 2013 | 2014 |
| Cash Costs                          |                                               |      |      |
| Materials / Supplies . . . . .      | 5                                             | 5    | 5    |
| Maintenance / Repairs . . . . .     | 2                                             | 2    | 2    |
| Power / Fuel . . . . .              | 3                                             | 3    | 3    |
| Salary & Welfare . . . . .          | 10                                            | 10   | 10   |
| Production Fees . . . . .           | 62                                            | 65   | 68   |
| Subtotal — Cash Costs . . . . .     | 82                                            | 86   | 89   |
| Non-Cash Costs                      |                                               |      |      |
| Depreciation . . . . .              | 9                                             | 10   | 11   |
| Subtotal — Non-Cash Costs . . . . . | 9                                             | 10   | 11   |
| TOTAL . . . . .                     | 91                                            | 96   | 100  |

\* FM LW mining costs based on Yitai projections.

Note: Figures may not add due to rounding.

## 5.7 Safety

Based on the data provided by Yitai Group, its mines did not experience any fatalities and serious bodily injuries in the period 2006 — 2011.

BOYD site visits show that Yitai Group mines follow appropriate safety standards. Underground monitoring systems are employed in the mines at multiple stations to monitor and record methane and CO contents. Yitai Group mines are ranked as low-gas mines, meaning that the relative gas generating rate is less than 10 m<sup>3</sup>/t and the absolute gas generating rate is less than 40 m<sup>3</sup>/min in these mines. Air ventilation volumes appear adequate for diluting methane liberation, explosive smoke, and dust in the development and LW faces. Based on BOYD's observations during site visits, the mines appeared to be operating in a safe manner. On the LW faces visited by BOYD, monitoring station and hand-held methane monitors indicated relatively low or non-detectable levels of methane on the LW faces.

Other customary safety practices such as coal dust suppression, spillage control, and adequate roof and rib support were also observed during the BOYD site visits. Yitai Group mines have also taken proactive steps to minimize coal and coal dust accumulations outside of the face areas. The health and safety practices are consistent with those observed at other larger PRC mining companies.

Yitai Group has implemented safety training programs, covering proper work procedures and work practices at their operations to provide for worker safety, and has established a good basis for its safety systems to support expanded future mine operations.

According to Yitai Group, their coal mines are heavily monitored by several levels of government: county, city, and region. Inner Mongolia takes the lead role in mine regulation, although city and county regulations also must be followed.

## 5.8 Coal Quality

Yitai Group's mining operations produce low sulfur coals, classified principally as "long-flame" (CY41) according to the Chinese coal classification system. Yitai Group's output is utilized as steam (thermal) coal products for the chemical, industrial, and power generation markets. Typical coal quality is shown below, although, for individual mining right areas and seams, certain coal quality parameters may fall outside of this range:

| Characteristic<br>(as-received basis) | Typical<br>Parameter |
|---------------------------------------|----------------------|
| Moisture (%) . . . . .                | 17-20                |
| Ash (%) . . . . .                     | 8-18                 |
| Sulfur (%) . . . . .                  | 0.2-0.7              |
| Volatile Matter (%) . . . . .         | 22-27                |
| Calorific Value (Kcal/kg) . . . . .   | 5,000-5,500          |

Coal quality by mine based on coal test report data provided by Yitai Group is as follows:

| Quality Characteristic                    | Yitai Group Coal Quality Summary* by Mine (As Received Basis) |         |           |         |             |
|-------------------------------------------|---------------------------------------------------------------|---------|-----------|---------|-------------|
|                                           | Dadijing                                                      | Baoshan | Dingjiaqu | Chengyi | Baijialiang |
| Moisture (%) . . . . .                    | 17.2                                                          | 15.4    | 16.0      | 18.4    | 19.6        |
| Ash (%) . . . . .                         | 9.3                                                           | 6.4     | 12.1      | 5.8     | 4.3         |
| Sulfur (%) . . . . .                      | 0.6                                                           | 0.2     | 0.2       | 0.6     | 0.4         |
| Volatile Matter (%) . . . . .             | 27.3                                                          | 27.8    | 27.5      | 26.5    | 29.3        |
| Gross Calorific Value (Kcal/kg) . . . . . | 5,570                                                         | 6,070   | 5,500     | 5,760   | 5,810       |
| Net Calorific Value (Kcal/kg) . . . . .   | 5,300                                                         | 5,800   | 5,230     | 5,500   | 5,520       |

\* Average based on coal quality test data for Jul-Dec 2011 provided by Yitai Group, which may not reflect typical analysis.

Yitai Group operations utilize a combination of screening, crushing, and hand-picking to increase product quality. At Baijialiang, Baoshan, and Dadijing mines, the coal is screened at 50 mm. Lump coal (plus 50-mm) is sold directly on site, while the minus 50-mm size coal is transported to nearby rail loading stations. At Chengyi and Dingjiaqu mines, however, coal is crushed to minus 50-mm size to be transported to the rail loading stations. According to Yitai Group, there is no plan to build coal washing facilities at any of the mine sites. It is BOYD's opinion that this arrangement is appropriate since the screened coal products achieve acceptable quality for the markets or, if necessary, raw coal can be transported to Yitai's Zhunge'erzhao CPP for processing.

## 5.9 Operating Practices

The mines produce coal approximately 300 days annually. This schedule permits 40 to 50 maintenance/ idle days, as well as 10 to 15 calendar days for major holidays, annually. Individual employees work five or six days per week, as required by the mines. On a typical production day, three 8-hour shifts are worked, which results in approximately 18 to 20 hours of production and 4 to 6 hours of repair, maintenance, and support. Although the mine design reports (except that of Dadijing) suggest a four 6-hour shift schedule, the mines use three 8-hour shifts instead, which is typical for the PRC coal industry. Each Yitai Group mine was formed by consolidating two or more former smaller mines and upgrading the mining method from drill and blast to FM LW operation. In addition to using some of the former infrastructures, new construction was completed on an as-needed basis at the new mines. Based on BOYD's site visit, mine surface facilities at the mines are well-established complexes and provide accommodations for all aspects of the mining operation, including administration and mine manager offices, materials and parts storage, shower rooms, locker rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. Living quarters for single men are often provided near the mine sites. Since the coal seams are generally shallow (mostly less than 200 m), Yitai Group underground mines typically use shallow angle inclines to access the seams for mining activities using rubber-tired vehicles. Air return shafts are used in Baijialiang and Dingjiaqu mines, while the rest of the mines use air return inclines due to the shorter distance from the current mining locations and the incline accesses.

A summary of Yitai Group mine openings by mine follows:

| Mine                  | Openings           | Gradient (degrees) | Length (m) | Dimension (m) | Function                   |
|-----------------------|--------------------|--------------------|------------|---------------|----------------------------|
| Dadijing . . . . .    | Main Incline       | 8                  | 262        | 3.6×3.5       | Intake, Belt               |
|                       | Service Incline    | 6                  | 356        | 5.4×3.8       | Intake, Rubber-tire Access |
|                       | Air Return Incline | 6                  | 349        | 3.6×3.5       | Air Return                 |
| Baoshan . . . . .     | Main Incline       | 4                  | 90         | 3.4×2.8       | Intake, Belt               |
|                       | Service Incline    | 1                  | 250        | 4.4×2.8       | Intake, Rubber-tire Access |
|                       | Air Return Incline | 25                 | 88         | 4.0×3.1       | Air Return                 |
| Dingjiaqu . . . . .   | Main Incline       | 10                 | 325        | 3.4×3.2       | Intake, Belt               |
|                       | Service Incline    | 6                  | 637        | 5.2×3.9       | Intake, Rubber-tire Access |
|                       | Air Return Shaft   | 90                 | 73         | 4.0 dia.      | Air Return                 |
| Chengyi . . . . .     | Main Incline       | 15                 | 127        | 3.4×3.2       | Intake, Belt               |
|                       | Service Incline    | 6                  | 287        | 5.2×3.8       | Intake, Rubber-tire Access |
|                       | Air Return Incline | 22                 | 99         | 3.5×3.2       | Air Return                 |
| Baijialiang . . . . . | Main Incline       | 4                  | 64         | 2.8×2.7       | Intake, Belt               |
|                       | Service Incline    | 6                  | 76         | 2.5×2.5       | Intake, Rubber-tire Access |
|                       | Air Return Shaft   | 90                 | 70         | 3.0 dia.      | Air Return                 |

Both the central and local (Inner Mongolia Autonomous Region) governments have implemented increased emphasis in recent years in improving both personnel safety and resource recovery in coal mines. This resulted in the issuing of policies of consolidation of smaller coal mines and upgrading of mining techniques. Yitai Group mines have successfully completed the transition and all mines utilize FM LW technology for coal production.

An FM LW face at the Yitai Group mines typically ranges in length from 150 to 200 m and is generally supported by 100 to 140 shields, depending on shield width. LW face strike lengths vary according to the configuration of the mining right areas or other features defining the mineable reserve. Typical strike lengths range from 600 to 1,500 m. An FM LW face generally has two gates and a 20-m barrier pillar is maintained between adjacent faces. Compared with drill and blast techniques, FM LW methods have proven to be more efficient (increased mine output) while maintaining favorable economics in Yitai Group mines. A summary of active LW faces visited by BOYD follows:

| Mine                  | LW Face | Width (m) | Original Strike Length (m) | Shield Width (m) | No. of Shields | Cutting Height (m) |
|-----------------------|---------|-----------|----------------------------|------------------|----------------|--------------------|
| Dadijing . . . . .    | 3306    | 215       | 1,500                      | 1.50             | 147            | 2.40               |
| Baoshan . . . . .     | 6203    | 200       | 2,300                      | 1.50             | 137            | 2.15               |
| Dingjiaqu . . . . .   | 4108    | 200       | 1,700                      | 1.50             | 137            | 2.80               |
| Chengyi . . . . .     | 5104    | 216       | 1,400                      | 1.50             | 147            | 1.76               |
| Baijialiang . . . . . | 1418    | 76        | 762                        | 1.50             | 54             | 3.00               |

Yitai Group mining practices are similar to those of the Yitai mines. LW face retreat rates vary according to the face lengths, seam thickness, mining conditions, equipment, infrastructure, and the third-party service provider team. On the basis of our site visit observations, the installed FM LW faces appear to be capable of achieving face retreat rates in the range of 200 to 300 m per month in the coal seams currently being mined. Because of the opening heights and use of rubber-tired equipment, LW faces can be moved easily in approximately one to two weeks. Carts used for moving LW face equipment are generally rented from Yitai Group by individual mines.

LW face layout is minimally affected by villages located within the mining right areas of Yitai Group mines, which are located in Yijinhuoluo and Zhunge'er banners (counties). Small villages with a small number of residents are sparsely distributed in these areas.

Among the areas BOYD visited, most openings appeared to be well supported and stable. Roof bolting and control practices are similar to those used in the Yitai mines.

Yitai Group's approach to underground coal transportation is comparable to those employed in Yitai mines. The mines utilize belt conveyor systems of varying capacities to transport the coal from mining faces to the surface. Yitai Group's belt conveyor systems have evolved in terms of capacity as the mines have transitioned to FM LW mining. The highest capacity main incline conveyor (1.2 m width) is installed in Dadijing with an estimated capacity of 1,500 tph. LW face conveyor capacities for the LW faces are sized to exceed their associated gate and mainline conveyors in order to handle peak loading conditions. A summary of Yitai Group main incline belt conveyors follows:

| Mine              | Yitai Group Mines Main Incline Belt Conveyors |            |                |                  |
|-------------------|-----------------------------------------------|------------|----------------|------------------|
|                   | Width (m)                                     | Length (m) | Capacity (tph) | Motor Power (KW) |
| Dadijing .....    | 1.2                                           | 648        | 1,500          | 2 × 250          |
| Baoshan .....     | 1.0                                           | 770        | 800            | 2 × 160          |
| Dingjiaqu .....   | 1.0                                           | 494        | 550            | 2 × 280          |
| Chengyi .....     | 1.0                                           | 700        | 650            | 2 × 250          |
| Baijialiang ..... | 1.0                                           | 720        | 400            | 2 × 110          |

It is BOYD's opinion that the loading capacities of the belt conveyor installations are capable of handling the coal produced by FM LW faces in the Yitai Group mines. None of these mines, however, have underground bunkering facilities, but we believe the impact of lack of bunkering to the overall production goals at these mines is not significant.

Yitai Group's approach to underground service transport is similar to those used at the Yitai mines with a reliance on rubber-tired diesel vehicles. The generally shallow nature of the mines' facilities, access by way of horizontals, or shallow angle inclines are suitable for rubber-tired vehicles. Consequently, hoisting equipment is not employed at the mines. During site visits BOYD observed that most of the major service transportation roadways were hardened, clearly labeled, well maintained, and fairly easy to access by vehicles.

Power supply is typical of general practices in coal mines in China. Yitai Group mines are installed with dual-circuit power supply systems as required by industrial standards. Electricity is purchased off of the regional power grids from nearby transformer stations with renewable contracts. According to Yitai Group, power generation in this area is sufficient and the dual-circuit systems provide additional reliability for power supply. Power transformer stations are available at mine sites to convert the voltage of incoming power into voltages required by various surface and underground locations.

Water inflows experienced by Yitai Group mines tend to be above-average for the region, but are within the capabilities of the installed pumping stations. The underground mines place a priority on maintaining adequate water-handling systems. The mines have designed effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata. Typically the discharged water is used in mine applications (sprays, firefighting equipment, etc.) or used for surface greening irrigation. Water for firefighting and dust suppression sprays is distributed underground using a gravity flow system of pipelines.

Based on flame-length tests, coal dust generated by Yitai Group mining operations is classified as having explosive potential if ignited. Standard measures to control dust are the same as those used in the Yitai mines.

The use of limestone dust in LW gates as a precautionary safety measure to minimize propagation of potential face ignitions is required in the Yitai Group mines, as is the case with much of the Chinese coal industry.

Similar to the Yitai mines, the Yitai Group mines utilize similar underground ventilation practices with exhausting type main fans with auxiliary backups as required by regulation.

Typical of lower rank coals, the coal seams in the Yitai Group mines are rated as having significant potential for spontaneous combustion. Permanent sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection, are planned by Yitai Group.

## 6.0 GREENFIELD MINES

### 6.1 Talahao

#### 6.1.1 Introduction

The proposed Talahao Mine is located 18 km east of Dongsheng District of Ordos City, Inner Mongolia, PRC. In addition to mine and coal processing plant construction, the greenfield project includes construction of surface buildings and ancillary and support facilities.

The exploration right area, as shown in Figure 1.2, encompasses over 42.6208 km<sup>2</sup>, measuring 6.4 km east to west and 6.9 km north to south. The initial development phase of mining operations is proposed for six seams beginning in the Nos. 2-2U and 3-1 seams in the northeastern portion of the exploration right area. LW mining technology with high-profile, full-seam extraction methods is projected in Talahao.

The inter-provincial highway (G-109) from Beijing to Lhasa crosses through the northern portion of the exploration right area, which is divided into two subareas (North and South). Along the western boundary, the state road G210 that connects the towns of Baotou and Nanning and a railroad (from Baotou to Shenmu) cross through the area.

Physical mining conditions at Talahao are expected to be similar to the established Yitai operations. Seam gradients are 3 degrees or less, depth of mining generally ranges from 100 to 300 m, and thickness of the individual seams ranges from 2 to 6 m. Mining conditions at Yitai mines are among the best observed by BOYD in the PRC coal mining industry and are highly favorable for FM mining operations using LW, roadheader, and CM equipment. Talahao's reserve base offers similar potential for highly efficient LW mine designs. High levels of output can be anticipated from the planned LW installations. BOYD considers the Talahao Mine plans to be appropriate for the geologic and geotechnical settings and the present understanding of potential mining hazards.

#### 6.1.2 Mine Services

##### 6.1.2.1 Mine Openings

Two inclines and one vertical shaft are proposed for access into the mine:

| Incline Opening | Description | Length (m) | Incline (degree) | Ventilation Type          | Use                                               |
|-----------------|-------------|------------|------------------|---------------------------|---------------------------------------------------|
| 1               | Main        | 788        | 11.5             | Intake(minor) Safety Exit | Hoisting raw coal via belt conveyor               |
| 2               | Service     | 1,060*     | 5.5              | Intake Safety Exit        | Hoisting material, supplies, parts, and personnel |
| Shaft Opening   | Description | Depth (m)  | Diam. (m)        | Ventilation Type          | Use                                               |
| 1               | Air Return  | 154        | 6.0              | Return                    | Air return                                        |

\* Initial length to the 2-2U Seam

The main incline will be concrete-lined shotcrete-treated with rebar reinforcement. Incline dimensions are proposed as 3.5 m in height and 5.0 m in width. The service incline measures 3.5 m in height and 5.2 m in width and is also lined with reinforced shotcrete. The shaft and inclines can be extended to access underlying coal seams as needed.

##### 6.1.2.2 Underground Coal Haulage

Underground coal transportation will consist of belt conveyors and the main production incline. Raw coal generated from LW face operations and gate development faces will be conveyed to a 1,500 m<sup>3</sup> (1,500 tonne) central bunker that will feed the main incline belt conveyor. A 1,600-mm-wide main (trunk) road conveyor operating at a speed of 4.0 m/sec will be installed in the main (trunk) entries and will provide the mine with a maximum ROM coal transportation capacity of 2,500 tph.

### **6.1.2.3 Underground Material and Personnel Transport**

Consistent with other Yitai operations, the underground material transportation system will utilize diesel, rubber-tired haulage equipment. This type of transportation equipment is widely utilized in underground coal mines in the Shendong coalfields. A fleet of light (2 ~ 3 tonne) and the middle size (6 ~ 10 tonne) vehicles will be employed to transport material/supplies and workers from surface to underground. Heavy-duty vehicles with the capacity up to 40 tonnes will be used to transport the LW components from surface to underground or from a completed LW face to a set-up face.

### **6.1.2.4 Ventilation and Coalbed Methane (CBM)**

Talahao's projected methane emissions are classified as low, which is typical of the general area and shallow mining conditions. Degasification prior to mining or methane recovery is not projected. The mine's preliminary design report proposes an exhausting type ventilation system with two main intake openings and one return air shaft. The return opening will be equipped with two exhaust fans with 1,250-kW motors. The total air volume required in the early stages at Talahao is 10,800 m<sup>3</sup>/min.

### **6.1.2.5 Water Management**

Typical levels of ground water expected within the operation are 100 m<sup>3</sup>/hr (maximum 200 m<sup>3</sup>/hr). The proposed underground pumping facility has three 250-kW pump sets, which provide adequate redundancy.

### **6.1.2.6 Electrical Power**

Mine electrical power is provided by Gaojialiang regional transformer station (110 kV), which is 8 km to the southwest of the mine area. Incoming power provided is through two 35 kV overhead lines. The two main transformers are 2 X 20,000-kVA capacity. Incoming power is distributed underground at 10 kV to the distribution system and then reduced to various utilization voltages for different equipment at different locations (10 kV, 3.3 kV, 1.14 kV, 660 V, and 127 V).

## **6.1.3 Mining Operations**

### **6.1.3.1 Work Schedule**

The LW and development faces are scheduled to effectively operate 330 days per year on a 7-day-per-week basis. The LW and development sections are scheduled four 6-hour shifts per day, i.e., three operating shifts and one maintenance shift.

### **6.1.3.2 LW Development**

Based on the PDR, there are three main roadways, oriented east-west, splitting the coal No. 2-2U Seam into three districts. LW faces vary in strike length according to reserve configuration; the initial face strike length is 2,100 m. Face design lengths are 260 m. Talahao Mine geological conditions, current LW technology, and coal seam gradient were the primary factors used in the selection of the face length design.

LW panel development will be performed with roadheaders (two units are proposed). In addition, there will be two conventional drill and blast sections for main roadway development that will occur in rock, rather than in seam. Roadheaders have shown development gains at the other coal mines, outpacing conventional drill and blast methods by approximately 12 to 15 m/day with projected development rate of 600 m/month. Using conventional methods, the projected gate roadway advance rate is 200 m/month in coal and 80 m/month in rock. Material and equipment will be transported via rubber-tired haulage vehicles.

The initial gate development follows the No. 2-2U coal seam floor horizon. The LW gate road layout in District 1 has two openings in the tailgate and one in the headgate. This design allows for one return heading in the tailgate with expected low levels of methane; the second heading is used for material transport. A belt conveyor and intake roadway are maintained in the headgate. Gate roadways are on 30-m center spacing with crosscuts spaced every 200 m. The three main roadways are developed on 50-m center spacing. Gate roads are normally 3.0 m in height and 5.5 m in width.

BOYD anticipates implementation of roof bolt support systems similar to those successfully used at other Yitai mines, which includes five bolts per row with rows on 0.9-m spacing with steel straps. Resin-grouted bolts 2.4 m in length are utilized. Meshing is also installed to minimize the potential for roof strata falling out between the steel straps.

#### **6.1.3.3 LW Operations**

One FM LW face equipped with hydraulic shield supports is proposed for Talahao. The proposed supports have operating heights ranging from 3.0 to 6.0 m. The face components are likely to be sourced domestically with an annual design capacity of 5.87 Mtpa. With an additional 0.2 Mtpa generated from roadheader development, Talahao is designed to produce 6.0 Mtpa.

#### **6.1.4 Preparation Plant/Coal Processing**

The 6.0 Mtpa CPP facility planned for processing Talahao's output is discussed in the CPP section.

#### **6.1.5 Coal Quality**

Talahao coal will be sold as non-caking, long-flame coal (Chinese coal type BN 31 and CY 41 designations) for chemical, industrial, and power generation markets, as discussed in the CPP section.

#### **6.1.6 Future Operations**

##### **6.1.6.1 Construction**

In addition to the three mine openings, mine bottom, and roadway work, the greenfield project includes construction of surface buildings, CPP, ancillary, and support facilities.

The 13-month mine construction schedule summarized from Talahao's plan provided by Yitai is as follows:

| <u>Activity</u>                                                                   | <u>Months</u> |
|-----------------------------------------------------------------------------------|---------------|
| a. Mine openings construction, pit-bottom work, and roadway development . . . . . | 11            |
| b. Equipment installation and test period . . . . .                               | 2             |

Yitai assumes that the mining right certificate authorization will be received in second quarter 2012. The Company has commenced site construction work in advance of obtaining the mining right certificate, including substation, mine office building, dormitories, cafeteria, raw coal (3) and product (4) silos, production service building, materials/supplies store warehouse, maintenance/repair shop and other support structures.

In order to accelerate the mine construction schedule, Yitai plans to construct the inclines to the 2-2U Seam and develop the seam for LW mining before advancing the inclines to the 3-1 Seam (this is reflected in the incline length distance above). Surface structure construction is proceeding in parallel with mine opening preparation work.

##### **6.1.6.2 Output**

Initial mining at Talahao will be in the 2-2U Seam, which averages 3.6 m in thickness. Based on the proposed panel widths, approximately 15 m/day (4,500 m/year) of LW retreat will be needed to attain the mine's estimated production capacity. Based on similar Yitai operations visited by BOYD, we believe this to be reasonable, assuming infrastructure is installed as currently planned to support the proposed output levels. Seam thickness is thinner in the 4-1, 6-1M, and 6-2M coal seams. An additional LW face may be required in later years of the mine operating life to achieve the output target of 6.0 Mtpa, although improvements in domestic equipment may make this unnecessary.



The 2012 —2014 ROM coal output for Talahao is projected by Yitai as follows:

| <u>Year:</u>                        | <u>2012</u> | <u>2013*</u> | <u>2014</u> |
|-------------------------------------|-------------|--------------|-------------|
| Projected ROM Output (Mt) . . . . . | —           | 3.00         | 6.00        |

\* Output will initiate in Q3 2013.

The Yitai 2013 projection is aggressive considering the uncertainty of the mining right approval.

Standard practice within the PRC requires the mine to undergo a testing period following start-up. At the conclusion of a test period, the mine will transition into full production. The test period typically extends between two and six months, during which time mine systems are evaluated and debugged. Regulatory officials also inspect the mine and its infrastructure. Mines in test start-up mode typically do not attain their rated or authorized output capacity during this period.

Based on the projected output for 2012 to 2014, the depletion rate for Talahao mine would be approximately 2%.

### **6.1.6.3 Staffing**

The Talahao PDR projects 628 personnel will be employed at full production. Yitai provided the following breakdown based on the PDR:

| <u>Category</u>                         | <u>Projected Personnel at Full Output</u> |               |
|-----------------------------------------|-------------------------------------------|---------------|
|                                         | <u>PDR</u>                                | <u>Yitai*</u> |
| Underground Production . . . . .        | 480                                       | 249           |
| Surface . . . . .                       | 65                                        | 33            |
| Administration and Tech Staff . . . . . | 51                                        | 56            |
| Service and Support . . . . .           | 21                                        | 104           |
| Other . . . . .                         | 11                                        | 5             |
| Total . . . . .                         | 628                                       | 447           |

\* The payroll factor for seven-day-per-week coverage of operations and absenteeism was not provided by Yitai.

Temporary workers are not planned for labor services. The PDR underground labor productivity is projected at 12,500 raw tonnes/employee-year, which is achievable according to Yitai's experience in Nalinmiao No. 2 and Hongjingta No. 1 mines, which also operate in thick coal seams having highly favorable mining conditions. The Yitai staffing projection appears to be low based on the Company's staffing at its other mines.

**6.1.6.4 Capital Expenditures**

Capital expenditure projections for Talahao are as follows:

| <u>Category</u>                  | <u>2011*</u>   | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>Total</u> |
|----------------------------------|----------------|-------------|-------------|-------------|--------------|
|                                  | RMB (millions) |             |             |             |              |
| Mine Openings/Roadway .....      | —              | 132         | 131         | 42          | 305          |
| Civil Construction .....         | 164            | 16          | 14          | 2           | 197          |
| Mine Related Equipment .....     | 17             | 83          | 360         | 6           | 467          |
| Other Equipment .....            | —              | 7           | 10          | 4           | 21           |
| Office Facilities .....          | —              | 72          | 48          | 1           | 122          |
| Installation .....               | 8              | 16          | 63          | —           | 87           |
| Construction Loan Interest ..... | 9              | 16          | 23          | —           | 48           |
| Working Capital .....            | —              | 15          | 13          | —           | 28           |
| Contingency .....                | —              | 62          | 53          | —           | 115          |
| Other .....                      | 284            | 4           | 6           | 3           | 296          |
| <b>Total .....</b>               | <b>482</b>     | <b>424</b>  | <b>721</b>  | <b>58</b>   | <b>1,685</b> |

\* Accrued prior to 2012.

Note: Figures may not add due to rounding.

Talahao spending projections are adequate for this stage of mine planning. Development in the northern portion of the mining right area, including villages, industrial structures, and roads, is significant, and Yitai and the local government plan to move the villages and other structures at a budget currently totaling approximately RMB620 million. This expense is not included in the above capital expenditures projection as mining activities in the northern part of Talahao are not planned until much later in the mine's service life, well after the 2012-2014 forecasts period. Yitai has indicated that the planned expenditures for village and structure relocation will be handled as an operating expense. At full design output capacity, mine capital spending equates to RMB281 per tonne. BOYD considers the planned level of capital spending to be adequate compared to PRC coal industry experience.

**6.1.6.5 Operating Costs**

Projected PDR operating costs for Talahao at the 6.0 Mtpa design capacity are as follows:

|                                                       | <u>Projected</u> |
|-------------------------------------------------------|------------------|
| Output Raw Tonnes (millions) .....                    | 6                |
| Operating Cost (RMB/tonne)                            |                  |
| Operating Supplies, Material Usage, and Repairs ..... | 17               |
| Power and Fuel .....                                  | 6                |
| Salary and Welfare .....                              | 5                |
| Subsidence .....                                      | 1                |
| Production Maintenance Fee .....                      | 4                |
| Other .....                                           | 50               |
| Subtotal .....                                        | 83               |
| Depreciation .....                                    | 11               |
| Amortization .....                                    | 6                |
| <b>Total Operating Cost .....</b>                     | <b>100</b>       |

Note: Unit operating cost figures may not add due to rounding.

Projected operating costs are in general agreement with experience at established Yitai operations that have transitioned to FM LW mining. The PDR cost format follows standard Chinese cost estimation and reporting practice although supporting detail for cost projections is lacking for certain categories such as Other.

Yitai's operating cost projections for Talahao in 2013-2014 are as follows:

| <u>Cost Category</u>            | <u>Projected Operating Costs</u> |             |             |
|---------------------------------|----------------------------------|-------------|-------------|
|                                 | <u>2012</u>                      | <u>2013</u> | <u>2014</u> |
|                                 | <u>(RMB/ROM Tonne)</u>           |             |             |
| Cash Costs*                     |                                  |             |             |
| Salary and Welfare .....        | —                                | 2           | 5           |
| Materials, Supplies .....       | —                                | 6           | 6           |
| Maintenance .....               | —                                | 1           | 3           |
| Power/Fuel .....                | —                                | 3           | 3           |
| Coal Washing .....              | —                                | —           | —           |
| Production Fees .....           | —                                | 49          | 48          |
| Subtotal — Cash Costs .....     | —                                | 61          | 66          |
| Non-Cash Costs                  |                                  |             |             |
| Depreciation .....              | —                                | 10          | 8           |
| Subtotal — Non-Cash Costs ..... | —                                | 10          | 8           |
| Total Operating Cost .....      | —                                | 71          | 74          |

\* Talahao cost projections do not reflect coal washing costs if required.

Note: Unit operating cost figures may not add due to rounding.

We anticipate that Talahao's projected operating cost at design output capacity (6 Mtpa) would be significantly lower.

## 6.2 Bulamao

### 6.2.1 Introduction

The proposed Bulamao Mine is situated in the eastern portion of the Dongsheng Coalfield in the Inner Mongolia Autonomous Region, which is under the jurisdiction of Narisong Town of Zhunge'er Banner, Ordos City. In addition to mine construction, the greenfield project includes construction of surface buildings and ancillary and support facilities.

The exploration right area, as shown in Figure 1.2, encompasses over 40.21 km<sup>2</sup>, measuring from 2.3 to 7.0 km east to west and 7.2 km north to south. Aobaogou Hollow, which runs north to south, divides the mine right area into two subareas (East and West).

There are two options under consideration by Yitai for mining Bulamao West and possibly Bulamao East.

- Yitai's Kaida Mine is adjacent to and west of the Bulamao West subarea and will likely be used as the permanent access to Bulamao West (Kaida Access Option). However this option has not yet been approved by the regulatory authorities.
- Alternatively, each subarea has been studied and evaluated for mining operations, with independent openings developed from the Hollow (Independent Access Option). The relevant PDR was provided to BOYD for review.

Our review encompasses both options. Yitai would prefer the Kaida Access Option. We view the Kaida Access Option as a practical solution that will minimize capital cost and allow extraction of Bulamao West reserves through an established mine infrastructure with an accelerated mine development schedule. Discussion of the Bulamao Independent Access Option option is based on the PDR provided. Review of the Kaida Access Option is based on discussions with Yitai and mine plan mapping.

Although final mining plans for Bulamao have not been approved, main roadways have been developed from Kaida into Bulamao West and the initial LW Face has been developed. Surface facilities to support mining activities for the preferred Kaida Access Option are also under construction. Yitai output projections assume

that Bulamao West mining begins within the first half of 2013. The 2013 Bulamao output projection cannot be confirmed, considering the uncertainty of approval. Presently there is no production schedule for the Bulamao Independent Access Option.

The balance of this section, which discusses the Bulamao East and West development option from independent openings in Aobaogou Hollow, also applies to the Kaida Access Option, where aspects of the coal deposit and mining operations apply to both options.

Transportation access to surrounding communities is mainly by roadways. Caojiashiwan-Yangshitaxiang (Cao-Yang) Highway, a coal-hauling-only road, was completed in October 2004 along the western boundary of the exploration right area. Yitai owns the right of way. Zhunge'er-Dongsheng Railway passes through the northern part of the area. The Wusugou loading station is located 6 km away from the Cao-Yang Highway, which greatly facilitates the transport of coal. Meanwhile, the inter-provincial highway (G-109) from Beijing to Lhasa is approximately 70 km to the north and the Daliuta Railway Station is approximately 37 km due west.

Bulamao's PDR projects three mineable coal seams, Nos. 6-2U, 6-2, and 6-2L, with initial mine development beginning in the No. 6-2U Seam. LW mining technology is planned in both the east and west subareas simultaneously. Seam gradient is expected to be 1 to 5 degrees. Overburden above the coal seam(s) ranges from 5 m in burned subcrop zones or in the hollows to 150 m. The subareas are dissected by several prominent drainage or hollow features affecting overburden depth. Mineable coal thickness is significantly thinner when compared to established Yitai operations.

The Bulamao subareas have significant planning and operating issues, primarily due to the large expanse of shallow cover areas. Significant areas of coal resources underlie areas where the overlying competent rock cover is less than 40 m. As a result, only the Nos. 6-2 and 6-2L seams are mineable in Bulamao East and the Nos. 6-2U and 6-2 are mineable in Bulamao West.

LW mining under less than 40 m of competent rock cover is problematic based on PRC geotechnical studies and general mining experience. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. We have adjusted our mine plan projections and reserve estimates to exclude areas overlain by less than 40 m of competent rock overburden as discussed in the Yitai Output Projections section. Yitai is cognizant of this factor, based on plans provided for extraction of Bulamao West reserves from the adjacent Kaida Mine.

## 6.2.2 Mine Services

### 6.2.2.1 Mine Openings

For the Bulamao Independent Access Option, two independent mining areas (East and West) are designed with three inclines for access into the mines:

| Bulamao East    |             |            |                  |                            |                                                   |
|-----------------|-------------|------------|------------------|----------------------------|---------------------------------------------------|
| Incline Opening | Description | Length (m) | Incline (degree) | Ventilation Type           | Use                                               |
| 1               | Main        | 110        | 15               | Intake (minor) Safety Exit | Hoisting raw coal via belt conveyor               |
| 2               | Service     | 100        | 6                | Intake Safety Exit         | Hoisting material, supplies, parts, and personnel |
| 3               | Air Return  | 60         | 15               | Return                     | Air return                                        |
| Bulamao West    |             |            |                  |                            |                                                   |
| Incline Opening | Description | Length (m) | Incline (degree) | Ventilation Type           | Use                                               |
| 1               | Main        | 155        | 15               | Intake (minor) Safety Exit | Hoisting raw coal via belt conveyor               |
| 2               | Service     | 75         | 6                | Intake Safety Exit         | Hoisting material, supplies, parts, and personnel |
| 3               | Air Return  | 50         | 15               | Return                     | Air return                                        |

Mine access inclines will be concrete-lined and reinforced with rebar in areas with unconsolidated overburden. The roof and ribs will otherwise be bolted and shotcrete treated. Main inclines are 4.4 m wide with a 12.9 m<sup>2</sup> net cross sectional area. Service and air return inclines are slightly smaller, 4.0 m wide and 11.1 m<sup>2</sup>. Main inclines will be extended to the lower coal seams as required to provide coal haulage.

### 6.2.2.2 Underground Coal Haulage

Underground coal transportation will consist of belt conveyors and the main production incline. Raw coal generated from LW face operations and gate development faces is conveyed to central coal bunkers at both operations. A 900-m<sup>3</sup> (450 tonne) bunker at Bulamao East and a 1,400-m<sup>3</sup> (900 tonne) bunker at Bulamao West are proposed. Identical 800-mm-wide main incline belts, operating at 2.0 m/sec, and having a 250 tph capacity are proposed.

### 6.2.2.3 Underground Material and Personnel Transport

Consistent with other Yitai operations, the underground material transportation system will utilize diesel, rubber-tired haulage equipment. This type of transportation equipment is widely utilized in the underground coal mines in the Shendong coalfields. Light (2 ~ 3 tonne) and middle size (6 ~ 10 tonne) vehicles are employed to transport material/supplies and workers from surface to underground. Heavy-duty vehicles with a capacity up to 40 tonnes will be used to transport the LW components from surface to underground or from a completed LW face to a set-up face.

### 6.2.2.4 Ventilation and Coalbed Methane (CBM)

Bulamao's projected methane emissions are classified as low, which is typical of the general area and shallow mining conditions. Degasification prior to mining or methane recovery is not projected. The mine's preliminary design report proposes an exhausting type ventilation system with two main intake openings and one return air shaft. The return opening will be equipped with two exhaust fans with 75-kW motors. The total air volume required in the early stages at each Bulamao mine is 3,000 m<sup>3</sup>/min.

### 6.2.2.5 Water Management

Typical levels of ground water generation expected with the Bulamao operations are 25 m<sup>3</sup>/hr (maximum 50 m<sup>3</sup>/hr). The proposed underground pumping facility has three 18.5-kW pump sets for Bulamao East and three 22-kW sets for Bulamao West, which provide adequate redundancy.

### 6.2.2.6 Electrical Power

Mine electrical power is provided by Yangshita regional transformer station (110 kV), located 8 km to the west of the mine area. Incoming power is provided through two 35 kV overhead lines to Bulamao West and then on to Bulamao East. Incoming power will be distributed underground at 10 kV to the distribution system and then reduced to various utilization voltages (3.3 kV, 1.14 kV, 660 V, and 127 V).

### 6.2.3 Mining Operations

#### 6.2.3.1 Work Schedule

The LW and development faces are scheduled to effectively operate 330 days per year on a 7-day-per-week basis. The LW and development sections are scheduled at four 6-hour shifts per day, i.e., three operating shifts and one maintenance shift.

#### 6.2.3.2 LW Development

Based on the PDR, there are three main roadways, oriented north-south, splitting the No. 6-2U coal seam into six districts in Bulamao East and five districts in Bulamao West. LW faces vary in strike length according to reserve configuration; the initial face strike lengths are 800 and 1,365 m for Bulamao East and Bulamao West, respectively. Face design lengths are 150 m for both areas. Bulamao mines' geological conditions, current LW technology status, and seam gradient are factors in the selection of the face length design. BOYD does not believe the No. 6-2U Seam is mineable in the Bulamao East area due to shallow cover issues.

LW face development is proposed using roadheaders. In addition, conventional drill and blast methods are used for main roadway development within rock. Roadheader projected development rate is 350 m/month. Using conventional methods, the projected gate roadway advance rate is 200 m/month in coal and 80 m/month in rock. Material and equipment is transported via rubber-tired haulage vehicles.

The initial gate development follows the No. 6-2U coal seam floor horizon. The LW gate road layout has one opening in the tailgate and one in the headgate. This allows for one return heading in the tailgate, which is also used for material transport. A belt conveyor and intake roadway are maintained in the headgate. Gate roadways are on 30-m center spacing, with crosscuts spaced every 200 m. Gate roads are nominally 2.5 m in height and 4.2 m in width.

BOYD anticipates implementation of roof bolt support systems similar to those used at other Yitai mines, which includes five bolts per row with rows on 0.9-m spacing with steel straps. Resin-grouted bolts 2.4 m in length and cable bolts (8.3 m) are installed for supplemental support as required. Meshing is also installed to minimize the potential for roof strata falling out between the steel straps.

#### 6.2.3.3 LW Operations

Domestically sourced low profile FM LW faces are proposed for the Bulamao mines. The proposed shield supports and shearers have operating heights ranging from 1.3 to 2.5 m. The LW face components have a projected design capacity of 0.6 Mtpa.

### 6.2.4 Preparation Plant/Coal Processing

The planned on-site screening plant in the Independent Access Option services both mines and produces four sizes of products from the (ROM) raw coal material:

| Sizes         |
|---------------|
| > 80-mm       |
| 80-mm — 30-mm |
| 30-mm — 13-mm |
| < 13-mm       |

Size distribution, equipment specifications, and plant capacity are anticipated to be similar to other Yitai mines, scaled in accordance with the planned mine output. Facility staffing is estimated at 126 personnel. Proposed on-site coal storage capacity is 63,000 tonnes. Screened, sized products are transported by 40- and 60-tonne trucks for direct transport to Bulamao customers or are transported to Bulamao's coal yard in the initial phase of the mine's operation. A railroad spur connecting the mine to the Jiafeng Station on Houma-Yueshan Railway west of the mine is proposed at a later stage. Depending on ROM coal quality, the Bulamao mines' output is likely to require CPP processing.

### 6.2.5 Coal Quality

Bulamao coal will be sold as non-caking coal (Chinese coal classification BN31) for use in the chemical, industrial, and power generation markets. Representative coal quality data for Bulamao are shown in the Geology and Resources section of this report.

### 6.2.6 Future Operations

#### 6.2.6.1 Construction

For the Independent Access Option, in addition to the three mine openings, mine bottom, and roadway work for each mine, Bulamao West includes construction of surface ancillary support facilities to service both mines.

The 15.5-month mine construction schedule summarized from Bulamao's plan is as follows:

| <u>Activity</u>                                                                   | <u>Months</u> |
|-----------------------------------------------------------------------------------|---------------|
| a. Preparation of site, equipment, and materials . . . . .                        | 2.5           |
| b. Mine openings construction, pit-bottom work, and roadway development . . . . . | 12.0          |
| c. Equipment installation and test period . . . . .                               | 1.0           |

At the conclusion of the test period, the mine will transition into full production, producing 1.2 Mt in its first 12 months after the test period.

#### 6.2.6.2 Output

##### Bulamao Independent Access Option

The Bulamao PDR projects combined annual output of 1.2 Mt with one FM LW face operating in each mine. The PDR output projections are reasonably attainable and consistent with low profile, domestic LW face performance capabilities. Annual single LW face retreat rate requirements range from 1,800 to 2,000 m.

##### Bulamao Kaida Access Option

The 2012 —2014 ROM coal output for the Bulamao Kaida Access Option is projected by Yitai as follows:

| <u>Year:</u>                        | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|-------------------------------------|-------------|-------------|-------------|
| Projected ROM Output (Mt) . . . . . | —           | 1.60        | 1.60        |

Yitai's output projections are based on Kaida Mine extending into Bulamao West (which has been already accomplished) and receiving approval for this option and beginning LW face operations in first quarter 2013. The 2013 output projection is aggressive in our opinion, considering the uncertainty of the approval and the extent of required mine construction.

Yitai has not provided technical details concerning deployment of the LW face in Bulamao West or the adjustments to the mine's infrastructure needed to handle the output from ongoing LW operation in Kaida Mine and the output from the Bulamao West LW face.

Based on the projected output for 2012 to 2014, the depletion rate for Bulamao mine would be approximately 19%.



**6.2.6.3 Staffing**

The Bulamao PDR (Independent Access Option) projects 384 personnel at full production, with the following breakdown by mine and category:

| <u>Category</u>                      | <u>Projected Personnel at Full Output in Bulamao</u> |             |              |
|--------------------------------------|------------------------------------------------------|-------------|--------------|
|                                      | <u>West</u>                                          | <u>East</u> | <u>Total</u> |
| Underground Production .....         | 129                                                  | 129         | 258          |
| Surface .....                        | 33                                                   | 33          | 66           |
| Administration/Technical Staff ..... | 8                                                    | 12          | 20           |
| Service and Support .....            | 10                                                   | 30          | 40           |
| Total .....                          | 180                                                  | 204         | 384          |

Temporary workers are not planned for labor services. Underground labor productivity, projected at 4,650 raw tonnes/employee-year, is significantly lower than current productivity levels at established Yitai operations operating in much thicker seams. Staffing levels as projected are low based on our experience.

Bulamao Kaida Access Option staffing has not been provided.

**6.2.6.4 Capital Expenditures**

Capital expenditure projections for Bulamao East and West for the Independent Access Option are as follows:

| <u>Category</u>                       | <u>2011*</u> | <u>2012</u>    | <u>2013</u> | <u>2014</u> | <u>Total</u> |
|---------------------------------------|--------------|----------------|-------------|-------------|--------------|
|                                       |              | RMB (millions) |             |             |              |
| Mine Openings/Roadway . . . . .       | 20           | 34             | 8           | —           | 62           |
| Civil Construction . . . . .          | 71           | 2              | —           | —           | 73           |
| FM LW Equipment . . . . .             | 36           | 23             | 13          | 3           | 76           |
| Other Equipment . . . . .             | 43           | 1              | 2           | 2           | 48           |
| Installation . . . . .                | —            | 19             | 8           | —           | 27           |
| Working Capital . . . . .             | 1            | 1              | 1           | —           | 2            |
| Contingency . . . . .                 | 12           | 10             | 1           | —           | 23           |
| Land Acquisition/Moving Fee . . . . . | 2            | —              | —           | —           | 2            |
| Other . . . . .                       | 6            | 2              | 2           | 1           | 10           |
| Total . . . . .                       | 192          | 92             | 35          | 6           | 324          |

\* Accrued prior to 2012.

Note: Figures may not add due to rounding.

Bulamao spending projections are adequate for this stage of mine planning. Projections for civil construction and equipment appear low based on our experience with similar projects but consistent with the shallow depth of the reserve. At full design output capacity, mine capital spending equates to RMB270 per tonne, which is adequate based on BOYD's other PRC coal industry experience. The timing for projected 2012 expenditures is uncertain considering the status of the project approval.

Capital expenditures for the Kaida Access Option have not been provided.

### 6.2.6.5 Operating Costs

Projected PDR operating costs for the Bulamao Independent Access Option at the 1.2 Mtpa design capacity are as follows:

|                                                       | <u>Projected</u> |
|-------------------------------------------------------|------------------|
| Output Raw Tonnes (millions) .....                    | 1.2              |
| <u>Operating Cost (RMB/tonne)</u>                     |                  |
| Operating Supplies, Material Usage, and Repairs ..... | 30               |
| Power and Fuel .....                                  | 5                |
| Salary and Welfare .....                              | 17               |
| Subsidence .....                                      | 4                |
| Production Maintenance Fee .....                      | 10               |
| Other and Security .....                              | 58               |
| Subtotal .....                                        | 124              |
| Depreciation .....                                    | 13               |
| Amortization .....                                    | 2                |
| Total Operating Cost .....                            | 139              |

Note: Unit operating cost figures may not add due to rounding.

The PDR operating costs projections for this option appear to be reasonable, with the exception of salary and welfare costs, which would be anticipated to be higher due to staffing requirements.

Yitai's operating cost projections for the Bulamao Kaida Access Option in 2013 and 2014 (1.6 Mt) are as follows:

| <u>Cost Category</u>            | <u>Projected Operating Cost</u> |             |
|---------------------------------|---------------------------------|-------------|
|                                 | <u>2013</u>                     | <u>2014</u> |
|                                 | <u>(RMB/ROM Tonne)</u>          |             |
| Cash Costs*                     |                                 |             |
| Salary and Welfare .....        | 9                               | 9           |
| Materials, Supplies .....       | —                               | —           |
| Maintenance .....               | 7                               | 7           |
| Power/Fuel .....                | 4                               | 4           |
| Coal Washing .....              | —                               | —           |
| Production Fees .....           | 51                              | 53          |
| Subtotal — Cash Costs .....     | 70                              | 72          |
| Non-Cash Cost                   |                                 |             |
| Depreciation .....              | 3                               | 4           |
| Subtotal — Non-Cash Costs ..... | 3                               | 4           |
| Total Operating Cost .....      | 73                              | 76          |

\* Bulamao cost projections do not reflect coal washing costs if required.

Note: Unit operating cost figures may not add due to rounding.

Based upon Yitai's operating results at Kaida Mine, the Bulamao operating cost projections appear to be reasonable and attainable. Higher operating costs at Bulamao as compared to Yitai's other mines reflect mining in thinner coal seams and lower productivity.

## 7.0 COAL PREPARATION PLANTS

### 7.1 Suancigou CPP

#### 7.1.1 Introduction

The existing Suancigou CPP, located in the mine industrial site, began operation in 2008. The original plant design (Phase I) included two jig circuits for processing coarse coal sizes. The Phase II construction was subsequently completed to add dense media vessel and cyclone circuits and expand processing capacity to 12.0 Mtpa capacity. Initial operation of Phase II began in February 2010. The CPP has completed the third phase of civil construction for expansion of processing capacity and modification of processing circuitry to provide 16 Mtpa plant processing capacity (total processing capacity for the three phases of construction) using dense media vessel and cyclone circuits. The processing equipment for the third phase has not yet been purchased; mine output in 2012 is projected to be 14 Mt and the Phase III processing capacity will not be needed in 2012. As mine output expands in 2013 and beyond, the full 16 Mtpa capacity will be needed. Our review is based in part on the PDR prepared by the Beijing Yuanzhihan Coal Engineering Design Co., Ltd., dated December 2008 that presents a 12.0 Mtpa capacity plant design. The surface coal handling and storage facilities are designed to accommodate a maximum capacity of 16.0 ROM Mtpa (12 Mtpa for Phase II, although civil construction and other utilities were built with a capacity of 16 Mtpa). A rapid railway loading system has been constructed adjacent to the Suancigou CPP. We reviewed the existing facility and proposed CPP design for adequacy of plant design and capability of meeting processing requirements. BOYD personnel visited the plant site in September 2009, February 2011, and February 2012.

#### 7.1.2 Coal Quality

Suancigou Mine operates in the Nos. 4 and 6 seams, which have medium to high ash content, and low phosphorus and have relatively high calorific values when cleaned. Volatiles range from 37% to 43%, and clean coal sulfur ranges from 0.45% to 0.85%. Proportions of No. 4 Seam and No. 6 Seam are typically 40% and 60%, respectively, by design but proportions fluctuate with LW face performances. Bulk sample sizing data indicate that the minus 2-mm slimes with ash content approximating 30% will be difficult to sell outside of the region and are likely to be consumed locally. Bulk sample screening analysis for Suancigou ROM output from the PDR design is as follows:

| Size Fraction (mm)  | (%)   | Mad (%) | Ad (%) | Calorific Value Qnet.ar (Kcal/kg) |
|---------------------|-------|---------|--------|-----------------------------------|
| Plus 150 . . . . .  | 4.5   | 3.9     | 46.1   | 3,070                             |
| 150 — 100 . . . . . | 4.8   | 3.9     | 44.3   | 3,220                             |
| 100 — 50 . . . . .  | 17.2  | 3.9     | 44.2   | 3,230                             |
| Plus 50 . . . . .   | 26.5  | 3.9     | 44.8   | 3,180                             |
| 50 — 25 . . . . .   | 18.6  | 4.3     | 35.2   | 3,940                             |
| 25 — 13 . . . . .   | 13.1  | 4.3     | 33.2   | 4,100                             |
| 13 — 6 . . . . .    | 13.9  | 4.3     | 34.3   | 4,010                             |
| 6 — 3 . . . . .     | 12.0  | 4.7     | 30.6   | 4,280                             |
| 3 — 0.5 . . . . .   | 10.4  | 4.7     | 28.0   | 4,500                             |
| Minus 0.5 . . . . . | 5.5   | 4.4     | 32.1   | 4,180                             |
| Minus 50 . . . . .  | 73.5  | 4.4     | 32.7   | 4,130                             |
| Total . . . . .     | 100.0 | 4.3     | 35.9   | 3,880                             |

#### 7.1.3 Material Handling

Coal from the mine incline is conveyed to the four raw coal silos, each with 10,000-tonne capacity. One of the silos is utilized for storing raw coal used by the mine's power plant (Suancigou). Coal is distributed with two AFCs situated on top of the silos. Underneath each silo are four vibrating feeders that allow for the plant to be fed from any silo or combination of silos. Plant refuse is conveyed to a 3,000-tonne capacity refuse silo for temporary storage before it is transported by truck to a local power plant or to a disposal site. Clean

product coal from the CPP is conveyed to three 10,000-tonne capacity product silos. From the product silos, the coal is conveyed to a batch-weigh train loadout having a 4,200 tph loading capacity. The facility can load a 55-car train of 70 to 80-tonne cars in 50 minutes. The main CPP products are 200-mm x 0 and 50-mm x 0 thermal coals for utilization in power plants. CPP refuse and higher ash fines are sold as fuel for the local power plant.

#### 7.1.4 Utilities

The plant is located on the mine industrial site near a power plant; all required utilities are available in the immediate area. Electrical power is provided by two loops of 10 kV line from the 110/10kV transformers. Domestic water requirements are provided from the local system. Plant make-up water is sourced from water pumped out of the mines. Domestic sewage from the CPP is processed at the main mine sewage treatment plant. Plant make-up water is necessary since the water content of the clean coal and refuse are higher than the feed coal. The plant fine refuse slurry systems operate in closed-loop mode; the only water leaving the plant is combined with the coal or refuse solids. With proper pond and tank storage, projected water requirements are sufficient for the CPP processing as well as firefighting and domestic water needs. Steam for heating and other uses is provided from an on-site coal-fired boiler.

#### 7.1.5 CPP Capacity

The plant design feed rate in the PDR is 2,270 ROM tph, which equates to 12.0 Mtpa processing capacity. However, the plant is proceeding with a 16.0 Mtpa design and 3,030 ROM tph processing rate. The PDR projects the standard operating schedule of 330 operating days per year and 16 operating hours per day (5,280 operating hours per year). Mechanical availability for CPPs with one maintenance shift per day is typically 85% to 95% of available operating hours, translating to 17 to 19 hours of operating time per day in order to process 16 Mtpa.

The following table shows expected CPP products from a blend of the No. 4 and No. 6 seams at typical and lower ROM coal qualities:

| Product                             | Typical ROM Coal Quality |         |                    |                                   | Lower ROM Coal Quality |         |                    |                                   |
|-------------------------------------|--------------------------|---------|--------------------|-----------------------------------|------------------------|---------|--------------------|-----------------------------------|
|                                     | Yield (%)                | Ash (%) | Total Moisture (%) | Calorific Value Qnet.ar (Kcal/kg) | Yield (%)              | Ash (%) | Total Moisture (%) | Calorific Value Qnet.ar (Kcal/kg) |
| Lump Coal (200X50-mm) . . . . .     | 13.2                     | 19.2    | 12.2               | 5,080                             | 10.8                   | 19.7    | 12.2               | 5,040                             |
| Middle Lump (50X13-mm) . . . . .    | 21.2                     | 18.9    | 12.6               | 5,060                             | 14.3                   | 18.9    | 12.6               | 5,070                             |
| Minus 13 mm (13X1-mm) . . . . .     | 20.6                     | 16.8    | 12.2               | 5,270                             | 20.0                   | 17.2    | 12.2               | 5,240                             |
| Subtotal — Clean coal . . . . .     | 55.0                     | 18.2    | 12.3               | 5,150                             | 45.1                   | 18.3    | 12.3               | 5,140                             |
| Coarse Slimes (1X0.15-mm) . . . . . | 10.7                     | 31.9    | 14.0               | 3,900                             | 10.3                   | 37.6    | 14.0               | 3,440                             |
| Fine Slimes . . . . .               | 4.4                      | 36.6    | 29.2               | 2,430                             | 5.2                    | 41.1    | 29.2               | 2,060                             |
| Subtotal — Slimes . . . . .         | 15.1                     | 33.3    | 18.4               | 3,470                             | 15.5                   | 38.8    | 19.1               | 2,980                             |
| Lump Refuse . . . . .               | 21.6                     | 70.6    | 13.6               | 770                               | 26.1                   | 71.4    | 13.6               | 700                               |
| Minus 13-mm Refuse . . . . .        | 8.3                      | 67.6    | 17.8               | 700                               | 13.3                   | 69.1    | 17.8               | 580                               |
| Subtotal — Refuse . . . . .         | 29.9                     | 69.8    | 14.8               | 750                               | 39.4                   | 70.6    | 15.0               | 660                               |
| ROM Coal . . . . .                  | 100.0                    | 35.9    | 9.8                | 3,880                             | 100.0                  | 42.1    | 9.8                | 3,500                             |

On a composite basis without the slimes, the product is 18.2% ash at 55% yield. When the raw coal quality of the No. 6 Seam deteriorates, the yield reduces to 45% to produce an 18% ash product without slimes. For 2011, Yitai reported a processing yield of 73% of the ROM tonnage for Suancangou including the slimes in the product tonnage. Historical performance is as follows:

| Period                   | ROM Tonnes Processed (Mt) | Product Tonnes (Mt) | Yield (%) |
|--------------------------|---------------------------|---------------------|-----------|
| Oct.-Dec. 2010 . . . . . | 3.05                      | 2.42                | 79.3      |
| Jan.-Dec. 2011 . . . . . | 9.70                      | 7.06                | 72.8      |

### 7.1.6 CPP Circuitry

The original CPP circuitry, comprised of two jigs, were replaced with the heavy media circuitry. In the new CPP design, ROM coal is sized at 200 mm on the two existing raw coal screens with the plus 200-mm material transferred to a hand-picking belt before reporting to the crusher. Minus 200-mm material is conveyed to the new CPP building for sizing and desliming at 13 mm on six raw coal screens. The new CPP is designed with three complete circuits that can be operated independently. The two circuits completed in February 2010 have a combined capacity of 12 Mtpa. The third circuit projected to be completed in 2012 will expand the total capacity to 16 Mtpa with this arrangement. A circuit idled for maintenance does not affect the remaining two operating circuits.

Minus 13-mm material from the raw coal screens flows to a chain/flight conveyor, where it can be directed to the product conveyor or to the dense media cyclone (DMC) circuit. The plus 13-mm coal reports to the dense media vessel (DMV) circuit with three 7.9-m shallow bath vessels.

Clean coal from the DMV goes onto six drain and rinse screens, where the media is drained and rinsed off the coal. The bottom deck product flows to the product conveyor after dewatering in the centrifuge and the plus 50-mm coal on the top deck reports to a crusher for sizing to minus 50 mm and on to the product conveyor. The crusher can be bypassed to produce a larger lump coal when desired. Refuse from the DMV is also drained and rinsed on three refuse screens from which the refuse is directed to the refuse conveyor and the refuse silo. The drained media returns to the DMV sump for recirculation; the rinsed media reports to a sump to be pumped to magnetic separators, which recover the magnetite to the DMV circuit. The recovered liquid containing coal solids reports to the slimes circuit.

Minus 13-mm material for cleaning in the DMC circuit is conveyed to three deslime screens for sizing at 1.5 mm, with the plus 1.5-mm stream reporting to three dense media cyclone sumps for transfer (pumping) to three large diameter (1,450 mm) DMCs, one per DMC circuit. Clean coal from the cyclone is drained and then rinsed on three drain and rinse screens and is transferred to three 1,400-mm vibratory centrifuges for dewatering. Refuse from the cyclone is drained and rinsed on three refuse screens and reports to the refuse conveyor. Magnetite rinsed off of the coal and refuse is transferred to the dilute circuit and pumped to six magnetic separators for recovery and re-cycling back to the media sumps.

Deslime screen underflow (minus 1.5-mm material) is pumped to six classifying cyclones. The concentrated underflow from the cyclones is sent across six curved sieves for additional water and fines removal. The sieve product reports to six 1,000-mm centrifuges for dewatering and to the fines chain/flight conveyor. Overflow from the classifying cyclone is nominally minus 0.150-mm material and flows to the three 35-m diameter thickeners. The clarified thickener overflow water is pumped to the plant for reuse as process water. Underflow from the thickeners is pumped to two hyperbaric disk filters for dewatering; the resulting filter cake reports to the fines conveyor. Effluent water and solids from the hyperbaric disk filter are pumped to the single 20-m diameter ultra-fines thickener from which the solids are pumped to two 2x2-m plate and frame pressure filters. The filter cake also reports to the fines conveyor. The fines conveyor can put the fine product on the main product conveyor or it can be directed to a separate storage pile for the on-site power plant feed.

The main plant structure is steel design with a modern open type layout that provides for an overhead travelling crane for easier equipment access. Thickeners situated outside of the main plant building are covered to prevent winter freezing. Product ash is affected by the media density, which is constantly monitored by nuclear density measuring devices. The plant design incorporates computerized plant control, monitored and directed from a central control room, with sump levels and density maintained automatically.

### 7.1.7 Staffing

As of 31 December 2011, 161 employees were engaged in the operation of the CPP and coal handling system, as follows:

| Category            | Planned |         |         |     |                 | Total | Actual as of<br>31 December 2011 |
|---------------------|---------|---------|---------|-----|-----------------|-------|----------------------------------|
|                     | Shift 1 | Shift 2 | Shift 3 | Day | Payroll Factor* |       |                                  |
| Workers .....       | 28      | 28      | 28      | 84  | 1.32            | 111   | 109                              |
| Managers .....      | 6       | —       | —       | 6   | 1.00            | 6     | 6                                |
| Service Staff ..... | 36      | —       | —       | 36  | 1.00            | 36    | 38                               |
| Sampling/Lab .....  | 6       | —       | —       | 6   | 1.32            | 8     | 8                                |
| Total .....         | 76      | 28      | 28      | 132 |                 | 161   | 161                              |

\* Payroll factor provides coverage for seven-day-per-week operations, injuries, leave, and sickness.

Among the 161 personnel shown in the table, 12 are Yitai employees and the remaining personnel are employees of a third-party service provider, Yuanzhihan Coal Preparation Engineering and Technical Company Limited.

For operations of this size elsewhere in China, in our opinion, additional employees not shown in the above table will be needed due to the more complex circuitry of the new plant and the expansion in processing capacity from 12 Mtpa to 16 Mtpa. We estimate that 14 additional personnel will be required for general building upkeep, maintenance and support, and management. The additional management employees are needed due to the intention to operate 20 hours per day, requiring higher levels of operations and maintenance planning and coordination. These additional personnel bring total projected employment to 175, equating to 91,000 raw tonnes processed per employee-year, which is in the highly productive range for coal processing plants in China.

According to Yitai, third-party service providers will be operating the facility; consequently, the staffing breakdown is unknown.

### 7.1.8 Construction and Capital Costs

The total capital budget projected in the PDR for constructing a 12.0 Mtpa processing capacity facility is RMB228 million. On an annual raw tonnage basis, the projected investment is RMB19 per annual feed tonne or RMB100,000 per raw tph of input at 12.0 Mtpa. As of 31 December 2011, capital spending amounted to RMB154 million. A breakdown of the PDR capital budget is as follows:

| Category                        | RMB<br>(millions) |
|---------------------------------|-------------------|
| Construction and Erection ..... | 58                |
| Equipment .....                 | 100               |
| Installation .....              | 39                |
| Other .....                     | 31                |
| Total .....                     | 228               |

Capital in the amount of RMB74 million is budgeted to expand the processing capacity from 12.0 Mtpa to 16.0 Mtpa, which appears adequate.

## 7.2 Zhunge'erzhao CPP

### 7.2.1 Introduction

BOYD reviewed the Zhunge'erzhao 10.0 Mtpa CPP project based on information from the PDR, as prepared by the Beijing Huayu Engineering Co., Ltd., Sino Coal International Engineering Group, dated December 2008, for adequacy of plant design and capability of meeting projected processing requirements. In

September 2009, BOYD personnel visited the plant site at which time construction was in progress. Zhunge'erzhao is located in Zhunge'er Banner, Inner Mongolia, adjacent to Yitai's Zhunge'erzhao rail loadout, approximately 26 km southeast of Ordos City. The CPP started its test run operation in June 2010. For 2011, Yitai reported a processing yield of 86% of the ROM tonnage.

Historical performance is as follows:

| <u>Period</u>        | <u>ROM Tonnes<br/>Processed<br/>(Mt)</u> | <u>Product<br/>Tonnes<br/>(Mt)</u> | <u>Yield<br/>(%)</u> |
|----------------------|------------------------------------------|------------------------------------|----------------------|
| Jul.-Dec. 2010 ..... | 0.388                                    | 0.331                              | 85.3                 |
| Jan.-Dec. 2011 ..... | 2.756                                    | 2.371                              | 86.0                 |

The CPP is capable of washing coal from the following Yitai and Yitai Group mines in proximity to the Baofu Highway:

| <u>Mine</u>     | <u>Output<br/>Capacity<br/>(Mtpa)*</u> |
|-----------------|----------------------------------------|
| Dadijing .....  | 3.0                                    |
| Baoshan .....   | 1.9                                    |
| Dingjiaqu ..... | 2.3                                    |
| Chengyi .....   | 1.2                                    |
| Fuhua .....     | 1.3                                    |
| Total .....     | 9.7                                    |

\* According to coal production certification.

An additional coal purchased from non-Yitai-controlled local coal mines may also be processed. In addition to its large processing capacity, the facility has extensive capability for coal storage and blending with multiple product silos and is adjacent to a large storage yard with four bucket-wheel reclaimers and two batch-weigh rail loadouts. These facilities also serve the Zhunge'erzhao rail loading facility.

### 7.2.2 Coal Quality

Coal feeding the CPP is produced in the Dongsheng Coalfield primarily from the following coal seams: Nos. 3-2, 4-2, 5, 5-1, 5-2, and 6. According to the PDR, the following raw coal ash content anticipated:

| <u>Mine</u>     | <u>Seam<br/>No.</u> | <u>Ash (%), d</u>    |                                                  |
|-----------------|---------------------|----------------------|--------------------------------------------------|
|                 |                     | <u>Seam<br/>Only</u> | <u>With Dilution<br/>From Roof<br/>and Floor</u> |
| Dadijing .....  | 3-2                 | 10.5                 | 15.2                                             |
|                 | 4-2                 | 9.6                  | 16.1                                             |
|                 | 5-1                 | 7.2                  | 26.6                                             |
|                 | 5-2                 | 6.3                  | 17.4                                             |
| Baoshan .....   | 6                   | 18.5                 | 22.7                                             |
| Dingjiaqu ..... | 4-2                 | 7.7                  | 37.2                                             |
|                 | 5-2                 | 11.4                 | 16.2                                             |
| Chengyi .....   | 5                   | 9.5                  | 20.4                                             |
|                 | 6                   | 9.6                  | 42.5                                             |
| Fuhua .....     | 6                   | 10.0                 | 23.9                                             |



Additional coal quality data for raw coal and clean coal (1.4 gravity float results) are as follows:

|           |               | Average Analysis by Coal Seam |                |                  |                            |                |                 |                  |                 |
|-----------|---------------|-------------------------------|----------------|------------------|----------------------------|----------------|-----------------|------------------|-----------------|
|           |               | %                             |                |                  |                            |                |                 |                  |                 |
|           |               | Raw                           |                |                  |                            | Float          |                 |                  | Raw             |
| Mine      | Coal Seam No. | M <sub>ad</sub>               | A <sub>d</sub> | V <sub>daf</sub> | Sulfur (S <sub>t,d</sub> ) | A <sub>d</sub> | M <sub>ad</sub> | V <sub>daf</sub> | Qgr.d (Kcal/kg) |
| Dadijing  | 3-2           | 9.7                           | 6.3            | 38.0             | 0.54                       | 3.6            | 6.0             | 37.8             | —               |
|           | 4-2           | 9.0                           | 7.1            | 39.3             | 0.59                       | 4.3            | 5.9             | 39.5             | —               |
|           | 5-2           | 8.9                           | 6.3            | 35.1             | 0.38                       | 3.9            | 6.1             | 36.4             | —               |
|           | 5-2           | 7.9                           | 5.3            | 35.0             | 0.24                       | 3.7            | 6.1             | 36.4             | —               |
| Baoshan   | 6             | 6.0                           | 13.4           | 34.5             | 0.41                       | 4.8            | 8.7             | 34.4             | 6,190           |
| Dingjiaqu | 4-2           | 6.6                           | 8.2            | 35.2             | 0.35                       | 4.3            | 6.1             | 35.8             | 6,890           |
|           | 5-2           | 6.7                           | 7.7            | 34.8             | 0.36                       | 4.5            | 6.7             | 35.4             | 6,940           |
| Chengyi   | 5             | 9.7                           | 9.8            | 33.5             | 0.55                       | 4.8            | 11.0            | 34.5             | 6,300           |
|           | 6             | 9.6                           | 8.8            | 35.3             | 0.55                       | 4.9            | 10.6            | 33.9             | 6,360           |
| Fuhua     | 6             | 5.7                           | 10.3           | 33.6             | 0.31                       | 4.2            | 9.4             | 33.8             | —               |

The Zhunge'erzhao processing plant produces three main products having less than 12% ash (dry basis), less than 0.45% sulfur (dry basis), and as-received heat value of 5,500 Kcal/kg or higher:

- <50-mm steam coal for power plants near China's eastern coastal areas.
- <25-mm unwashed steam coal for power plants near China's eastern coastal areas.
- 200 – 25-mm lump coal for various markets.

### 7.2.3 Material Handling

Raw coal from the mines is delivered by trucks over the local highways to the storage yard. Trucks are weighed at the entrance, where there are several truck scales side-by-side to handle the high volumes required. The trucks dump coal into the storage yard, consisting of four bucket-wheel stacker/reclaimer systems. Each of the four storage rows is approximately 700 m long by 45 m wide, providing large storage and blending capabilities. The yard can store 1.5 Mt of coal, which can be reclaimed for the train loading systems (two) or conveyed to the CPP raw coal silos.

To feed the CPP directly, the trucks bypass the storage yard and discharge into one of eight truck bins. Coal feeders in the bottom of the bin discharge the coal onto conveyors that transfer the coal to the top of the raw coal storage silos (one existing and two planned), each with a capacity of 15,000 tonnes. From the silos, coal is reclaimed with feeders and conveyed to the screening/crushing building, where the coal is screened at 200 mm on two vibrating screens. The plus 200-mm material is transferred to a slow-moving belt conveyor, where rock is removed by hand-picking and the coal pieces are crushed to minus 200 mm. Coal is sent across four screens, which separate at 13 mm with the plus 13-mm coal conveyed to the coarse circuit in the main CPP, and the minus 13-mm coal can be conveyed to the intermediate circuit of the main CPP or bypassed directly to the product storage silos as direct-ship minus 13 mm.

Products from the plant are conveyed to the six product silos with a capacity of 10,000 tonnes each. The washed product can be placed into a separate silo from the direct-ship coal and shipped separately or blended during train loading. In addition to the six product silos, a 3,500 tonne lump coal silo is available for plus 25-mm or plus 50-mm lump coal. There are two reclaim conveyors from the six product silos feeding two separate batch-weigh train loadouts. Two trains can be loaded simultaneously if desired, utilizing any single or combination of silos. There is also a 3,500-tonne refuse silo from which the coarse refuse is transported by truck to nearby valley-fill placement.

### 7.2.4 Utilities

The nearby Hushigou drainage to the west provides water for the facilities. Water from Hushigou is pumped to two 2,000 m<sup>3</sup> storage tanks for CPP and loadout use. Water consumption for all facilities is projected at 35 m<sup>3</sup>/d for domestic use, 360 m<sup>3</sup>/d for such uses as road watering and landscaping, and

3,100 m<sup>3</sup>/d for plant make-up. Plant make-up water is necessary due to water losses in the clean coal and refuse. The plant fine refuse slurry systems operate in closed-loop mode so that the only water leaving the plant is with the coal or refuse solids. Domestic sewage is handled in a septic tank followed by a sewage treatment facility.

Electricity is provided from a nearby 35 kV substation, which feeds two 20,000 kVA transformers for the CPP, and adjacent loadout and railway station. One transformer is operating with a redundant back-up unit. Utilization voltages include 10 kV, 660 V, and 220/380 V. Two lines provide redundant power for the CPP.

### 7.2.5 CPP Capacity

Extensive washability and sizing analyses performed on No. 6 Seam bulk samples from the Baoshan Mine became the basis for detailed CPP design. CPP products assuming washing of all size fractions or washing only the plus 25 mm are shown below:

| Product  | Final Products if All Sizes Washed |          |        |            |        |           |                    |
|----------|------------------------------------|----------|--------|------------|--------|-----------|--------------------|
|          | Wt (%)                             | Quantity |        |            | Ad (%) | Moist (%) | Qnet. ar (Kcal/kg) |
|          |                                    | T/hr     | T/d    | T/a        |        |           |                    |
| +25-mm   | 27.9                               | 529      | 8,468  | 2,794,500  | 6.6    | 17.0      | 5,720              |
| -25-mm   | 54.0                               | 1,023    | 16,363 | 5,399,800  | 9.4    | 17.3      | 5,510              |
| Refuse   | 18.1                               | 342      | 5,472  | 1,805,700  | 91.0   | 17.3      | N/A                |
| Raw Coal | 100.0                              | 1,894    | 30,303 | 10,000,000 | 23.4   | 17.0      | 4,630              |

| Product  | Final Products if Only +25 mm Washed |          |        |            |        |           |                    |
|----------|--------------------------------------|----------|--------|------------|--------|-----------|--------------------|
|          | Wt (%)                               | Quantity |        |            | Ad (%) | Moist (%) | Qnet. ar (Kcal/kg) |
|          |                                      | T/hr     | T/d    | T/a        |        |           |                    |
| +25-mm   | 27.9                                 | 529      | 8,468  | 2,794,500  | 6.6    | 17.0      | 5,720              |
| -25-mm   | 57.4                                 | 1,086    | 17,382 | 5,736,200  | 13.9   | 17.8      | 5,200              |
| Refuse   | 14.7                                 | 278      | 4,452  | 1,469,300  | 92.4   | 17.0      | N/A                |
| Raw Coal | 100.0                                | 1,894    | 30,303 | 10,000,000 | 23.4   | 17.0      | 4,630              |

Note: Figures may not add due to rounding.

To meet the 10.0 Mtpa processed ROM coal requirement, the plant feed rate is designed at 1,890 ROM tph, assuming 16 operating hours per day and 330 operating days per year. The operating schedule (5,280 operating hours) does not provide for mechanical downtime. Mechanical availability for CPPs with one down shift per day is typically 85% to 95% of available operating hours. If the CPP's third shift can process coal when needed, then the 1,890 tph design processing rate is adequate; otherwise, a plant feed rate of 2,230 tph is needed to allow for an 85% mechanical availability during the 16 hours per day of scheduled operating time. BOYD has assumed that third-shift plant operation is utilized as needed to meet coal processing needs and the 1,890 tph feed rate is adequate for the projected 10.0 Mtpa ROM processing requirement.

### 7.2.6 CPP Circuitry

The CPP is a dual circuit plant design, with two complete units capable of processing half of the 1,890 tph of plant feed rate. Plus 13-mm coal from the raw coal screening building reports to deslime (pre-wet) screens, where fine materials clinging to the coal particles are removed with rinse water on 3-mm screen panels. The deslimed coarse coal is sent to two DMVs, which are shallow bath separators where the liquid suspension of ground magnetite and water is dense enough to float the coal and sink the rock and higher ash particles. Floating coal flows with the media on to the coarse coal drain and rinse screens, where the media is drained from the coal and returns to the DMV sump. The coal is then rinsed with water, which flows to a sump and is pumped to the magnetic separators, where the magnetite is recovered to the DMV circuit and the liquid with coal solids goes to the slimes circuit. Coal particles smaller than 25 mm fall to the bottom deck of the screen and report to the centrifugal dryer and the product conveyor. Coal particles larger than 25 mm remain on the top deck, traveling to the crusher to be sized to <50 mm and conveyed to the product silos with the <25-mm

coal. Rock and high ash coal with a density greater than the selected media density sink to the bottom of the DMV and a chain/scrapper conveyor removes this refuse material from the DMV and onto a refuse drain and rinse screen and transfers to the refuse conveyor.

The <3-mm undersize material from the deslime screen flows to a sump and is pumped to classifying cyclones where the underflow goes to a Teeter Bed Separator. The Separator uses a hindered bed separation to float coal, which flows to sieve screens and a fine coal centrifuge. The dried coal is transferred to the <13-mm product conveyor. Refuse from the bottom of the Teeter Bed is sent to high frequency refuse screens and onto the main refuse conveyor. The overflow from these classifying cyclones flows to the clarifying thickeners.

Raw coal from the raw coal screening building with <13-mm sizing can bypass the CPP for direct shipping or be conveyed to the main CPP building, where it is deslimed by screening and transferred to DMCs. Clean coal is discharged from the overflow portion of the cyclones and transferred to clean coal drain and rinse screens, where the media is drained and the coal is rinsed before proceeding to the centrifugal dryer and to the fine coal product conveyor. The refuse from the underflow of the DMC is drained and rinsed on refuse screens and placed on the refuse conveyor, which transports the plus 1-mm refuse to the refuse silo. Material smaller than 1 mm is pumped to slime sump and to classifying cyclones, where the underflow is treated in a Teeter Bed Separator circuit similar to the <3-mm material from the coarse circuit.

Overflow from the classifying cyclones and other streams with material smaller than 0.25 mm report to the three 35-m diameter thickeners, where flocculating chemicals are added to enhance particle settling. The clarified water that flows over the top of the thickener is re-cycled back into the plant as process water. The underflow solids are pumped to two types of filters: three hyperbaric disk filters or three plate and frame pressure filters, which are used interchangeably, depending on product requirements (plate and frame filters are simpler and provide low moisture in one stage). The filter cake can be combined with the direct-ship <13-mm product or transported to a storage yard for further air drying and blending. When slime ash content is high, it can be conveyed to waste silo by conveyor for sale to the power plant.

The main plant structure, 82 m long and 32 m wide, is steel-framed with a modern open type layout that provides for a full-height overhead travelling crane for hoisting material and equipment. Thickeners, located outside of the main plant building, are covered to prevent winter freezing since the temperature is below freezing typically half the year. From a central control room, the plant is computer-controlled with an Alan-Bradley PLC system that automatically maintains sump levels and density.

### 7.2.7 Staffing

Staffing of 109 employees is planned in the PDR for the operation of the CPP and coal handling systems. According to Yitai, third-party service providers will be operating the facility, with staffing breakdown as follows:

| Category                  | Staffing Projection |         |         |     |                 | Total |
|---------------------------|---------------------|---------|---------|-----|-----------------|-------|
|                           | Shift 1             | Shift 2 | Shift 3 | Day | Payroll Factor* |       |
| Workers-Production .....  | 33                  | 33      | —       | 66  | 1.35            | 89    |
| Workers-Maintenance ..... | —                   | —       | 22      | 22  | 1.35            | 30    |
| Managers .....            | 11                  | —       | —       | 11  | 1.00            | 11    |
| Service Staff .....       | 16                  | —       | —       | 16  | 1.00            | 16    |
| Sampling/Lab .....        | 5                   | —       | —       | 5   | 1.35            | 6     |
| Total .....               | 65                  | 33      | 22      | 120 |                 | 152   |

\* Payroll factor provides coverage for seven-day-per-week operation, injuries, leave and sickness.

Among the 152 personnel shown in the table, 16 are Yitai employees and the remaining personnel are employees of a third-party service provider, Tianjin Boditongsheng Company.

At the projected staffing and 10 Mtpa, plant productivity equates to 66,000 raw tonnes per employee-year, which is in the highly productive range for coal processing plants in China.

### 7.2.8 Construction and Capital Costs

The CPP design, completed in 2008, was approved by the local government in March 2009. Civil construction began in April 2009 and was completed in April 2010. Limited test run operation was initiated in June 2010.

The projected capital budget of RMB512 million is reasonable for the nature of the project, a large plant with 1,890 tph processing capacity capable of cleaning down to 0.25-mm particle sizes with extensive coal storage and blending capabilities. Proposed capital spending equates RMB51 per annual raw feed tonne or RMB270,000 raw tph of input. As of 31 December 2011, all construction and equipment installation had been completed. A breakdown of projected and actual capital spending is as follows:

| Category                    | RMB (millions) |                                       |
|-----------------------------|----------------|---------------------------------------|
|                             | Projected      | Actual Spending YTD 31 December 2011* |
| Civil Engineering . . . . . | 197            | 187                                   |
| Equipment . . . . .         | 218            | 144                                   |
| Installation . . . . .      | 59             | 31                                    |
| Other . . . . .             | 38             | 64                                    |
| Total . . . . .             | 512            | 426                                   |

\* Actual costs are expected to approximate projected costs.

## 7.3 Talahao CPP

### 7.3.1 Introduction

The Talahao CPP is located in Talahao Mine industrial area. BOYD reviewed the PDR for the proposed Talahao 6.0 Mtpa CPP project, as prepared by the Coal Industry Jinan Design and Research Institute Company Ltd., dated October 2008. Our review assessed the adequacy of plant design and capability of meeting mine processing requirements.

### 7.3.2 Coal Quality

Coal from the Talahao Mine is classified as non-caking coal, long-flame type with medium moisture content. The coal has the characteristics of low ash content, relatively low sulfur content (Chinese coal classification categories CY41 and BN31), very low phosphorus content, and relatively high calorific value, with good quality characteristics for steam coal markets and for chemical uses such as coal to liquids. The major mineable seams, Nos. 3-1, 4-1, 5-1, and 6-2<sub>middle</sub>, have an average thickness of over 2.2 m, except for the No. 5-1 Seam, which averages over 5 m in thickness. The significance of the seam thickness is that there is generally less out-of-seam dilution with thicker seams. The Talahao CPP may experience higher dilution levels when seam thickness is in the 2 m or less range or when there are partings within the seams.

The following table shows the range of raw coal quality for different seams from the PDR report.

| Seam                           | Proximate Analysis (%) |       |      | Calorific value (Kcal/kg) |        | Sulfur d (%) | Char Residue Type | Coal Type |
|--------------------------------|------------------------|-------|------|---------------------------|--------|--------------|-------------------|-----------|
|                                | Mad                    | Ash d | Vdaf | Qgr,ad                    | Qnet,d |              |                   |           |
| 2-2 <sub>upper</sub> . . . . . | 10.6                   | 6.2   | 37.1 | 7,110                     | 6,920  | 0.40         | 2                 | CY41      |
| 3-1 . . . . .                  | 8.9                    | 9.4   | 35.2 | 6,540                     | 6,380  | 0.78         | 2                 | BN31      |
|                                | 5.3                    | 8.2   | 38.6 | 6,980                     | 6,760  | 0.37         | 2                 | CY41      |
| 4-1 . . . . .                  | 5.6                    | 7.7   | 35.5 | 6,800                     | 6,630  | 0.98         | 2                 | BN31      |
|                                | 12.6                   | 9.9   | 33.3 | 6,520                     | 6,360  | 0.98         | 2                 | BN31      |
| 5-1 . . . . .                  | 4.8                    | 7.5   | 35.0 | 6,680                     | 6,480  | 0.75         | 2                 | BN31      |

Since bulk samples were not available for Talahao, plant sizing and washability data were taken from bulk samples gathered from the nearby Changhangou Mine, which is mining the No. 5-1 Seam. This data became the basis for the CPP design, which is a partial wash design — that is, washing the coarse sizes and bypassing the finer ROM coal stream to product. According to the limited PDR washability data, the washed plus 13-mm coal fraction easily achieves 8% dry ash. When combined with the 16.5% ash material in the minus 13-mm size fraction, the product ash is 12.4%.

### 7.3.3 Material Handling

Talahao run-of-mine coal is conveyed by the incline belt conveyor to the crushing building, where the material is screened at 200 mm with the oversize crushed to <200 mm. After sizing in the crushing building, the coal is conveyed to two raw coal storage silos, each with a capacity of 10,000 tonnes. The coal is fed from the bottom of the storage silos at approximately 1,140 tph and conveyed to the CPP and dry-screened at 13 mm. The plus 13-mm coal is washed and sent to the product silos on the clean coal conveyor, while the minus 13-mm coal is passed directly to the product silos on the <13-mm direct-ship (slack coal) belt conveyor. Plant refuse is conveyed to a refuse silo from which it is trucked to nearby valley fill placement for disposal. There are four 10,000 tonne silos for product storage. Normally two silos are dedicated to washed coal and two to the direct-ship fines, although either product can be sent to any of the four product silos. Two flight and chain scraper conveyors on top of the silos provide for distribution with slide gates. A lump coal silo is also planned.

A conveyor under the four product silos transfers coal directly to the batch weigh unit train loadout tower. Batch weigh systems typically load at rates of 3,000 to 4,000 tph. Any combination of products can be loaded into the railcars. The majority of the coal is shipped by rail; a truck scale is provided for coal shipped to local markets. The primary markets designated for Talahao output are the Dalu Coal- to-Liquid project and steam coal for power plants. Approximately 5.2 Mtpa is planned for shipping by rail on the Zhundong and Dazhun rail line with the remainder by local road to local markets using 40 and 60 tonne trucks. A proposed railway spur line connects to the Gonggou Station on the Zhundong Railway.

### 7.3.4 Utilities

Total maximum electrical load of the installed CPP machinery is 8,150 kW; power is provided to the CPP from the nearby 35 kV coal mine electrical substation and the local power grid.

Domestic water requirements are provided from wells, processed mine water, and the nearby public system. Plant make-up water can be provided by processed domestic sewage water as well as processed mine water and well water if needed. Domestic sewage from the CPP is processed at the main mine sewage treatment plant. Water consumption for the CPP is expected to be 11.5 m<sup>3</sup>/d for domestic use, 60 m<sup>3</sup>/d for plant floor washing, etc., and 976 m<sup>3</sup>/d for plant make-up. Plant make-up water is necessary since the water content of the clean coal and refuse are higher than the feed coal. Plant fine refuse slurry systems operate in closed-loop mode so that the only water leaving the plant is with the coal or refuse solids. With proper pond and tank storage, the projected water requirements are sufficient for the CPP processing as well as firefighting and domestic water needs. One pump in the water supply system is dedicated for firefighting only, with tanks holding water in reserve. Steam for heating and other uses is provided from an on-site boiler, which gets its fuel from the direct-ship fine coal silo.

### 7.3.5 CPP Capacity

The CPP design projects plant feed rate at 1,140 ROM tph, with 330 operating days per year and 16 operating hours per day, resulting in 6.0 Mtpa ROM coal processing capacity. The operating schedule does not provide for mechanical downtime during operating hours. Mechanical availability for CPPs with one down shift per day is typically 85% to 95% of available operating hours. If the CPP's third shift can process coal when needed, the 1,140 tph design processing rate is adequate. BOYD has assumed that third-shift plant operation is utilized as needed to meet coal processing needs and the 1,140 tph feed rate is adequate for the projected 6.0 Mtpa ROM coal requirement.

The quantity and quality of product and refuse streams projected in the PDR assuming 17.2% ROM ash content (dry basis), is as follows:

| Product Description           | TPH     | TPD    | TPY<br>(000) | % of<br>Feed | Ad<br>(%) | Calorific<br>Value<br>(Kcal/kg) | Moist<br>(Mt)<br>(%) |
|-------------------------------|---------|--------|--------------|--------------|-----------|---------------------------------|----------------------|
| Washed Coal . . . . .         | 505.0   | 8,080  | 2,670        | 44.4         | 8.0       | 5,450                           | 12.0                 |
| Direct Ship (<13mm) . . . . . | 551.3   | 8,820  | 2,910        | 48.5         | 16.5      | 4,780                           | 11.4                 |
| Refuse . . . . .              | 80.1    | 1,282  | 420          | 7.1          | 80.2      |                                 |                      |
| Raw Coal Feed . . . . .       | 1,136.4 | 18,182 | 6,000        | 100.0        | 17.2      |                                 |                      |

This table indicates a mass yield of 93% for the overall plant and a 12.4% product ash if the washed coal is combined with the direct-ship (<13-mm). Since much of the chemical industry requirements are for less than 11% or 12% ash, it is evident that most of the washed coal will be shipped separately from the higher ash <13-mm direct-ship coal, which will probably be destined for steam coal markets.

### 7.3.6 CPP Circuitry

Coal from the mine incline conveyor is conveyed to the crusher building, where material larger than 200 mm is removed by scalping screens and sent to the crusher, where it is crushed to less than 200 mm, recombined with the smaller sizes, and conveyed to the raw coal silos. From the silos, raw coal is fed onto the plant feed conveyor and sent to four raw coal screens for dry-screening at 13 mm. The minus13-mm material reports directly to the product silos on the minus13-mm direct-ship belt conveyor. The plus 13-mm raw coal reports to four desliming (pre-wet) screens for wet-screening and sizing at 3-mm to remove slimes. The plus 13-mm material reports to two DMVs.

Clean coal from the DMV is transferred to two drain and rinse screens, where the media is drained and rinsed off of the coal. This product can be directed to a storage silo as plus 13-mm lump coal or to two clean coal sizing crushers for reduction to minus 50-mm and to a product storage silo. Refuse from the DMV is drained and rinsed on two refuse screens and directed to the refuse conveyor to the refuse silo. The drained media returns to the DMV sump for recirculation. The rinsed media reports to a dilute media sump for transfer to magnetic separators, which recover the magnetite to the DMV circuit; the liquid with coal solids is sent to the slimes circuit.

Although the minus 13-mm material is screened out of the plant feed as it enters the plant, fine material adheres to the coal and is carried into the other plant circuits. This material has varying amounts of ash depending on the seam and mining conditions. Talahao's flowsheet projects recovery and dewatering of these fines but no processing for ash reduction. The fine material passing through the desliming screen prior to the DMV circuit, known as "slimes," reports to the slimes circuit. In this circuit, the coal slurry is pumped to classifying cyclones, where the 3.0 — 0.15-mm coarser solids are directed to the cyclone underflow and to a curved sieve for partial dewatering and a centrifuge for final dewatering. The centrifuge product reports to the minus 13-mm direct-ship belt conveyor. The overflow from the classifying cyclones is nominally minus 0.150 mm in size and is sent to the two-stage thickening circuit. There are three 38-m diameter primary thickeners, with two in use and one on standby. The thickened underflow from the two thickeners is sent to one hyperbaric disk filter whose cake discharges onto the 13-mm direct-ship conveyor. The thickener effluent is sent to a separate secondary 24-m diameter thickener clarifier, where the remaining solids are thickened and sent to two plate and frame pressure filters. Overflow from the thickeners is drained into a sump and pumped to the magnetic separators for recovery and re-cycling.

The main plant structure is steel construction with a modern open type layout that provides for an overhead travelling crane for easier equipment handling. Thickeners outside of the main plant building are covered to prevent winter freezing. Belt scales and online ash analyzers are planned for the plant feed, product, and loadout conveyors. The plant is computer-controlled from a central control room with sump levels and density maintained automatically.

The DMV circuit is an excellent choice for cleaning the plus13-mm raw coal. As long as the ash content of the minus 13-mm coal remains sufficiently low, only the plus13-mm coal requires washing. If changes in the



seam thickness or floor and roof conditions deteriorate causing the out-of-seam dilution to increase, it may become necessary to wash sizes less than 13 mm. In this case, a DMC may be required to lower the ash of the minus 13-mm coal. We recommend that the Talahao plant design allow for a fine coal processing system to be easily added to the operating plant to improve clean product quality if the fine coal is difficult to sale because of high ash content.

### 7.3.7 Staffing

Staffing of 160 employees is planned for the operation of the CPP and material handling systems. The projected 160 personnel staffing level equating to 37,500 raw tonnes processed per employee-year is reasonable, exceeding the typical experience for Chinese CPPs. Planned staffing is shown below:

| Category                      | Shift 1 | Shift 2 | Shift 3 | Per Day | Payroll Factor* | Total |
|-------------------------------|---------|---------|---------|---------|-----------------|-------|
| Workers-Production . . . . .  | 22      | 22      | 22      | 66      | 1.33            | 88    |
| Workers-Maintenance . . . . . | 18      | —       | —       | 18      | 1.33            | 24    |
| Managers . . . . .            | 14      | —       | —       | 14      | 1.00            | 14    |
| Service Staff . . . . .       | 19      | —       | —       | 19      | 1.33            | 26    |
| Sampling/Lab . . . . .        | 6       | —       | —       | 6       | 1.33            | 8     |
| Total . . . . .               | 79      | 22      | 22      | 123     |                 | 160   |

\* Payroll factor provides coverage for seven-day-per-week operation, injuries, leave, and sickness.

### 7.3.8 Construction and Capital Costs

The construction plan projects 12 months for engineering and construction to start-up. The 12-month construction time period for the CPP and material handling systems is achievable, provided competent design and construction firms are employed and the site is ready and accessible. Yitai will start CPP main washing building construction in April 2012 and expects to attain test-run status in June 2013.

Total capital budget is RMB377 million, which is reasonable for the nature of the project and the expected mine operating life. On an annual raw tonnage processed basis the projected capital spending is RMB63 per raw feed per tonne or RMB330,500 per raw tph of feed. A breakdown of capital spending is as follows:

| Category                            | RMB (millions) |
|-------------------------------------|----------------|
| Construction and Erection . . . . . | 177            |
| Machinery . . . . .                 | 127            |
| Engineering . . . . .               | 27             |
| Other . . . . .                     | 46             |
| Total . . . . .                     | 377            |

According to Yitai, third-party service providers will be operating the facility; consequently, the staffing breakdown is unknown.

## 7.4 Kaida CPP

### 7.4.1 Introduction

Kaida CPP is located in Zhunge'er Banner, Inner Mongolia, 100 km west of Xuejiawan Town and 80 km east of Dongsheng District of Ordos City. BOYD reviewed the Kaida 6.0 Mtpa CPP project based on the PDR prepared by Beijing Huayu Engineering Co., Ltd., Sino Coal International Engineering Group, dated September 2010, for adequacy of plant design and capability of meeting projected processing requirements. Yitai started Kaida CPP construction in August 2010. In February 2011 and February 2012, BOYD personnel visited the plant construction site. In February 2012, the construction of CPP structure had been nearly completed; equipment installation was partially completed. The CPP is projected to begin test run operation in July 2012.



Kaida CPP will service nearby Yitai mines as ROM ash increases due to mining of thinner coal seams. Raw coal feeding the CPP is sourced from the following Yitai mines:

| Mine                     | Output Capacity (Mtpa)* |
|--------------------------|-------------------------|
| Nalinmiao No.2 . . . . . | 4.0                     |
| Kaida . . . . .          | 2.0                     |
| Total . . . . .          | 6.0                     |

\* Based on coal production certificate capacity.

It is anticipated that Kaida output will include Bulamao West output at some point. A minor of additional coal sourced from other Yitai mines may also be processed. In addition to its large processing capacity, the facility has extensive capability for coal storage and blending with its product silos.

#### 7.4.2 Coal Quality

Raw coal feeding the CPP is produced mainly from following coal seams: Nos. 4-1, 4-2, 6-2 and 6-2U. The following table shows raw coal quality for different seams from the PDR:

| Coal Seam           | Proximate Analysis (%) |         |           | Calorific Value(Kcal/kg) |        | Sulfur d (%) | Char Residue Type | Coal Type |
|---------------------|------------------------|---------|-----------|--------------------------|--------|--------------|-------------------|-----------|
|                     | Mad                    | Ash d   | Vdaf      | Qgr,ad                   | Qnet,d |              |                   |           |
| Nalinmiao No.2 Mine |                        |         |           |                          |        |              |                   |           |
| 4-1                 | 4.7                    | 10.1    | 36.4      | 6,710                    | 6,500  | 0.38         | 2                 | BN31      |
| 4-2                 | 4.5                    | 8.0     | 35.8      | 6,930                    | 6,630  | 0.36         | 2                 | BN31      |
| 6-2                 | 5.5                    | 6.8     | 35.8      | 7,310                    | 6,740  | 0.28         | 2                 | BN31      |
| Kaida               |                        |         |           |                          |        |              |                   |           |
| 6-2U                | 4.6~8.1                | 4.8~7.4 | 32.9~38.4 | —                        | 6,940  | 0.09~0.28    | —                 | BN31      |
| 6-2                 | 6.4                    | 7.5     | 35.7      | —                        | 6,940  | 0.09~0.30    | 2                 | BN31      |

Kaida CPP plans to produce two saleable products:

- Primary product is high quality thermal coal: 0-50mm, St.d<0.45%, Qnet.ar≥5,500 Kcal/kg, for power plants near China's eastern coastal areas or export.
- Secondary product is thermal coal: 0-50mm, St.d<0.45%, Qnet.ar≥5,000 Kcal/kg, for power plants in the region.

The washed refuse containing limited calorific value and having no commercial value is conveyed to the coal waste storage site for disposal.

The facility is capable of producing 25-200 mm clean lump coal depending on market requirements.

#### 7.4.3 Material Handling

Raw coal from Kaida is discharged from a mine site belt conveyor into truck bins; raw coal truck deliveries are dumped into bins (five in all). Coal feeders at the bottom of the bins discharge the coal onto conveyors transferring the coal to the top of the raw coal storage silos (two in all), each with 15,000 tonnes capacity. Coal from the raw coal silos is reclaimed with feeders and conveyed to the screening and crushing building, where the coal is screened at 200 mm on two vibrating screens. The plus 200-mm material is transferred to a slow speed belt conveyor, where rock is removed by hand-picking and oversize coal pieces are crushed to minus 200 mm. Coal from the screening building is sent across two screens, separating at 13 mm with plus 13-mm coal conveyed to the coarse coal circuit in the CPP. The minus 13-mm coal can be conveyed to the fine coal circuit in the CPP or bypassed directly to the product storage silos as direct-ship minus 13 mm for truck delivery.

The facility has four product silos, two for fine coal, each with 10,000 tonne capacity; and two for lump coal, each with 5,000 tonne capacity. The washed product and direct-ship product can be separately loaded and shipped. From the refuse silo with 5,000 tonne capacity, CPP waste coal is conveyed to storage site.

#### 7.4.4 Utilities

Domestic water requirements are provided from ditches, processed mine water, and the nearby public system. The Zhunge'er Banner Keyuan Water Company provides water for the facility; two 273-mm diameter water pipes have been set up and are connected to the site. Also, water is provided by the underground mine sources. Water consumption for the CPP is projected at 1,800 m<sup>3</sup>/d for plant production and 150 m<sup>3</sup>/d for domestic use. Electricity is provided by the 35 kV substation at Nalinmiao No.1 mine. The CPP has a 10 kV substation at the CPP; utilization voltages include 10 kV, 660 V and 220/380 V. Two lines provide redundant power to the CPP.

#### 7.4.5 CPP Capacity

The CPP design is based on washability and sizing analyses performed on No.6-2 seam bulk samples from Kaida Mine. CPP products assuming washing of all size fractions are as follows:

| Product             | Weight (%) | TPH    | TPD    | TPY (000) | Ad (%) | Moist (%) | Qnet. ar (Kcal/kg) |
|---------------------|------------|--------|--------|-----------|--------|-----------|--------------------|
| Washed Coal         | 25.9       | 294.1  | 4,705  | 1,553     | 7.5    | 8.0       | 6,390              |
| Direct Ship (<13mm) | 40.9       | 464.6  | 7,434  | 2,453     | 15.5   | 13.0      | 5,388              |
| Refuse              | 33.3       | 377.7  | 6,042  | 1,994     | 89.5   | 10.5      | N/A                |
| Raw Coal Feed       | 100.0      | 1136.4 | 18,182 | 6,000     | 38.0   | 8.0       |                    |

To meet the 6.0 Mtpa ROM coal processing requirement, the plant feed rate is designed at 1,136 tph, assuming 16 operating hours per day and 330 operating days per year. The operating schedule (5,280 operating hours) does not provide for mechanical downtime. Mechanical availability for the CPP with one down shift per day is typically 85%-95% of available operating hours. If the CPP's third shift can process coal when needed, then the 1,136 tph design processing rate is adequate. BOYD has assumed that third-shift plant operation is utilized as needed to meet coal processing needs and the 1,136 tph feed rate is adequate for the projected 6.0 Mtpa ROM processing requirement.

#### 7.4.6 CPP Circuitry

The CPP is a single circuit plant design, capable of processing the 1,136 tph of plant feed rate. Plus 13-mm coal from the raw coal screening building reports to deslime (pre-wet) screens, where fine materials clinging to the coal particles are removed with rinse water on 3-mm screen panels. The deslimed coarse coal is sent to a DMV, where the liquid suspension of ground magnetite and water is dense enough to float the coal and sink the rock and higher ash particles. Floating coal flows with the media on to the coarse coal drain and rinse screens, where the media is drained from the coal and returns to the DMV sump. The coal is rinsed with water, which flows to a sump and is pumped to the magnetic separators, where the magnetite is recovered to the DMV circuit and the liquid with coal solids (slurry) goes to the slimes circuit. Coal particles smaller than 25 mm fall to the bottom deck of the screen and report to the centrifugal dryer and the product conveyor. Coal particles larger than 25 mm remain on the top deck, traveling to the crusher to be sized to the minus 50mm and conveyed to the product silos with the minus 25-mm coal. Rock and high ash coal with a density greater than the selected media density sink to the bottom of the DMV and a chain/scrapper conveyor removes the refuse material from the DMV to a refuse drain and rinse screen and the refuse conveyor.

The minus 3-mm undersize material from the deslime screen flows to a sump and is pumped to classifying cyclones where the underflow goes to a Teeter Bed Separator. The Separator uses a hindered bed separation to float coal, which flows to sieve screens and a fine coal centrifuge. The dried coal is transferred to the minus 13-mm product conveyor. Refuse from the bottom of the Teeter Bed is sent to high frequency refuse screens and onto the main refuse conveyor. The overflow from these classifying cyclones flows to the clarifying thickeners.

Raw coal from the raw coal screening building with the minus 13-mm sizing can bypass the CPP for direct shipping or be conveyed to the main CPP building, where it is deslimed by screening and transferred to DMCs. Clean coal is discharged from the overflow portion of the cyclones and transferred to clean coal drain and rinse screens, where the media is drained and the coal is rinsed before proceeding to the centrifugal dryer and to the

fine coal product conveyor. The refuse from the underflow of the DMC is drained and rinsed on refuse screens and placed on the refuse conveyor, which transports the plus 1-mm refuse to the refuse silo. Material smaller than 1 mm is pumped to classifying cyclones, where the underflow is treated in a Teeter Bed Separator circuit similar to the minus 3-mm material from the coarse circuit.

Overflow from the classifying cyclones and other streams with material smaller than 0.25 mm report to the three 38-m diameter thickeners, where flocculating chemicals are added to enhance particle settling. The clarified water that flows over the top of the thickener is re-cycled back into the plant as process water. The underflow solids are pumped to two types of filters: hyperbaric disk filters (2) or plate and frame pressure filters (3), which are used interchangeably, depending on product requirements (plate and frame filters are simpler and provide low moisture in one stage). The filter cake can be combined with the direct-ship the minus 13-mm product or transported to a storage yard for further air drying and blending. When slime ash content is high, it can be conveyed to waste silo by conveyor for sale to the power plant.

The main plant structure is steel construction, 74.5 m long and 31 m wide, with a modern open layout that provides overhead travelling crane for easier material and equipment handling. Thickeners outside of the main building are covered to prevent winter freezing, as the temperature in this region is below freezing typically half the year. The plant is computer-controlled from a central control room, with Alan-Bradley series PLC system, with sump levers and density maintained automatically.

#### 7.4.7 Staffing

Staffing of 120 employees is planned for the operation of CPP and coal handling systems. According to Yitai, third-party service providers will operate the CPP with staffing breakdown as follows:

| Category                     | Shift 1 | Shift 2 | Shift 3 | Day | Payroll Factor* | Total |
|------------------------------|---------|---------|---------|-----|-----------------|-------|
| Workers-Production . . . . . | 27      | 27      | 13      | 67  | 1.35            | 91    |
| worker-Maintenance . . . . . | 3       | 3       | 9       | 15  | 1.35            | 24    |
| Managers . . . . .           | 13      | —       | —       | 13  | 1.00            | 13    |
| Service Staff . . . . .      | 11      | 4       | 6       | 21  | 1.00            | 21    |
| Sampling/Lab . . . . .       | 2       | 2       | —       | 4   | 1.35            | 6     |
| Total . . . . .              | 56      | 36      | 28      | 120 |                 | 155   |

\* Payroll factor provided coverage for seven-day-per-week operation, injuries, leave, and sickness.

Based on the staffing plan and 6 Mtpa output level, CPP labor productivity approximates 39,000 raw tones per employee-year, exceeding the typical experience for Chinese CPPs.

#### 7.4.8 Construction and Capital Costs

The CPP capital budget is RMB372 million, which is reasonable for the nature of the project. On an annual raw tonnage processed basis the projected capital spending is RMB62 per raw feed per tonne or RMB328,000 per raw tph of feed. A breakdown of projected and actual capital spending is as follows:

| Category                    | RMB (millions) |                                    |
|-----------------------------|----------------|------------------------------------|
|                             | Projected      | Actual cost<br>As of<br>12/31/2011 |
| Civil engineering . . . . . | 135            | 129                                |
| Equipment . . . . .         | 140            | 141                                |
| Installation . . . . .      | 42             | 7                                  |
| Other . . . . .             | 55             | 33                                 |
| Total . . . . .             | 372            | 310                                |

## 8.0 RAILWAY TRANSPORTATION

### 8.1 Introduction

Yitai rail holdings are a key link in the coal supply distribution chain of Dongsheng and Zhunge'er produced coals to destinations throughout China. Generally, the Yitai-owned rail trackage network is bounded by China Shenhua Energy Co.'s (Shenhua) Baoshen Railway in the west and their Dazhun railway in the east. Figure 1.3 shows the current and projected Yitai rail network and coal loadout stations. It is our understanding Yitai owns 13 electric locomotives and 3 diesel locomotives. Other railroad rolling stock is provided by both Taiyuan and Huhhot Railway Bureaus. The arrangement between the equipment provider and Yitai, was not provided to BOYD. The company also controls ten operating loadout stations with six additional stations planned for future construction.

Since Yitai ultimately expects large throughput (after rail improvements and mine construction), the company has adopted automatic block switching. This type of switching is relatively easy to expand and requires low capital investment. Based on the information provided, it is our opinion that the planned Yitai railways will provide adequate throughput capacity to accommodate company coal volumes along with additional third-party coals.

BOYD representatives did not visit the Yitai railways or loadout stations (except for the Zhunge'erzhao station) and have relied on information provided by Yitai in response to data requests and interviews with Yitai personnel and own experience; a capacity study was not undertaken for this review. The following is a brief description of the Yitai railways.

### 8.2 Railway Assets

Yitai's current rail operations are organized along a corridor that will ultimately provide a more direct route to potential consumers located in eastern China as well as access to east coast exporting ports. As rail connections improve with both the Chinese National Railway (CNR), as well as other third-party railways, the market region for Dongsheng-produced coals is expected to expand. Primary Yitai rail assets are: Inner Mongolia Yitai Zhundong Railway Co. Ltd. (Zhundong) and Inner Mongolia Yitai Huzhun Railway Co. Ltd. (Huzhun) mainlines and the Suancigou Railway (Suancigou) branch line. The following is a summary of the current Yitai rail network:

| <u>Railway/Branch</u> | <u>Length<br/>(km)</u> | <u>Double<br/>Track<br/>Length<br/>(km)</u> | <u>Origin</u> | <u>Terminus</u> | <u>Yitai<br/>Ownership<br/>(%)</u> |
|-----------------------|------------------------|---------------------------------------------|---------------|-----------------|------------------------------------|
| Zhundong*             | 191.8                  | 59.4                                        | Zhoujiawan    | Zhunge'erzhao   | 100.00                             |
| Huzhun**              | 179.7                  | 55.5                                        | Zhoujiawan    | Huhhot          | 76.46                              |
| Suancigou             | 26.8                   | —                                           | Suancigou     | Zhoujiawan      | 52.00                              |

\* By 2011, a single-line railway connection to Zhunge'erzhao was completed, the double track is under construction.

\*\* Double tracking (55.47 km) from Zhoujiawan to Togtoh is under construction.

Currently all railways are electrified single-line trackage. By 2015, company capital improvement projects are expected to significantly increasing Yitai's existing rail transport carrying capacity. Focus of work is Zhundong double tracking from Zhoujiawan to Zhunge'erzhao and Huzhun double tracking from Zhoujiawan to Togtoh. Planned capacity will be in excess of the company's planned mining output. Excess rail capacity (beyond what is necessary to move the company's own coal production) will be used for third-party coal movements via improved connections (existing or planned) with the CNR system.

The following shows estimates of the current and future capacities for each railway/branch as provided by Yitai:

| <u>Railway/Branch</u> | <u>Carrying Capacity (Mtpa)</u> |             |             |
|-----------------------|---------------------------------|-------------|-------------|
|                       | <u>2012</u>                     | <u>2015</u> | <u>2020</u> |
| Zhundong*             | 64                              | 83          | 150         |
| Huzhun*               | 39                              | 88          | 128         |
| Suancigou             | 20                              | 20          | 20          |

\* Carrying capacities shown reflect the capacities of the double track segments.

We have reviewed supporting data provided by Yitai regarding projected carrying capacity of The Company's railways. Yitai carrying capacity estimates are based on studies prepared by China Railway First Survey & Design Institute. While we have not preformed a detailed review of the underlying analyses and assumptions contained in those studies, it is our opinion that Yitai's projected carrying capacity is in line with the China Railway's conclusions.

The following shows historical railway throughput volumes carried on each railway:

| <u>Railway</u>                                  | <u>2006</u>  | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|-------------------------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|
|                                                 | Tonnes (000) |             |             |             |             |             |
| Yitai Total Throughput                          |              |             |             |             |             |             |
| Zhundong .....                                  | 13,365       | 17,155      | 24,116      | 32,178      | 34,677      | 29,504      |
| Huzhun .....                                    | —            | —           | 2,803       | 12,232      | 21,248      | 23,435      |
| Suancigou .....                                 | —            | —           | 1,252       | 6,338       | 6,796       | 6,483       |
| Yitai and Yitai Group Portion of Throughput     |              |             |             |             |             |             |
| Zhundong .....                                  | 11,560       | 15,848      | 22,142      | 23,884      | 26,331      | 17,086      |
| Huzhun .....                                    | —            | —           | 2,703       | 9,994       | 13,493      | 7,634       |
| Suancigou .....                                 | —            | —           | —           | —           | 6,796       | 6,483       |
| Yitai Portion of Throughput                     |              |             |             |             |             |             |
| Zhundong .....                                  | 6,818        | 9,826       | 13,770      | 16,675      | 16,766      | 8,526       |
| Huzhun .....                                    | —            | —           | 1,703       | 7,679       | 11,039      | 3,732       |
| Suancigou .....                                 | —            | —           | —           | —           | 6,796       | 6,483       |
| Yitai Group Portion of Throughput               |              |             |             |             |             |             |
| Zhundong .....                                  | 4,742        | 6,022       | 8,372       | 7,209       | 9,565       | 8,561       |
| Huzhun .....                                    | —            | —           | 1,000       | 2,315       | 2,454       | 3,903       |
| Suancigou .....                                 | —            | —           | —           | —           | —           | —           |
| Yitai and Yitai Group Portion of Throughput (%) |              |             |             |             |             |             |
| Zhundong .....                                  | 86           | 92          | 92          | 74          | 76          | 58          |
| Huzhun .....                                    | —            | —           | 96          | 82          | 64          | 33          |
| Suancigou .....                                 | —            | —           | —           | —           | 100         | 100         |
| Yitai Portion of Throughput (%)                 |              |             |             |             |             |             |
| Zhundong .....                                  | 51           | 57          | 57          | 52          | 48          | 29          |
| Huzhun .....                                    | —            | —           | 61          | 63          | 52          | 16          |
| Suancigou .....                                 | —            | —           | —           | —           | 100         | 100         |
| Yitai Group Portion of Throughput (%)           |              |             |             |             |             |             |
| Zhundong .....                                  | 35           | 35          | 35          | 22          | 28          | 29          |
| Huzhun .....                                    | —            | —           | 36          | 19          | 12          | 17          |
| Suancigou .....                                 | —            | —           | —           | —           | —           | —           |

Railways are constructed to carry heavy loads in accordance with Chinese construction standards. Track gauge is standardized at 1,435 mm (equivalent to US standard gauge) generally with a 1.5% limiting slope. A typical 5,000-tonne coal unit train consists of 60 to 70 railcars (C70 or C80) pulled by two Shaoshan (SS) electric locomotives. Once the rail expansion projects are complete, standard unit trains will double in size to 10,000 tonnes. Typical train speed for coal unit trains is approximately 60 km/hr. Main line construction utilizes 50 kg/m rail installed in 25-m segments, and 1,680 concrete sleepers (ties) per km. By October 19, 2009, the entire line had been upgraded to 60 kg/m rail and more closely spaced sleepers (1,760 per km) are utilized.

### 8.3 Zhundong Railway (Zhundong)

#### 8.3.1 Current Operations

The Zhundong has been constructed to equivalent Grade I Chinese National Railway standards, in a phased approach. Initially, the 72.6 km segment from Zhoujiawan to Xiyangzi (a Yitai loadout station west of Hushi Station) began operations in 2000. Originally diesel-powered locomotives were used, but the line was upgraded to electric operation between 2003 and 2005. Capital invested to complete construction of Phase 1 (including electrification) was approximately RMB1.04 billion.

Phase 2 of Zhundong was also constructed to Grade I, single-line, electrified track standards; and was completed during 2009. The RMB1.625 billion Phase 2 project extends service another 59.84 km from Hushi Station west to Zhunge'erzhao. The extension provides a rail link between Xuejiawan and Ordos City. Ultimately, the Zhundong line will extend to Huocangou Station and to the company's Shashagetai loadout station. These connections will provide access to CNR's Dongwu Railway to the west and Shenhua's Baoshen railway running north-south. The Zhundong line provides the first direct, non-dedicated, rail transportation link between the Dongsheng and Zhunge'er coalfields and provides for more timely delivery of coal to Huhhot or other eastern domestic customer destinations.

The railway (including Suancigou) employs 1,710 workers with the following employment by job category:

| Staff by Category              | No. of Railway Employees<br>(as of 31 December 2011) |           |       |
|--------------------------------|------------------------------------------------------|-----------|-------|
|                                | Zhundong                                             | Suancigou | Total |
| Administrative                 |                                                      |           |       |
| Enterprise/Company Mgt. ....   | 20                                                   | —         | 20    |
| Labor Union ....               | 4                                                    | —         | 4     |
| Administration ....            | 119                                                  | —         | 119   |
| Safety/Quality/Environ ....    | 15                                                   | 3         | 18    |
| Subtotal - Administrative .... | 158                                                  | 3         | 161   |
| Production                     |                                                      |           |       |
| Bridge ....                    | 36                                                   | —         | 36    |
| Transportation ....            | 34                                                   | 5         | 39    |
| Train ....                     | 286                                                  | 31        | 317   |
| Track ....                     | 252                                                  | 65        | 317   |
| Stations ....                  | 19                                                   | 7         | 26    |
| Locomotive Terminal ....       | 238                                                  | —         | 238   |
| Electricity/Power Supply ....  | 318                                                  | 25        | 343   |
| Vehicles ....                  | 173                                                  | 36        | 209   |
| Heavy Machinery ....           | 20                                                   | 4         | 24    |
| Subtotal - Production ....     | 1,376                                                | 173       | 1,549 |
| Total ....                     | 1,534                                                | 176       | 1,710 |

Note: An additional 96 personnel are responsible for railway improvements (power upgrades, double-track, etc.) and are not included above.

Yitai reported that there were neither service interruptions nor fatalities on the Zhundong line between 2006 and 2011. Employees receive annual safety trainings provided by Huhhot Railway Bureau. Roadway and equipment (railcars and locomotives) operate on a three-shift (8-hour length) rotation daily, five days per week, with rail service performed by Inner Mongolia Yitai Zhundong Railway Co., Ltd.

Employee work schedules generally follow an 8-hour workday, five days per week. Yitai data regarding employee salaries indicate that annual salaries range between RMB75,000 to RMB90,000 for ministerial level staff and RMB45,000 to RMB50,000 for section level staff. Average annual salary for production workers is approximately RMB34,000.

### 8.3.2 Current and Future Expansion

Expansion of the Zhundong line in the near term and long term will primarily include the installation of double track along the existing railway. As part of the double track projects, sidings at stations may require upgrades (i.e., extended siding length to more than 1,700 m), where possible, to accommodate longer and heavier unit trains (10,000 tonnes). In 2009, construction commenced on double-track projects for the Zhundong segment east of Hushi Station. It is our understanding total capital investment for improvements will approach RMB2.263 billion. By 31 December 2011, Yitai had spent RMB1.894 billion with RMB369 million remaining. Yitai expects these rail improvements will be fully operational in 2012.

## 8.4 Suancigou Railway (Suancigou)

Suancigou is a 26.75 km, single-line, branch railway providing rail services to Yitai's Suancigou Mine. Total capacity is reported to be approximately 20 Mtpa, which is equivalent to the potential ultimate capacity of the Suancigou Mine. The line became operational in 2007, with Yitai taking over the management and operation in September 2008. The line is dedicated to Suancigou Mine with terminus in Zhoujiawan allowing access to Yitai Project's Zhundong and Huzhun railways along with Shenhua's Dazhun railway. Total construction costs for the Suancigou line were RMB504.9 million (excluding railway station).

If future output of Suancigou mine does not attain 20 Mtpa, any excess capacity could be used to move third-party coals from mines located within a reasonable trucking distance from Suancigou rail loadout. There are several other mining operations located within close proximity to Suancigou Mine/loadout facility.

## 8.5 Huzhun Railway (Huzhun)

### 8.5.1 Current Operations

Huzhun was constructed, beginning in April 2004, to local Grade I railway standards. The railway provides a 124.18 km link between Huhhot West Station (Huhhot) to the north and Xuejiawan Station (Zhunge'er) in the south. Construction was completed in late 2006 with an electrification upgrade completed in September 2009. Currently the total carrying capacity is approximately 27 Mtpa. Railroad operations are the responsibility of Huhhot Railway Bureau.

The Huzhun line provides additional flexibility for movement of Dongsheng produced coals to potential consumers located in northern and eastern PRC. Coals reaching Xuejiawan Station on the Zhundong line may move north along the Huzhun or east on the Dazhun.

The railway employs 500 workers with the following employment by job category:

| <u>Staff by Category</u>            | <u>No. of Railway Employees<br/>(as of 31 December 2011)</u> |
|-------------------------------------|--------------------------------------------------------------|
| Administrative                      |                                                              |
| Enterprise/Company Mgt . . . . .    | 8                                                            |
| Labor Union . . . . .               | 1                                                            |
| Administration . . . . .            | 13                                                           |
| Safety/Quality/Environ . . . . .    | 11                                                           |
| Subtotal - Administrative . . . . . | 33                                                           |
| Production . . . . .                | 467                                                          |
| Total . . . . .                     | 500                                                          |

Employees generally work 8 hours per day, five days per week. Annual salaries average RMB86,000 for ministerial level staff and RMB75,000 for section level staff. Average annual salary for production workers is approximately RMB34,000 per annum.

Yitai stated there were no service interruptions or fatalities on the Huzhun between 2006 and 2011. Employees receive annual safety training provided by Huhhot Railway Bureau.

### 8.5.2 Current and Future Expansion

Yitai is currently constructing a second line of double-tracking over a 55.47 km segment of the Huzhun line from Xuejiawan to Togtoh. When the double-track is completed, overall carrying capacity of this portion of the Huzhun line will increase significantly. Yitai has indicated that the overcapacity will dissipate over time due to expected increases in throughput on the Zhundong line from both Yitai mines and third-party sources.

Total budgeted investment in the rail project (including electrification) is RMB1.84 billion. By 31 December 2011, Yitai had spent RMB508 million with RMB1.332 billion remaining.



The expansion is expected to increase the railway's capacity to approximately 128 Mtpa by 2020. Currently, sidings at three stations have been extended to 1,700 m in length, sufficient to accommodate 10,000-tonne trains (approximately 105 C80 railcars).

## 8.6 Expected Regional Railway Growth

Infrastructure improvements in the region where the Dongsheng and Zhunge'er coalfields are located are expected to facilitate coal distribution throughout the PRC. Several capital projects planned for completion in the 2012 to 2020 time frame, include:

- Zhunge'er — Shuozhou rail link
- Zhunge'er — Datong capacity expansion
- Xinjie — Galutu Railway
- Data Hejiata portion of the River Railway
- Xuejiawan-Dafanpu-Mashan Railway
- Jining — Baotou (second double-track)
- Zhangjiakou — Jining double-track
- Zhangjiakou — Hushiha — Caofeidian Rail Road (new construction)

Once the above rail construction projects are complete, the freight volume capacity on the Yitai railways is expected to reach long-term projected capacity.

## 8.7 Coal Loadout Stations

### 8.7.1 Current Operations

Yitai controls ten operating coal loadout stations which provide rail access to coal produced by the Company and purchased from third parties. The following is a summary of Yitai loadout stations:

| Station                            | Year Constructed | Our Ownership (%) | Throughput Capacity (mta) | Loading Railway Connection |
|------------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Xiyngzi/Hushi* . . . . .           | 2000             | 100/100           | 15.0/18.0                 | Zhundong                   |
| Xinghe . . . . .                   | NA**             | —**               | 15.0                      | Jining — Zhangjiakou       |
| Hantaibei . . . . .                | NA**             | —**               | 20.0                      | Baotou — Xi'an             |
| Zhunge'erzhao . . . . .            | 2008             | 100               | 30.0                      | Zhundong                   |
| Suancigou . . . . .                | 2008             | 52                | 15.0                      | Suancigou                  |
| Tanggongta . . . . .               | 1993             | 51                | 3.0                       | Dazhun                     |
| Shashagetai (Bao — Shen) . . . . . | 1991             | 100               | 3.0                       | Baotou — Shenmu            |
| Guanniujia . . . . .               | 2010             | 51                | 10.0                      | Huzhun                     |
| Jialanying . . . . .               | 2010             | 100               | 3.0                       | Huzhun                     |

\* Xiyngzi and Hushi loading facilities are situated 6 km apart.

\*\* Station is leased.

Suancigou and Zhunge'erzhao stations utilize loop tracks with batch loading capabilities. The Tanggongta Station has a linear track with coal loading using an in-line batch loading arrangement. The remaining loadout stations have linear track arrangements, with end-loaders used for loading.

Stations utilizing end-loaders typically load 51 car trains (80 tonnes/wagon) in approximately 60 minutes. To assure loading times, approximately 50 end-loaders are simultaneously operated. In addition, a 10% redundancy factor is built into the coal end-loaders fleet requirements.

The following is a list of major equipment utilized by each of the loadouts:

| Station                      | Number       |        |             |               |
|------------------------------|--------------|--------|-------------|---------------|
|                              | Coal Loaders | Dozers | Coal Trucks | Winter Trucks |
| Xiyingzi/Hushi               | 120          | 2      | 612         | —             |
| Xinghe                       | 6            | —      | 220         | —             |
| Hantaibei                    | —            | —      | 245         | —             |
| Zhunge'erzhao <sup>(a)</sup> | —            | 4      | 220         | —             |
| Suancigou <sup>(a)</sup>     | —            | —      | —           | —             |
| Tanggongta <sup>(b)</sup>    | —            | —      | —           | —             |
| Shashagetai (Bao-Shen)       | 25           | 1      | 100         | —             |
| Guanniuju <sup>(b)</sup>     | —            | —      | —           | —             |
| Jialanying <sup>(b)</sup>    | —            | —      | —           | —             |

(a) Automatic loading systems.

(b) N/A.

Historical throughput for the loadouts is as follows:

| Station                   | Tonnes (000)       |       |        |        |             |        |        |             |        |        |             |        |
|---------------------------|--------------------|-------|--------|--------|-------------|--------|--------|-------------|--------|--------|-------------|--------|
|                           | 2006               | 2007  | 2008   | 2009** |             |        | 2010** |             |        | 2011** |             |        |
|                           | Total Throughptut* |       |        | Yitai  | Yitai Group | Total  | Yitai  | Yitai Group | Total  | Yitai  | Yitai Group | Total  |
| Xiyingzi/Hushi . .        | 7,698              | 9,644 | 16,580 | 16,392 | 5,121       | 21,513 | 13,482 | 7,039       | 20,521 | 10,172 | 3,491       | 13,663 |
| Dongxing . . . . .        | 373                | 5,125 | 7,214  | 184    | 3,510       | 3,694  | 329    | 3,920       | 4,249  | 396    | 1,364       | 1,760  |
| Zhunge'erzhao .           | —                  | —     | —      | —      | —           | —      | 56     | 2,274       | 2,330  | 1,850  | 8,694       | 10,544 |
| Suancigou . . . .         | —                  | —     | 1,252  | 6,359  | —           | 6,359  | 8,178  | —           | 8,178  | 8,381  | —           | 8,381  |
| Tanggongta . . .          | 467                | 286   | 188    | —      | —           | —      | —      | —           | —      | —      | —           | —      |
| Shashagetai<br>(Bao-Shen) |                    |       |        |        |             |        |        |             |        |        |             |        |
| Shen) . . . . .           | 244                | 499   | 515    | —      | 250         | 250    | 8      | 235         | 243    | —      | 224         | 224    |
| Guanniuju . . . .         | —                  | —     | —      | —      | —           | —      | 388    | —           | 388    | 110    | —           | 110    |
| Jialanying . . . .        | —                  | —     | —      | —      | —           | —      | 1,159  | —           | 1,159  | 2,107  | —           | 2,107  |

\* Total throughput including Yitai, Yitai Group, and third-party coal shipments.

\*\* Third-party coal shipment tonnages are not included.

Historically, approximately 74% of loadout station throughput according to Yitai is internally produced coal. The remaining capacity is available for third-party coal shipments.

The Yitai portion of throughput at each loadout facility is sourced from one or more company mines. Based on 2011 January through December production data, Yitai company mines shipped, on average, approximately 91% of their production by rail at company-controlled loadout stations.

Sufficient coal storage capacity must be available at the rail loadout site to assure reliable delivery of coal in the event of a mine-to-loadout transportation interruption. The following is a list of the current coal storage capacity at each loadout (Suancigou and Zhunge'erzhao storage capacities are also discussed in the CPP section):

| Station        | Coal Storage Capacity<br>(tonnes-000) |       |       |
|----------------|---------------------------------------|-------|-------|
|                | Raw                                   | Clean | Total |
| Xiyingsi/Hushi | —                                     | 1,600 | 1,600 |
| Xinghe         | —                                     | 100   | 100   |
| Hantaibei      | —                                     | 150   | 150   |
| Zhunge'erzhao  | —                                     | 1,500 | 1,500 |
| Suancigou      | —                                     | 60    | 60    |
| Tanggongta     | —                                     | 500   | 500   |
| Shashagetai    | —                                     | 70    | 70    |
| Guanniuju      | —                                     | 800   | 800   |
| Jialanying     | —                                     | 150   | 150   |

Employment at the Yitai coal loadout stations is as follows:

| Station                | Total Employees |              |       |       |       | Yitai Employees |              |       |       |       |
|------------------------|-----------------|--------------|-------|-------|-------|-----------------|--------------|-------|-------|-------|
|                        | Railcar Loading | Loader/Dozer | Admin | Other | Total | Railcar Loading | Loader/Dozer | Admin | Other | Total |
| Xiyingsi/Hushi         | 20              | 10           | 20    | 318   | 368   | 20              | 10           | 20    | 157   | 207   |
| Xinghe                 | —               | —            | 46    | 14    | 60    | —               | —            | 46    | —     | 46    |
| Hantaibei              | —               | —            | 70    | 4     | 74    | —               | —            | 70    | —     | 70    |
| Zhunge'erzhao          | —               | —            | 11    | 135   | 146   | —               | —            | 11    | 18    | 29    |
| Suancigou              | 8               | —            | 5     | 28    | 41    | 8               | —            | 5     | 17    | 30    |
| Tanggongta             | 3               | —            | 7     | 58    | 68    | 3               | —            | 7     | 34    | 44    |
| Shashagetai (Bao-Shen) | —               | —            | 7     | 39    | 46    | —               | —            | 7     | 29    | 36    |
| Guanniuju              | —               | —            | 4     | 50    | 54    | —               | —            | 4     | 10    | 14    |
| Jialanying             | —               | —            | 6     | 32    | 38    | —               | —            | 6     | 15    | 21    |

### 8.7.2 Future Operations

Yitai has estimated future throughput for each of their loadout stations. The company expects total throughput to reach 83 Mt by 2014, summarized as follows:

| Station                | Projected Throughput<br>(Mt) |      |      |
|------------------------|------------------------------|------|------|
|                        | 2012                         | 2013 | 2014 |
| Xiyingsi/Hushi         | 20.6                         | 27.5 | 28.1 |
| Xinghe                 | 3.9                          | 10.0 | 15.0 |
| Hantaibei              | 2.0                          | 2.0  | 2.5  |
| Zhunge'erzhao          | 12.7                         | 17.3 | 19.8 |
| Suancigou              | 10.1                         | 11.0 | 11.8 |
| Tanggongta             | —                            | —    | —    |
| Shashagetai (Bao-Shen) | —                            | —    | —    |
| Guanniuju              | 0.5                          | 0.5  | —    |
| Jialanying             | 2.4                          | 5.7  | 5.7  |
| Total                  | 52.2                         | 74.0 | 83.0 |

Note: Figures may not add due to rounding.

Except for Tanggongta, Shashagetai and Guanniuju, all loadout stations are expected to increase their throughput in 2013 and 2014. In 2013, Xiyingsi and Zhunge'erzhao will provide approximately 60% of Yitai's total loadout station throughput.

Construction of the CPP at Zhunge'erzhao will provide Yitai with greater flexibility to ship raw, clean, or blended coal products depending on customer specifications.

Additionally, the CPP and rail loadout at Zhunge'erzhao will allow Yitai to reduce the trucking distances required to access rail loadout stations.

Yitai plans to construct six additional coal-to-rail loadout stations. Talahao station will provide dedicated rail service for coal distribution from the company's planned Talahao Mine. Hongqinghe and Wulongsu loading stations are planned to access the Ordos South and Zhunshuo railways, respectively. Both of these railways is expected to be operational before 2014. Shahaota/Nuanshui and Xinghe loadout stations are planned to access the Zhundong and Jizhang railways, respectively. Yitai has not provided detailed information for either of the loadout stations; however, it is expected Talahao's capacity will be similar to that of the proposed mine (6 Mtpa).

## 9.0 ENVIRONMENTAL OVERVIEW

### 9.1 Introduction

Mining and related activities are inherently disruptive to the environment. The location in which the Yitai and Yitai Group mines operate is characterized by an arid plateau continental climate with extended winter and short summer seasons. The region is sparsely vegetated, and there are no known cultural and environmentally sensitive areas within the confines of the Yitai and Yitai Group mining right areas. Residential development within the mine plan areas is limited, which will limit local population relocation expenses. Terrain across the overall study area is characterized by rolling hills with erosional gullies and tends to be higher in elevation in the western portion of the study area and lower lying to the east. There are no perennial water bodies within the Yitai and Yitai Group mining right areas, but temporary flooding can occur during seasonal rainfall events.

All of the Yitai and Yitai Group mines are underground operations. Except for the surface footprint for the mines' facilities for offices, change-rooms, shafts, inclines, coal handling and stockpile areas, etc., the mines have little effect on the surface. Adverse impacts are largely related to surface land subsidence resulting from LW mining, generation and disposal of coal refuse materials resulting from coal processing, community by-products (e.g., handling of sewage), heating plant smoke emissions, fugitive dust, and noise pollution.

### 9.2 Guidelines of the World Bank

The World Bank's explicit standards regarding environmental protection relating to mining activities are set forth in the "Environmental, Health and Safety Guidelines for Mining" (EHSM) and "Environmental, Health and Safety General Guidelines" (EHS). The Bank guidelines and principles support the view that coal mining activities affect the environment and require that mitigation measures must be taken to protect the environment and reduce the impact of coal mining activities. Responsible environmental management on the part of the mining enterprises includes establishing the policies and practices companies must employ to protect the environment and minimize the impact of mining and related activities. While many PRC environmental regulations are also included in the EHSM, the EHSM guidelines vary in the application of specific guideline requirements. The PRC environmental regulations in some instances specify stricter environmental measures. Based on our site visits, document review, and our experience, we are satisfied that the Yitai and Yitai Group mines recognize the company's environmental responsibilities. The company's control measures and environmental management system are consistent with PRC regulations and generally meet EHSM guidelines, although they may be at variance with specific guidelines.

### 9.3 PRC Environmental Protection Regulations

The primary domestic environmental protection laws and regulations of the PRC, which this environmental review considers, include:

- Environmental Protection Law.
- Law on the Prevention and Control of Atmospheric Pollution.

- Law on Prevention and Control of Water.
- Law on Prevention of Solid Waste Environmental Pollution.
- Law on Prevention and Control of Noise Pollution.
- Regulations on the Administration of Project Construction Environmental Protection.
- Environmental Impact Assessment Law.
- Technical Guidelines for Environmental Impact Assessment.
- Technical Policies on Mine Environmental Protection and Control.
- Clean Production Standard for Coal Mining and Preparation Industry (HJ446-2008).
- Interim Regulations on Coal Industry Environmental Protection.

BOYD believes that the requirements and enforcement of Chinese laws and regulations on environmental protection are in accordance with those of the World Bank.

Environmental impact assessments were conducted prior to the commencement of construction at each of the Yitai mines to meet the requirements of the Environmental Impact Assessment Law, and environmental protection is an integral part of the preliminary design (consistent with the requirements of the Administration of Project Construction Environmental Protection and the Environmental Impact Assessment Law of the PRC).

Environmental protection acceptance reviews have been conducted prior to the commissioning of each mine. The reports on environmental protection acceptance have been approved by the Environmental Protection Bureau of Inner Mongolia Autonomous Region. In combination with field visits, BOYD used these acceptance reports and the associated approval comments in preparing this report.

BOYD observed that Yitai employed environmental protection measures during site visits and believes Yitai has made diligent efforts to incorporate responsible environmental protection policies and practices into their operations. The company's facilities and equipment for environmental protection are operating according to acceptable environmental protection practices.

#### 9.4 Environmental Management

There are established environmental protection management organizations as well as specially assigned personnel in the Yitai headquarters, tasked with the responsibility of enacting necessary environmental protection policies and environmental management systems for the company. To date, the environmental protection management approach, the Implementation Plan for Mining Area Comprehensive Environmental Treatment, as well as the environmental protection systems relating to pollution prevention, surface subsidence remediation, environmental facilities management, and soil and water conservation have been enacted. According to Yitai's requirements, coal mines and coal preparation plants have established their own environmental management organizations and also enacted corresponding environmental protection management systems based on their circumstances. Staff from Yitai headquarters dedicated to environmental protection compliance are stationed at each mine.

#### 9.5 Surface Subsidence

LW mining is the principal method of coal extraction used throughout the Chinese coal industry and in the Yitai and Yitai Group mines. This method results in disturbance to, or subsidence of, the overlying surface land when the extent of coal seam extraction is sufficient to produce failure of the overlying strata extending to the surface. The strata failure often produces cracks and depressions on the overlying surface.

The level of impact and degree of surface subsidence varies from mine to mine depending on the intensity (extracted coal seam thickness and face layout) of LW mining, depth of mining, and thickness of surface loess material. When LW mining is conducted at shallow depths, the surface effects (cracking) are more pronounced.

Impacts of LW mining activities are not always apparent in this barren landscape. In areas where a thick layer of loess covers the mining right areas, the unconsolidated loess material tends to conform to surface depressions caused by LW mining. The mines are responsible for filling the cracks and depressions and revegetating the affected areas according to national regulations.

To mitigate the impact of subsidence on the social environment and ensure uninterrupted mining activity common practice adopted by the mines is to re-locate the local population living within areas planned for LW mining and contract the services of local residents to conduct in-place land-filling, followed by (e.g., local population relocation in advance of mining) ground-support work to prevent and/or reduce future occurrences during underground mining operations. Subsidence-related work is implemented in steps to ensure mine operation is not interrupted. Subsided areas are filled and revegetated.

## 9.6 Soil and Water Conservation

The ecological environment in the area where Yitai is located is relatively vulnerable to the adverse impact of wind and rain. Existing terrain, soil, and meteorological conditions are not favorable for controlling wind erosion and sand fixation/consolidation or for prompting the growth of vegetation. Soil erosion is prevalent in the study area. In recent years, Yitai has placed added emphasis on the prevention and control of soil erosion. Site afforestation/re-vegetation and ground hardening/consolidation were primarily undertaken within the premises of the industrial sites, with sustaining wall construction and slope protection measures. These measures effectively control and/or prevent soil erosion.

## 9.7 Yitai

### 9.7.1 Air Pollution Control

Boiler Soot De-dusting and De-sulphurization: The Suancigou, Nalinmiao No. 1, Hongjingta No. 1, and Kaida mines utilize marble scrubbing dust collectors for de-dusting and de-sulphurization; the Nalinmiao No. 2 and Yangwangou mines use multi-tube dust collector for de-dusting and de-sulphurization; the Fuhua Mine recently installed de-dusting and de-sulphurization equipment. Soot and SO<sub>2</sub> emitted from each mine conform to Category II standards of the Emission Standard for Air Pollutants from Boilers.

Fugitive Dust Prevention and Control: The Yangwangou and Fuhua mines use ground coal storage yards, with wind prevention and dust suppression mesh erected and water sprinklers installed. However, due to the large height difference between the coal discharge outlets and the ground, coal dust dispersion pollutes the environment around the mining areas. Raw coal from other coal mines owned by the company exits the mine and transfers directly to fully-sealed storage bins. In these cases, there is minimal or no fugitive coal dust. The ground within the industrial sites is compacted. The relatively hard ground sites yield minimal dust; therefore, fugitive dust prevention and control is effectively executed.

### 9.7.2 Water Pollution Prevention and Control

Mine Water Treatment and Utilization: Mine water treatment facilities have been constructed at the coal mines. The Suancigou, Nalinmiao Nos. 1 and 2, Hongjinta No. 1 and Kaida mines, utilize flocculation, sedimentation, and filtration for treatment of mine water; the Yangwangou Mine utilizes a horizontal-flow sedimentation tank for treatment of mine water; the Fuhua Mine uses an underground secondary sedimentation tank for treatment of mine water. The treated mine water is re-used for underground spray water purposes, mine firefighting and afforestation/re-vegetation. For most of the coal mines, virtually all of the mine water is fully reutilized.

Domestic Sewage Treatment and Utilization: Domestic sewage treatment facilities have been constructed at the coal mines. The Nalinmiao No. 1 and the Kaida mines employ integrated secondary biological treatment equipment; the other mines use the technique of secondary biological landfill disposal. Treated domestic sewages conform to the requirements of the Integrated Wastewater Discharge Standard and related discharge standards, and are mainly used in afforestation/re-vegetation.

CPP Slurry: Slurry from coal processing in the Zhunge'erzhao and Suancigou facilities is sent to filter presses, where water is drawn from the coal fines and recycled to the plant. CPPs operate with closed circuits.

### 9.7.3 Waste Rock Disposal and Utilization

Waste rock disposal and utilization arrangements are as follows:

- Ditch filling and land reclamation after haulage of waste rock/refuse to the surface.
- Waste rock produced in the Suancigou CPP is utilized as fuel for waste power generation.
- Refuse materials produced from the Yangwangou Mine are generally sold as building materials. Boiler ash and domestic garbage are regularly transported to disposal sites designated by the local hygienic authorities and disposed of by specially-established organizations.

### 9.7.4 Noise Abatement

The main noise pollution sources in the coal mines are: fan rooms, boiler fan blowers, crushers, and vibrating screens, with the equipment noise levels generally ranging from 90 to 100 dB. The mines have adopted noise reduction measures pertinent to the above-mentioned equipment, according to the requirements in the environmental impact statements. Operations and equipment that tend to generate comparatively higher decibels of noise are located farther away from office complexes and living areas.

## 9.8 Yitai Group

### 9.8.1 Air Pollution Control

*Boiler Soot De-dusting and De-sulphurization:* Remnant heat from the Dongfang power plant serves as a heat source for the heating of Dadijing Mine. After the heat is conducted to the mine, steam-to-water heat exchange is conducted without the generation of ambient air pollutants. In the Baoshan Mine, the boiler is equipped with a marble scrubbing dust collector for de-dusting and de-sulphurization. In the Dingjiaqu Mine, the boiler is equipped with an integrated de-dusting and de-sulphurization device; at Chengyi Mine, the boiler is equipped with a ceramic multi-tube dust collector and an integrated smoke de-sulphurization device. The Baijialiang Mine has de-dusting and de-sulphurization devices installed in the boiler.

*Fugitive Dust Prevention and Control:* Dadijing, Baoshan, Chengyi, and Dingjiaqu mines have surface coal bins with sealed storage of raw coals. This practice eliminates fugitive coal dust. The Baijialiang Mine has surface ground coal storage yards established, with wind-proof, dust-proof meshing, and spray sprinklers installed. The transfer points, crushing and screening installations are equipped with spray sprinklers and the belt conveyor corridors are sealed.

### 9.8.2 Water Pollution Prevention and Control

Except for the Baijialiang Mine, which directly re-uses mines water with two-stage sedimentation, the other coal mines are equipped with surface water treatment facilities. The mines are also equipped with domestic sewage treatment facilities, with recovered water effluent reused in mine afforestation/re-vegetation and dust suppression on haul roads.

### 9.8.3 Waste Rock Disposal and Utilization

Waste rock is used as subsidence hollow fill material; otherwise it is stored in designated waste storage areas.

Domestic garbage is regularly transported to designated disposal sites approved by the local hygienic authorities and disposed of by specially established organizations.

### 9.8.4 Noise Pollution Prevention and Control

The main noise pollution sources in the coal mines are: fan rooms, boiler fan blowers, crushers, and vibrating screens, with equipment noise levels generally ranging from 90 to 100 dB. The mines have adopted noise reduction measures pertinent to the above-mentioned equipment to comply with the requirements on environmental protection. Operational areas where noise pollution is a nuisance are located farther away from the office and living areas.



## 9.9 Environmental Protection Capital Spending

Historical capital investment data for environmental protection are based on data in the approved construction environmental protection acceptance reports and spending on environmental protection since the completion of mine construction to the end of 2011.

### 9.9.1 Historical Environmental Protection Capital Spending by Yitai

| Category                                                                                | Suancigou | Nalinmiao      | Hongjingta | Nalinmiao | Yangwangou | Fuhua | Kaida |
|-----------------------------------------------------------------------------------------|-----------|----------------|------------|-----------|------------|-------|-------|
|                                                                                         |           | No. 2          | No. 1      | No. 1     |            |       |       |
|                                                                                         |           | RMB (millions) |            |           |            |       |       |
| Atmospheric pollution prevention and control . . . . .                                  | 83.60     | 17.17          | 11.40      | 27.30     | 1.64       | 2.86  | 18.73 |
| Treatment of mine water and domestic sewage . . . . .                                   | 15.57     | 2.14           | 2.92       | 1.13      | 1.04       | 4.62  | 2.31  |
| Treatment of solid wastes . . . . .                                                     | 1.32      | 0.30           | 0.70       | 0.30      | 0.01       | 0.01  | 0.15  |
| Noise reduction . . . . .                                                               | 0.76      | 0.76           | 0.50       | 0.55      | 0.01       | 0.01  | 0.43  |
| Afforestation, soil and water conservation, as well as ecological reclamation . . . . . | 8.42      | 2.65           | 1.33       | 0.60      | 3.13       | 1.02  | 2.18  |
| Other . . . . .                                                                         | 6.16      | 0.67           | 8.27       | 0.88      | 0.51       | 0.67  | 0.57  |
| Total investment . . . . .                                                              | 115.83    | 23.69          | 25.12      | 30.76     | 6.34       | 9.20  | 24.37 |
| Planned investment in the environmental impact assessment . . . . .                     | 63.58     | 7.69           | 12.94      | 8.28      | 0.84       | 1.36  | 2.42  |

Note: Figures may not add due to rounding.

### 9.9.2 Historical Environmental Protection Capital Spending by Yitai Group

| Category                                                                                | Dadijing | Baoshan | Dingjiaqu      | Chengyi | Baijialiang |
|-----------------------------------------------------------------------------------------|----------|---------|----------------|---------|-------------|
|                                                                                         |          |         | RMB (millions) |         |             |
| Atmospheric pollution prevention and control . . . . .                                  | 37.57    | 14.37   | 22.72          | 19.56   | 2.37        |
| Treatment of mine water and domestic sewage . . . . .                                   | 5.17     | 3.20    | 3.43           | 0.99    | 0.85        |
| Treatment of solid wastes . . . . .                                                     | 1.20     | 0.55    | 0.35           | 0.42    | 0.32        |
| Noise reduction . . . . .                                                               | 8.34     | 0.55    | 0.50           | 0.19    | 0.23        |
| Afforestation, soil and water conservation, as well as ecological reclamation . . . . . | 6.80     | 1.05    | 11.30          | 2.00    | 1.08        |
| Other . . . . .                                                                         | 4.21     | 0.73    | 0.55           | 1.23    | 0.21        |
| Total investment . . . . .                                                              | 63.29    | 20.45   | 38.85          | 24.39   | 5.06        |
| Planned investment in the environmental impact assessment . . . . .                     | 6.04     | 6.62    | 4.17           | 1.71    | 2.00        |

Investments on atmospheric pollution prevention and control of some of the mines also include investments on construction of surface bins, which typically are considered civil engineering investments. The practice at Yitai combines the bin construction investments and atmospheric pollution treatment expenses together.

### 9.10 Land Reclamation and Environmental Liabilities

Land reclamation reports for the Yitai and Yitai Group operating mines were provided. In these reports, completed in the period from 2007 to 2009 by various appraisal companies, impacts on land and environment by mining operations are recognized and evaluated. Land reclamation evaluation includes engineering and relevant spending associated with environmental remediation, rehabilitation, removal of mine facilities to be abandoned after mine closure and land reclamation (including equipment purchase). According to these reports, projected land reclamation costs totals RMB117.65 million in 2011, as shown in the following:

| Mine                       | Capital Budget for<br>Final Mine<br>Reclamation,<br>RMB millions | Land Reclamation Plan Prepared by                           |
|----------------------------|------------------------------------------------------------------|-------------------------------------------------------------|
|                            |                                                                  |                                                             |
| Yitai                      |                                                                  |                                                             |
| Suancigou . . . . .        | 47.21                                                            | Beijing Hongjingshi Real Estate Appraisal Company Limited   |
| Nalinmiao No. 2 . . . . .  | 7.91                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Hongjingta No. 1 . . . . . | 14.72                                                            | Ordos Lixin Land Planning & Consulting Company Limited      |
| Nalinmiao No. 1 . . . . .  | 5.54                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Yangwangou . . . . .       | 0.75                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Fuhua . . . . .            | 5.33                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Kaida . . . . .            | 7.71                                                             | Inner Mongolia Yuyuan Real Estate Appraisal Company Limited |
| Subtotal — Yitai . . . . . | 89.17                                                            |                                                             |
| Yitai Group                |                                                                  |                                                             |
| Dadijing . . . . .         | 4.16                                                             | Ordos Land Surveying & Planning Institute                   |
|                            |                                                                  | Ordos Lixin Land Planning & Consulting Company Limited      |
| Baoshan . . . . .          | 10.50                                                            | Ordos Lixin Land Planning & Consulting Company Limited      |
| Dingjiaqu . . . . .        | 6.87                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Chengyi . . . . .          | 3.29                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Baijialiang . . . . .      | 3.66                                                             | Ordos Lixin Land Planning & Consulting Company Limited      |
| Subtotal — Yitai . . . . . |                                                                  |                                                             |
| Group . . . . .            | 28.48                                                            |                                                             |
| Total . . . . .            | 117.65                                                           |                                                             |

We have not reviewed the reclamation plans in detail; however, in our opinion, projected spending for mine reclamation in general terms appears sufficient in overall magnitude and the proposed plans are suitable for the areas where Yitai mines are located. We recommend that reclamation spending estimates are increased by 20% for unforeseen issues and general contingency. These cost estimates do not include the costs for CPP reclamation at Suancigou. Yitai and Yitai Group mines are underground operations with shaft and incline accesses, making it unlikely that these mines will have acid mine water discharge issues after mine closure. No long-term, post-mining environmental liability issues have been identified in these reports and we anticipate the likelihood of such issues as low.

According to Yitai, the capital needed for land reclamation will be funded by the fees collected on a per-tonne-of-coal-output basis and treated as part of operating costs. Fees related to land reclamation and environmental rehabilitation include Environmental Rehabilitation Compensation Fund, Subsidence Compensation Fund, Water and Soil Conservation Fee and Forestation Fee, as shown in the table follows:

| Category                                           | Cost, RMB/t      |                  |
|----------------------------------------------------|------------------|------------------|
|                                                    | Zhunge'er Banner | Ejin Horo Banner |
| Environmental Recovery Compensation Fund . . . . . | —                | 2.5              |
| Subsidence Compensation Fund . . . . .             | 3.0              | —                |
| Water and Soil Conservation Fee . . . . .          | 0.5              | 0.5              |
| Forestation Fee . . . . .                          | 0.1              | 0.1              |
| Total . . . . .                                    | 3.6              | 3.1              |

At projected coal output levels for Yitai and Yitai Group mines, fees projected to accumulate over the period of mine operations, in our opinion, appear adequate to support the need for land reclamation and environmental rehabilitation.

### 9.11 Soil and Water Conservation Capital Spending

The investments as shown in the table below are summarized from the investment data in the work summaries on the implementation of soil and water conservation plans submitted by each mine. The investments made since the submittal of the summaries were not provided.

#### 9.11.1 Historical Soil and Water Conservation Capital Spending by Yitai

| <u>Investment Category</u>                                        | <u>Suancigou</u> | <u>No. 2<br/>Nalinmiao</u> | <u>No. 1<br/>Hongjingta</u> | <u>No. 1<br/>Nalinmiao</u> | <u>Yangwangou</u> | <u>Fuhua</u> | <u>Kaida</u> |
|-------------------------------------------------------------------|------------------|----------------------------|-----------------------------|----------------------------|-------------------|--------------|--------------|
|                                                                   |                  |                            | RMB (millions)              |                            |                   |              |              |
| Planned investment on<br>soil and water<br>conservation . . . . . | 10.20            | 4.61                       | 1.56                        | 10.49                      | 2.11              | 1.36         | 2.36         |
| Completed<br>investments . . . . .                                | 9.05             | 9.66                       | 4.23                        | 7.01                       | 1.99              | 1.41         | 2.99         |
| Difference . . . . .                                              | (1.15)           | 5.06                       | 2.67                        | (3.47)                     | (0.12)            | 0.05         | 0.63         |

#### 9.11.2 Historical Soil and Water Conservation Capital Spending by Yitai Group

| <u>Category</u>                                                | <u>Dadijing</u> | <u>Baoshan</u> | <u>Dingjiaqu</u> | <u>Chengyi</u> | <u>Baijialiang</u> |
|----------------------------------------------------------------|-----------------|----------------|------------------|----------------|--------------------|
|                                                                |                 |                | RMB (millions)   |                |                    |
| Planned investment on soil and water<br>conservation . . . . . | 6.47            | 2.58           | 1.95             | 1.40           | 1.57               |
| Actually completed investments . . . . .                       | 3.34            | 2.61           | 1.92             | 1.32           | 2.19               |
| Actual increase . . . . .                                      | (3.13)          | 0.03           | (0.03)           | (0.08)         | 0.62               |

### 9.12 Comments and Recommendations

- Yitai and Yitai Group conducted an environmental impact assessment of each mine prior to the commencement of construction, with construction work executed according to the requirements of the laws and regulations of PRC on environmental protection.
- The design and construction work relating to environmental protection facilities was simultaneously undertaken with the design, construction, and commencement of other major projects of the coal mines, thereby meeting the "Three-Simultaneous" requirement, as stipulated in PRC's environmental management laws and regulations.
- BOYD's review did not identify any significant problem regarding the environmental impact assessment and the implementation of the approved environmental protection measures at the Yitai and Yitai Group coal mines.
- The prevention and control measures applicable to pollutants are effectively implemented, especially considering that the actual investments for environmental protection exceed the planned environmental protection investment required in the environmental impact assessment reports and approvals. Such investments demonstrate Yitai's focus and initiative on environmental protection.
- The high degree of environmental protection measures implementation at a majority of the mines was confirmed by our field observations, including the ground surface hardening and afforestation/ re-vegetation within the industrial sites of the mines, and the professional execution of the production facilities and domestic sewage treatment engineering works.

- Yitai has established a sound environmental protection organization and management system at the headquarters level. In contrast, the environmental management organizations at the subordinate mine level need improving, and in-depth, task-specific training provided to the environmental management staff. The mines need to establish environmental protection teams and environment management capabilities.
- The treatment and utilization of mine water and domestic sewage play a vital role in water conservation in this arid region. Records of discharged mine water and quantities of processed water should be reviewed in order to insure the use of available water supply sources is maximized.

## 10.0 Risk Assessment

### 10.1 Introduction

Coal mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of precise production, cost, and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters. Coal mining operations in the region have a demonstrated track record in sustaining consistent and predictable levels of performance.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation, namely: geologic, operational, and market. For purposes of this study and in accordance with HKEx guidelines, we define risk in three general categories of consequence of risk rating, as follows:

- *Major Risk:* A factor that would have a material adverse effect (15% to 20% or higher) on project cash flow for the risk assessment period, possibly leading to project failure, if the specific risk occurred and was not corrected.
- *Moderate Risk:* A factor that would have significant adverse effect (10% to 15%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.
- *Minor Risk:* A factor that would have minimal or no adverse effect (less than 10%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important, is the likelihood that the specific risk will occur. For this study a seven-year risk assessment period is considered with the following likelihood of occurrence ratings:

- *Likely:* Event is likely to occur.
- *Possible:* Event may occur.
- *Unlikely:* Event is unlikely to occur.

The overall risk assessment combines these two components, consequence of risk rating and likelihood of occurrence, to determine the final categorization of risk, as shown below:

| Likelihood of Risk<br>Occurring (within 7 Years) | Consequence of Risk     |          |        |
|--------------------------------------------------|-------------------------|----------|--------|
|                                                  | Minor                   | Moderate | Major  |
|                                                  | Overall Risk Assessment |          |        |
| Likely . . . . .                                 | Medium                  | High     | High   |
| Possible . . . . .                               | Low                     | Medium   | High   |
| Unlikely . . . . .                               | Low                     | Low      | Medium |

## 10.2 General Assessment

BOYD independently assessed the Yitai mining operations as a whole to be low to medium in overall risk for the following reasons:

- Risk is mitigated by the diversity of production sources; while production may be temporarily interrupted at one mine, the impact on total company performance is minor.
- Twelve of the fourteen mining right areas have established mines and facilities, which limits exposure to start-up delays and issues. Mines are under construction on the remaining two mining right areas.
- While faulting is known to occur in some of Yitai's mining areas, it is recognized in mine plans and assigned productivity levels. The overall ranking of the geologic setting of Yitai coal areas is simple to moderate (i.e., not geologically complex).
- Coals projected to be mined during the seven-year risk assessment period are well explored by drilling and mining experience.
- The Yitai mining right areas are located in established coalfields where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.
- As a company, Yitai has the experienced management and technical capabilities to successfully operate their mines and to respond to operating interruptions and other event occurrences in a timely, professional, and proactive manner in order to minimize production and financial losses.
- Except for routine production risks, which all underground coal mine operators experience, BOYD has not identified any extraordinary known risk issues related to the future operation of the Yitai mines over the risk assessment period.
- While not anticipated, naturally occurring events such as flooding due to excessive rainfall or an earthquake, could occur but their impact would be regional in extent (i.e., not unique to Yitai).
- Yitai mines generally produce low sulfur content coals, classified principally as "long flame" (CY41) according to the Chinese coal classification system. The company has established markets for its coals, and risk of future sales (even with Yitai's projected growth in output) is considered low based on the robust nature of the Chinese economy and the competitive cost structure of the Yitai mines.

The one issue identified in our assessment as a medium risk is Yitai's need to obtain governmental approvals of company applications for both mining rights on the two greenfield (mine under construction) sites — Talahao and Bulamao West/East — and expanded mining rights for the following active mines: Nalinmiano No. 1, Yangwangou, Fuhua, and Kaida.

The following text provides an expanded discussion of mining-related risks and BOYD's assessment of the Yitai risk profile.

### 10.3 Geologic Risk

#### General Geologic Risk

The Yitai portfolio of mining properties includes 12 operating and 2 mines under construction, with all mines located in established producing coalfields (either Dongsheng or Zhunge'er). On a global basis, the geologic setting of the coal deposits controlled by Yitai are judged to be simple to moderate (i.e., not geologically complex). All areas projected to be mined during the seven-year (2012 — 2018) risk assessment period are well defined by exploratory drilling and/or mining experience.

#### Unforeseen Geologic Anomalies

Unforeseen geological anomalies that extend over large areas could disrupt underground mine operations and require alterations of mining plans. Such an event can result in the cessation of production activities for an undefined but extended period of time (measured in months, and perhaps years) and a corresponding drop in revenue. Likewise, efforts to resume mining operations may result in cash losses during the period in which recovery and redevelopment activity is underway. Yitai mining right areas, particularly areas to be mined within the seven-year risk assessment period, are reasonably defined by both drilling and mining experience. This minimizes the risk of unforeseen geologic anomalies.

Yitai's mining right areas are subject to fault occurrences of varying displacements, which are the principal source of geologic anomalies affecting mining. In mining thus far, prehistoric burn areas have been prevalent but reasonably delineated by existing exploration. Yitai mines have not experienced significant sandstone channel features. Routine exploration and reconnaissance using drilling, geophysical logging, and seismic surveying methods is successful in identifying larger displacement faults, but only partially successful in defining minor displacement faults in advance of mining. In Yitai's favor is that significant faulting patterns can be traced from seam to seam, allowing known faults in one seam to be incorporated into mine plans for underlying seams long in advance of actual operations. It is reasonable to expect that minor displacement faults will continue to be encountered in future mining, but impact on overall performance is not likely to be material over a long period. Undetected faulting would result in reserve loss, the magnitude of which would be determined by the extent and degree of faulting.

#### Risk Assessment

##### Consequence

|             |                                   |
|-------------|-----------------------------------|
| Rating:     | Low to Moderate Depending on Mine |
| Likelihood: | Unlikely to Possible              |
| Overall:    | Low                               |

## 10.4 Reserves

While the estimated Marketable Reserves of Yitai are substantial (i.e., over 1 billion tonnes), the distribution of remaining Marketable Reserves by individual mine site results in some of the operating mines having a relatively short remaining mine life.

| <u>Mine Site</u>              | <u>Estimated Marketable<br/>Reserves (Mt)<br/>(as of 31 December 2011)</u> | <u>Estimated*<br/>Remaining Mine<br/>Life (Years)</u> |
|-------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------|
| Yitai                         |                                                                            |                                                       |
| Suancigou . . . . .           | 458.76                                                                     | 41                                                    |
| Nalinmiao No. 2 . . . . .     | 63.88                                                                      | 9                                                     |
| Hongjingta No. 1 . . . . .    | 35.90                                                                      | 6                                                     |
| Nalinmiao No. 1 . . . . .     | 9.26                                                                       | 3                                                     |
| Yangwangou . . . . .          | 5.75                                                                       | 4                                                     |
| Fuhua . . . . .               | 2.50                                                                       | 2                                                     |
| Kaida . . . . .               | 4.15                                                                       | 3                                                     |
| Subtotal . . . . .            | 580.20                                                                     |                                                       |
| Yitai Group                   |                                                                            |                                                       |
| Dadijing . . . . .            | 51.78                                                                      | 21                                                    |
| Baoshan . . . . .             | 14.55                                                                      | 7                                                     |
| Dingjiaqu . . . . .           | 16.29                                                                      | 7                                                     |
| Chengyi . . . . .             | 4.82                                                                       | 4                                                     |
| Baijialiang . . . . .         | 0.49                                                                       | —***                                                  |
| Subtotal . . . . .            | 87.93                                                                      |                                                       |
| Total Active Mines . . . . .  | 668.13                                                                     |                                                       |
| Talahao . . . . .             | 550.15                                                                     | 103                                                   |
| Bulamao (West)** . . . . .    | 10.88                                                                      | 18                                                    |
| Bulamao (East)** . . . . .    | 5.87                                                                       | 9                                                     |
| Total Planned Mines . . . . . | 566.90                                                                     |                                                       |

\* Yitai and planned mine lives are estimated from recoverable reserves. Yitai Group mine lives are estimated from BOYD LOM plans.

\*\* Assumes independent mine access.

\*\*\* Depletion of LW reserves expected in 2nd Q 2012.

To address the near-term depletion of reserves, Yitai has applied for expansions to the existing mining rights at the Kaida site, and is in the process of developing new mines at Talahao and Bulamao — East and West. Planned production levels at Talahao are 6.0 Mtpa ROM (approximately 5.3 Mtpa product coal), beginning with 3.0 Mt ROM in 2013, and at Bulamao 1.2 Mtpa ROM total (0.94 — 1.00 Mtpa product coal), beginning in 2013. However, Yitai has not received mining rights approvals for either of the new mine sites. While BOYD expects Yitai to obtain necessary governmental authorizations, there is no guarantee this will occur and there could be delays in the output schedule as discussed in the Greenfield Mines section.

## Risk Assessment

### Consequence

Rating: Moderate

Likelihood: Possible

Overall: Medium



## 10.5 Operational Risks — Naturally Occurring Events

### Weather

Extraordinary weather occurrences (e.g., excessive rainfall) can result in disruption to the mining operations caused by power outages, loss of access into the mine site (movement of mine personnel, receipt of necessary operating supplies, etc.) and from the mine site (inability to load trucks or trains to dispatch coal to market, etc.).

### Earthquakes

Available geologic background data report the general location of the Yitai mining right areas is not known to be highly seismic active and there is little history of serious earthquake activity.

### Assessment

Any naturally occurring events would affect the broader region where the Yitai mines are operated and the impact would be industry-wide.

#### Consequence

Rating: Minor to Major  
Likelihood: Unlikely  
Overall: Low

## 10.6 Operational Production Risks

There are two primary types of operational risks associated with underground coal mining: production and event.

### 10.6.1 Production Risks

The first category of risk includes those variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities. The most common of these are as follows:

- Roof control issues and roof falls.
- Poor mining conditions (poor roof, floor, ribs).
- Water accumulations/soft floor conditions.
- Ventilation disruptions and concentrations of methane gas.
- Variations in seam consistency, thickness, and structure.
- Failures or breakdowns of operating equipment and supporting infrastructure.

The preceding conditions and circumstances can adversely affect production in the short term, but are not regarded as significant to the long-term operation of the mining operations. Mine-level management is experienced and capable in dealing with these risks. BOYD does not regard the issues listed above as being material to Yitai's mining operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated.

Forward mine planning uses productivity parameters and cost experience which incorporate historic experience (including routine interruptions to the mining process).

**Assessment**

## Consequence

Rating: Minor

Likelihood: Likely

Overall: Low

**Longwall Subsidence**

Yitai mining operations utilize longwall (LW) mining practices which by their design cause subsidence of the overlying strata. The damage caused by LW subsidence is an issue in many countries and regions where LW mining techniques are utilized, and mining companies are sometimes restricted as to where LW mining operations can be performed. Generally the surface lands above the LW mines are devoid of densely populated residential areas, or large commercial or industrial structures. These tend to be sited near the lower elevations or shallower cover areas near major drainages. Consequently, undermining of structures is not a significant issue in the case of Yitai, and the company is in the position of remediating damages to the occasional structure that may be undermined. Minor surface drainages are likewise undermined after measures are taken to either relocate the course of the drainage or lining for the stream floor. In our view, Yitai is essentially unrestricted in its LW planning except for the aquifer zones, which, when and where present, require special planning.

Based on Chinese geotechnical practice, LW mining in areas and coal seams where the depth of cover is less than 40 m is likely to be problematic. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. Where warranted, we adjusted the Yitai mine plan projections and reserve estimates to exclude areas with less than 40 m of overburden depth, unless there was an established history of successful mining.

Proper mine design and planning can either avoid or minimize the damages from subsidence in protected surface areas. While subsidence is a by-product of LW mining, it can be controlled and mitigation actions taken by the mine operator to remediate surface damages.

**Assessment**

## Consequence

Rating: Minor

Likelihood: Unlikely for Surface Land Restrictions (except Talahao North, which is rated as Likely),  
Possible for Shallow Cover Restrictions

Overall: Low

**10.6.2 Event Risks**

The second type of risk is categorized as event risk. Items in this category are rare, but significant occurrences are confined to an individual mine and ultimately have a pronounced impact on production activities and corresponding financial outcomes for that mine. Following such events, all mines are subject to increased inspection/examinations and subsequent penalties and/or actions imposed by the PRC regulatory authorities. Examples of production-related event risks are:

- Major underground fires.
- Explosions.
- Flooding of the Underground Workings.

Operations Risks — Naturally Occurring Events (Section 10.4) also fall into the “event risk” category.

### 10.6.2.1 Major Underground Fires

The potential for major underground fires is significant in any underground coal mining operation due to the combustible nature of the material being mined and the industrial setting with machinery using combustible diesel fuel and lubrications. Fires generally occur from explosions (see below), equipment fires, belt conveyor system fires, or spontaneous combustion. Equipment fires rarely result in major mine fires due to on-board extinguisher systems and in-mine firefighting gear. A major event due to an out-of-control equipment fire is a potential but small risk.

Belt conveyor fires pose a higher order risk due to their extended and generally untended expanse. Belt conveyors by definition have moving parts which can be prone to friction. Monitoring systems and effective belt patrol and maintenance programs are critical to avoiding major events. These practices also result in improved belt availability and performance. Because of the potential for fires, belt conveyors are monitored for products of combustion, and potential event-prone areas such as transfer points have water spray installations designed to engage if a high temperature is detected. Generally these measures are adequate to avoid belt fires, but the potential is always present if the systems are not managed properly.

The last major source of mine fires is spontaneous combustion, which is a common occurrence throughout the world mining industry. Spontaneous combustion typically occurs in areas that are not well-ventilated, where the combination of self-heating and oxygen is adequate to support a sustained heating until a fire breaks out. In well-ventilated areas, the heat is carried away; in tightly sealed areas the oxygen supply does not support sustained combustion. LW gob areas are especially susceptible to spontaneous combustion incidents. If not controlled, the combustion can inflame the surrounding workings and also ignite methane, if present.

Typical of lower rank coals, the coal seams in the Yitai mines are rated as having significant potential for spontaneous combustion. This is well-recognized by the company and mine plans take this into account. Proper sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection and mud injection, are planned by Yitai. Eliminating gob ventilation also serves to minimize the potential for gob fires due to spontaneous combustion.

According to Yitai, there have not been any spontaneous combustion incidents reported to date. Not ventilating the LW gob post-mining (no bleeder systems), the relatively high rate of LW face retreat and rapid sealing of the LW panel upon completion of mining are probably the largest deterrents to spontaneous combustion incidents. Care should be given to seal surface fissures caused by subsidence from mining to prevent air and water from entering the mined-out areas below. These cracks are especially prevalent in shallow cover areas.

The potential for spontaneous combustion incidents will remain a significant risk issue for Yitai, but operating experience to date indicates that present practices are effective.

#### Assessment

##### Consequence

Rating: Minor to Major depending on mine

Likelihood: Unlikely

Overall: Low

### 10.6.2.2 Explosions

Coal mine explosions typically are initiated by methane ignitions followed by coal dust explosions. Coal dust itself does not typically ignite, although under certain conditions it is possible. The coals mined by Yitai are generally rated as explosive in a dust form as is the case for nearly all coals in the world. The key to preventing explosions is the prevention of methane ignitions. In this regard, Yitai is fortunate in that the mines in the principal mining right areas have relatively low in situ methane content. Consequently, methane emissions are low during LW mining operations as observed by BOYD on several occasions.

Methane content typically increases with depth, as mining operations in the principal mining right areas proceed, methane levels are likely to increase but will remain relatively low by industry experience. Thus, present mining practices as regards ventilation are likely to be adequate for minimizing the potential for methane ignitions.

Yitai mines, as do mines in all progressive, regulated coal industries worldwide, take standard (state mandated) precautions for avoiding methane ignitions, including:

- Monitoring of airways for potential buildup of methane levels.
- Use of flame-proof enclosures for electrical controls and power-related components.
- Use of methane monitors and automatic de-energizing circuits on all CM and LW face equipment.
- Ban of personal smoking materials.
- Routine sealing of areas where mining has been completed.
- Installation of water curtains in the event an ignition occurs.

Ventilation systems are designed to effectively remove methane from the mines at concentrations that are intrinsically safe (less than 1% of atmosphere). Yitai mines do not utilize rock dust, which is commonly used in the United States as an explosion deterrent; rock dust is not typically used in China and other international coal industries.

If diligent practices are pursued, the risk of explosion can be minimized. The occasions of explosions have been relatively rare (although not eliminated) in the advanced international underground coal mining industries. Given present practices, the risk of an explosion is remote in our view.

#### Assessment:

Consequence

Rating: Minor to Major depending on mine

Likelihood: Unlikely

Overall: Low

#### 10.6.2.3 Floods

Risk from floods occurring in the underground mine workings can take two forms. One possibility is intercepting unmapped flooded workings. These incidents have periodically occurred in every major coal mining country, including the United States. Due to the relatively recent history of mining in the Yitai operating regions, past mining is relatively well charted and mining activity can leave protective barriers about abandoned mines with confidence. An accidental flooding from uncharted works has a low likelihood of occurring in the Yitai mines.

A second risk arises from the potential inflow of ground water contained in faults and fissures and from surface and ground water entering the mine as a result of LW subsidence. Yitai is highly cognizant of the potential disruption to mining activities and takes appropriate precautions to avoid significant intrushes of water from these sources. Standard precautions typically include:

- Barriers left adjacent to known high displacement faults.
- Protection barriers maintained under large bodies of surface water and known high volume aquifers.
- Dewatering of aquifers through surface drilling or advance drilling underground if the potential for high water flow is significant.

Due to the concerns evident in discussions with engineering and geologic personnel, we would rate the potential for disruption to mining operations from intrushes of water as minor. Water inflows experienced at

the Yitai mines are typical of the region and are within the capabilities of well-designed pumping stations. The underground mines have sufficient water-handling systems. All mines have designed effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata.

### Assessment

Consequence

Rating: Minor to Major

Likelihood: Unlikely

Overall: Low

## 10.7 External Risk — Regulation

Various levels of government are involved in the promulgation and enforcement of regulations under which the Yitai mines must operate. These include operating standards and requirements, and the payment of fees and taxes. While governmental regulation policies are industry-wide, and beyond the control of Yitai, the company is responsible for operating their mines and facilities in compliance with all governmental regulations now in effect (or any future regulations).

Based on BOYD's review, we opine that Yitai has implemented appropriate environmental protection measures in response to national environmental protection laws. Generally, the company's environmental protection work is comparable to similar mining enterprises elsewhere in the PRC. While the particulars of current environmental practices may need to be upgraded at some mines, there do not appear to be environmental constraints to future coal mining operations. In our opinion, in meeting the relevant requirements as required by natural laws, the environmental protection practices of Yitai comply with the PRC and World Bank's requirements for environmental protection related to coal mining activities.

Coal reserves will decline as mine production continues. The ability of Yitai to increase or sustain projected output levels over time is heavily dependent on future acquisitions and mine expansions, all of which are subject to PRC government approval and permitting. However, approvals for the planned higher output capacities and approval for acquisition of future mining right areas remain under application. In the interim, assets will continue to be subjected to economic, political, and legal developments within the PRC. Furthermore, domestic coal prices are largely impacted by the government through regulation, taxes, tariffs, and the national rail system.

The Yitai 2012–2014 projections for coal output significantly exceed current mining right and production certificate output authorizations at a majority of the Yitai and Yitai Group mines. Yitai and Yitai Group mines in some instances have exceeded output authorizations recently, although no regulatory intervention has been reported to BOYD. The practice of exceeding output authorization, which is widespread in China, receives widely varying treatment from local, provincial and regional regulatory bodies. There is uncertainty whether overproduction will be permitted over the long-term, Yitai's applications for higher output levels will be approved, or higher authorizations will equate to output projections.

To our knowledge, Yitai has paid required resource fees to obtain mining rights, and governmental taxes and fees.

Passage of more restrictive or onerous government regulations could have adverse effects on future Yitai operations, but such a risk would be industry-wide and is unquantifiable at this time.

### Assessment

Consequence

Rating: Minor to Moderate

Likelihood: Unlikely

Overall: Low

## 10.8 Market Risk

Achieving Yitai cash flow projections over the seven-year risk assessment period depends on sustaining and expanding coal sales at prices specified in the company's forward business plans.

BOYD has reviewed the mine plans for 2012–2014 from the perspective of historical performance and site visits and believes the plans are generally achievable. However, there is moderate risk that forecasted growth in output may not be reached in the time frame projected. It is not uncommon for new mine projects and expansions to be delayed for a multitude of reasons. We have not identified significant geological or mining-related issues during our review that would prevent the Yitai mines from achieving projected raw coal output levels in time.

A substantial reduction in market prices would have a material effect on financial performance. Such an event would occur if there were surplus alternative coals from other suppliers, or a reduction in demand from Yitai's customer base. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approvals. However, such an event would directly impact (lower) total company revenues and could negatively impact the fixed cost structure and sustaining capital investments at individual mines.

Market risk is mitigated by the established nature of Yitai's mines and customer base, and the sustained growth of the Chinese economy, which is expected to continue over the seven-year risk assessment study period.

### Assessment

Consequence

Rating: Minor to Moderate  
Likelihood: Unlikely  
Overall: Low

## 10.9 Summary of BOYD's Risk Assessment (2012-2018)

| Hazard/Risk Issue                                                                  | Risk Assessment    |                      |         |
|------------------------------------------------------------------------------------|--------------------|----------------------|---------|
|                                                                                    | Consequence Rating | Likelihood           | Overall |
| Geologic                                                                           |                    |                      |         |
| Overall (General) . . . . .                                                        | Low                | Unlikely             | Low     |
| Unforeseen Anomalies . . . . .                                                     | Low to Moderate    | Unlikely to Possible | Low     |
| Reserve Availability . . . . .                                                     | Moderate           | Possible             | Medium  |
| Naturally Occurring Events                                                         |                    |                      |         |
| Weather . . . . .                                                                  | Minor to Major     | Unlikely             | Low     |
| Earthquakes . . . . .                                                              | Minor to Major     | Unlikely             | Low     |
| Routine Operational Risks (Adverse mining conditions, equipment outages) . . . . . | Minor              | Likely               | Low     |
| Longwall Subsidence . . . . .                                                      | Minor              | Unlikely to Likely   | Low     |
| Major Events                                                                       |                    |                      |         |
| Major Underground Fires . . . . .                                                  | Minor to Major     | Unlikely             | Low     |
| Explosions . . . . .                                                               | Minor to Major     | Unlikely             | Low     |
| Underground Flooding . . . . .                                                     | Minor to Major     | Unlikely             | Low     |
| Compliance to Existing Regulations . . . . .                                       | Minor to Major     | Unlikely             | Low     |
| Marketing (Commercial) . . . . .                                                   | Minor to Moderate  | Unlikely             | Low     |

## 11.0 BACKGROUND AND QUALIFICATIONS

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. We have provided services on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations.
- Fuel and energy supply planning.
- Permitting and environmental analysis.
- Contract negotiations.
- Market and transport analyses.
- Economic feasibility studies and valuations.
- Assessment of existing operations.
- Strategic business planning.
- Transport issues.
- Asset appraisals.
- Minerals industry restructuring.
- Privatization studies.
- Geologic, reserve and mine plan modeling.
- Exploration design and supervision.
- Reserve and geotechnical studies.
- Technical assistance in legal matters.
- Monitoring of operating companies.
- Financial analysis.

BOYD also possesses extensive computer and software systems to estimate reserves and complete mine plans. These include Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region in the United States. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, PRC. Please visit our website, [www.jtboyd.com](http://www.jtboyd.com), for additional details.

BOYD has extensive experience in preparing Competent Persons and Independent Financial and Technical Review reports for international financing purposes and for public stock exchange filings. We are knowledgeable of listing requirements of The Stock Exchange of Hong Kong (HKEx), London Stock Exchange, and NI 43-101 (Canadian requirements), JORC Code, U.S. Securities and Exchange Rules, etc. We are familiar with the level of independent reporting required by international investors and financial institutions.

Among our Chinese coal projects, we represented Shenhua Group Corporation as their Technical Advisor for the China Shenhua Energy Company Limited (China Shenhua) IPO on the HKEx. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling, rail and ocean transport facilities, and economics. Shenhua Group Corp.'s reserve holdings were evaluated according to JORC Code and the HKEx Rule 18 requirements. We subsequently prepared four resource studies commissioned by China Shenhua for material acquisition HKEx filings. We also prepared ITRs



for MP Logistics International Holdings Limited (Ming Kei Energy Holdings Limited) for a transaction involving two openpit mines in Xinjiang Uygur Autonomous Region, for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, for Artfield Group Limited's very substantial acquisition HKEx filing for the Ming Kei Energy Holdings Limited openpit mines in Xinjiang Uygur Autonomous Region, and for GCL-Poly Energy Holdings Limited's acquisition of the Duolun Mine in the Inner Mongolia Autonomous Region. Our Chinese non-coal projects include the ITR for the Lumena Resources Corporation IPO on the HKEx.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and were actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry, and the coal mining operations of British Coal were successfully privatized.

We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers. We have worked with and for virtually all of the major international banks. Numerous financial agencies have used our services to opine on property/mine operations. We have the proven ability to prepare a bankable document that is accepted and used with confidence by major financial institutions and other investors around the world.

## ATTACHMENT A

### Curriculum Vitae of the Key BOYD Project Team Members

**Ronald L. Lewis**

Managing Director and COO

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**Summary of Expertise**

Valuation of coal/mineral reserves and operating mining companies with specialized expertise in the areas of coal/mineral reserve estimation, surface and underground mineability analysis, and financial due diligence.

**Experience****1971 to Date — John T. Boyd Company, Mining and Geological Consultants.**

- Directed an independent feasibility study for developing an underground longwall mining operation in the Pittsburgh Seam. Scope of Work included: confirmation drilling, geologic modeling, reserve estimation, mine layout, mine planning (raw/product coal production, employment, capital cost estimation, and operating cost estimation for a life-of-mine plan), and financial (discounted cash flow) analysis.
- Directed independent valuations of two of the largest US silica sand producers. Each company operated numerous quarries and related processing facilities in multiple states. Annual silica sand production was approximately 6.6 million tons and 3.1 million tons, respectively. Scope of work included audit review of estimated reserves, operations review, asset appraisal, overview of market, discounted cash flow valuation, and limited Phase I environmental audit.
- Directed an independent due diligence review involving the acquisition and merger of three mining companies (divisions) into a nominal 30-million-ton-per-year producer. Properties are located in Central and Northern Appalachia. Scope of work included confirmation of the reasonableness of estimated coal reserves, mining plans, and financial projections.
- With the approval of US Bankruptcy Court, directed an independent review of stone/mineral reserves, asset appraisal, and valuation of a nominal 25 million-ton-per year producer of limestone, lime, industrial sand, and other industrial minerals.
- Directed BOYD's work as the technical and financial advisor to the Unsecured Creditors Committee involved in a Bankruptcy Chapter 11, Central Appalachian coal mining company and land company.
- Directed a three-year assignment providing technical consultation to HMG Department of Trade and Industry (United Kingdom) relative to the privatization of British Coal Corporation (BCC). Scope of services covered BCC's existing underground collieries and opencast mines and included technical assessments of coal reserves and operations (mining conditions, practices and potential for cost reduction, independent mine projections), as well as an overview of marketing.
- Provided ongoing technical and financial consultation for senior lender group to a major US coal producer (50 million tons per year) with operations in Central Appalachia, the Midwest, and Colorado. Scope of work included mine/business plan validation, evaluation of strategic operating issues, etc.

**Ronald L. Lewis**

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**Experience — Continued**

- Completed a due diligence study in preparation of syndication of loan for new property acquisition using existing Gulf Coast and Great Plains lignite mines as security.
- Directed on-site inspection and assessment of future mining plan requirements such as production forecasts, capital expenditures, and operating cost estimates by year for a 20-year plan. Also included in the overall scope of work were coal reserve estimation, asset appraisal, and review of present operations. Eight major Australian surface mines were evaluated; aggregate production was between 25 million and 30 million tons per year. Report was prepared for acquisition of one mining company and consolidation into overall surface coal mining operations.
- Assessed a major US producer of limestone and lime for use by lenders in debt restructuring. The overall scope of work included a review of reserves, mining and lime facilities, development of 10-year business plan, market price forecast, and valuation using a discounted cash flow method.
- Completed a due diligence review of a major nominal 45-million-tons-per-year German brown coal producer as the fuel source for four mine-mouth electricity generating stations. Principal mining equipment included bucket wheel excavators, bucket chain excavators, and overburden cross-pit bridges. The overall scope of work included a review of reserves and the existing mining operation, and ultimately, the valuation of the mining company.
- Managed a comprehensive 15-volume study covering design and implementation of an on-site exploration program, geological investigation of the multiple-bedded lignite deposit, assessment of raw and washed coal quality, preliminary mine feasibility of alternative surface and underground mining systems, examination of in-country mining capability and training requirements, analysis of alternative transportation systems, assessment of environmental impact of new coal mine development, and completion of a detailed master mine plan incorporating both modern surface mining and limited mechanization underground mines. Separate cost centers were fully developed for surface mine, underground mine, common facilities, and infrastructure. Annual estimates were prepared for coal production, labor requirements (expatriate and nationals), capital cost, and operating cash cost.
- Performed a series of coal reserve studies and accompanying valuations covering approximately one billion tons of coal (20 to 25 properties) located in the eastern United States. Studies were used as a basis for subsequent disposition program.
- Performed an independent technical assessment of an existing opencast coal mine in the Republic of Zambia. Scope of work included technical assessment of all mining, coal handling and processing, and marketing (forecast of future sales), as well as direct on-site assistance with equipment maintenance, coal preparation plant operations, aerial ropeway maintenance, and mine planning.

**Ronald L. Lewis**

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|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Foreign Consulting Experience | Australia, Canada, Colombia, Commonwealth of The Bahamas, Germany, Jamaica, Pakistan, Republic of South Africa, Republic of Zambia, Thailand, United Kingdom                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Education                     | 1971 B.S.: Civil Engineering, University of Pittsburgh                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Registration and Certificates | Registered Professional Mining Engineer — Alabama, Kentucky, Ohio, Pennsylvania, and West Virginia<br><br>Certified Member of the American Institute of Minerals Appraisers<br>Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Publications and Papers       | <p>2009 <u>Overview of the Central Appalachian Coal Region</u>, November 8–9; McCloskey US Coal Imports Conference.</p> <p>2006 <u>US Market Dynamics — Trends in Northern and Central Appalachian Coal Producing Regions</u>, November 29–30; McCloskey US Coal Imports 06 Conference.</p> <p>2005 <u>Implications of a Bull Market on Reserve Acquisition</u>, September 28; McGuire Woods LLP 2005 Coal Industry Briefing.</p> <p>2003 <u>Overview of Northern and Central Appalachian Coal Regions</u>, November 12–13; McCloskey US Coal Imports Conference.</p> <p>2003 <u>Private and Public US Coal Companies, Review and Financing Structure</u>, April 1; The 11<sup>th</sup> Annual Platts Coal Properties &amp; Investment Conference.</p> <p>2000 <u>The Ownership Changes in the US Coal Industry and the Effects on the International Coal Market</u>, as presented at the 1<sup>st</sup> US International Coal Conference, June 12.</p> <p>1998 <u>Bauxite Mining: A Synergistic Opportunity (for Business and Government)</u>; September; 12<sup>th</sup> International Symposium; International Committee for Study of Bauxites, Alumina and Aluminum (ICSABA); Delphi, Greece.</p> <p>1998 Co-author, <u>Due Diligence Requirements for Coal Property Acquisition</u>, March 25; Sixth Annual Coal Outlook Coal Properties Buying and Selling Conference, St. Petersburg, Florida.</p> <p>1996 "Coal Property Evaluation Factors," presented at the Coal Outlook Seminar <u>Evaluating, Buying &amp; Selling Coal Properties</u>, March 28–29.</p> <p>1994 "Black Powder — An Explosion in Market Demand," <u>COAL Magazine</u>, September.</p> <p>1993 <u>Independent Review: 10 Collieries Under Consultation</u>, British Coal Corporation, United Kingdom, March; HMSO ISBN 011 515329 2.</p> |

**Ronald L. Lewis**

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1993 Independent Analysis: 21 Closure Review Collieries, British Coal Corporation, United Kingdom, January; HMSO ISBN 011 514990 2.

1988 RESERVES — The Practical Approach to Determining What You Have, January; Fifteenth Annual West Virginia Mining Symposium.

1986 Lakhra Coal Project Mine Development Plan, February; The First Pakistan National Coal Conference, Sind Province, Pakistan.

**James F. Kvitekovich**

Vice President

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**Summary of Expertise**

Thirty years of experience in evaluation of underground mining operations, mine plans, costs, capital requirements and productivity. Extensive expertise has been developed in mine feasibility, economic analysis of mining operations, and operational assessments. Additional mine engineering expertise in ventilation analysis, evaluation of coal quality and geological impacts on mine operations, and appraisal of mining assets.

**Experience****1981 to Date — John T. Boyd Company, Mining and Geological Consultants.**

- Managed numerous independent technical reviews of existing underground mining operations and proposed mines in Inner Mongolia Autonomous Region; Xinjiang Uygur Autonomous Region; NingxiaHui Autonomous Region; and Guizhou, Yunnan, Shaanxi, Shanxi, Henan, and Heilongjiang provinces, People's Republic of China. Reviewed current mining activities, and evaluated operation forecasts, pro forma operating statements and business plans (including output and staffing levels, capital expenditures, and operating costs). Conducted site visits to active mining operations, reviewed historical operating data, and discussed future mine plans with company staff. Evaluated reserve base estimates according to SEC and JORC Code requirements. Reviewed current operating and labor practices; safety, training, and fatality experience data; and financial projections for reasonableness and likelihood of successful attainment.
- Managed extensive independent technical reviews for Initial Public Offerings relative to existing underground and surface coal mining operations and selected undeveloped coal deposits in Inner Mongolia Autonomous Region and northern Shaanxi and western Shaanxi provinces for the largest state-owned and privately owned coal companies in China. Reviewed current mining and processing activities, and evaluated company's five-year operation forecast, pro forma operating statements, and business plans (including output and staffing levels, capital expenditures, and operating cost). Conducted site visits to active mining operations, reviewed historical operating data, and discussed future mine plans with company staff. Reviewed and reclassified company's reserve base according to SEC and JORC Code requirements. Reviewed current operating and labor practices; safety, training, and fatality experience data; and company's financial projections for reasonableness and likelihood of successful attainment.
- Performed a prefeasibility overview of a potential brownfield extension of a large Alabama longwall mine into an adjacent reserve area holding 16 million recoverable product tons. Life-of-reserve pro forma operating and financial projections provided by the client were reviewed for reasonableness and likelihood of successful attainment. Incorporated findings (including capital and operating costs and inflation factors) into a comprehensive cash flow analysis of the project for submittal to corporate evaluation team. Provided alternative potential upsides of the project in final report.



**James F. Kvitkovich**

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**Experience — Continued**

- Performed an assessment of a large mine located in Martin and Pike counties, Kentucky, in regards to fulfilling the terms of a coal supply agreement. Met with mine personnel, toured underground workings, and collected source documentation. Assessed remaining reserve base, future mine plans, and present and anticipated mining conditions. Project focus was to demonstrate that the mine had encountered unforeseen changes in geologic and seam conditions, rendering it unable to abide by the terms of the coal supply agreement. The study was performed in anticipation of litigation over performance issues.
- Participated in an extensive operational overview and due diligence investigation of a large Appalachian coal company. Conducted site visits to division offices in Pennsylvania, Virginia, and West Virginia; reviewed historical operating data; and discussed future mine plans with company staff. Evaluated five-year pro forma financial projections, including output and staffing levels, capital expenditures, cost, and sales revenue. Reviewed plans for reasonableness and likelihood of successful attainment, identified major risks or fatal flaws, and adjusted plans as required based onsite visits and data review. Incorporated findings into a comprehensive cash flow analysis of the company for valuation prior to closing for financial underwriting and syndication.
- Performed a detailed industrial engineering analysis of continuous miner production operations, including one continuous haulage unit at a western Kentucky coal mine staffed by salaried supervisory personnel during a contract strike. Established benchmarks for evaluating performance of returning UMWA workers.
- Evaluated various options for extending a large Pennsylvania longwall mine operation into a subjacent seam and estimated capital and operating costs for several scenarios to arrive at the option with the lowest economic cost and project risk.
- Reviewed feasibility plans for proposed miniwall and longwall installations in a 3.0-million-ton-per-year Illinois mine. Developed underground mine plans with labor and capital requirements, and estimated operating costs for most likely and optimum production scenarios.
- Determined potential gate development advance rates for a large two-seam Pennsylvania longwall mine using time study techniques. Utilized time study results and underground observations to establish accountability standards for section operations.
- Analyzed potential for cost reduction consistent with a 21-year mining plan incorporating recovery of economically mineable reserves for an Illinois mine. Developed detailed mine plans for unit scheduling, capital and staffing requirements, and operating costs.
- Assessed gate development operations for a highly productive Utah longwall mine with the objective of bringing the mine to a higher level of performance. Worked with mine personnel to develop a realistic plan for implementing results of a time study analysis.

**James F. Kvitkovich**

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**Experience — Continued**

- Devised conceptual mining plans as part of the development of a strategic business plan for a southern West Virginia coal property. Estimated costs for various mine sites and calculated required realizations for ROI targets. Mining plans considered reserve and seam conditions, coal quality, capital investment, transportation, and infrastructure.
- Evaluated longwall gate development section performance utilizing continuous haulage equipment in a Colorado mine. Assessment included industrial time study techniques and analysis of delays, mining conditions, and personnel.
- Assisted in the preparation of an underground mining plan for a lignite deposit in southern Pakistan, including on-site inspection of current mines and mining practices. Reviewed available data and previous reports, evaluated drilling data, and estimated reserves mineable by underground methods. Selected optimum combination of mining methods and plans, including layout and entry design, haulage, roof control, ventilation and power distribution, and equipment specifications. Established coal production schedule and designed project infrastructure, including mine support facilities.
- Developed conceptual underground mine plans to produce 4.0 million tons per year through year 2011 for a mine-mouth generating station. Considered reserve and seam conditions, capital and staffing requirements, coal transportation, coal preparation, and common facility requirements in formulating the plans.
- Assessed operations for a southwestern Virginia mining complex capable of producing 2.0 million underground mined tons per year. Estimated contract miner production costs and developed five-year capital requirements and operating costs for the complex. Provided recommendations on reduction of operations and other efficiency measures to achieve lowest practical cost and on future exploration programs with evaluation of reserves and coal quality.
- Studied feasibility of acquiring a major southern West Virginia leasehold for metallurgical and steam coal production. Plans considered reserve and seam conditions, preparation plant yields and coal quality, capital and staffing requirements, continuous miner and longwall technology, mine infrastructure, transportation, and central facilities.
- Evaluated two potential operators of a mining company supplying coal to a central Pennsylvania generating station. Projected production from various underground mines for a 25-year period included scheduling a criteria of cost and sulfur levels. Estimated total delivered cost of coal produced based on geology and seam conditions, labor force and capital requirements, and coal transportation arrangements.
- Assisted in an engineering overview of a mining company consisting of four mines with 4.0-million-ton-per-year capacity. Appraised company assets to arrive at an asset valuation. Developed mine cost model for evaluating detailed life-of-mine plans; model inputs included seam conditions, labor requirements, and production scheduling.

**James F. Kvitkovich**

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|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Experience — Continued</b>        | <ul style="list-style-type: none"><li>• Developed appraisal values for surface facilities and underground equipment for a large mining complex in southern West Virginia. Conducted site visits to underground operations to observe equipment and reviewed maintenance and asset listing records. Utilized appraisal values in an acquisition transaction.</li><li>• Developed appraisal values for mining equipment at a large mining complex in central Pennsylvania. Conducted underground site visits to observe equipment and evaluated maintenance records and asset listing data. Utilized these values for potential acquisition valuation.</li><li>• Developed equipment appraisal values for a large mining company. Conducted site visits to underground mines in eastern Kentucky, Virginia, and northern West Virginia to observe equipment. Reviewed and evaluated maintenance records and asset listing information. Valuation was utilized for a successful debt syndication.</li></ul> |
| <b>Foreign Consulting Experience</b> | Canada, Mexico, Pakistan, People's Republic of China, Turkey, United Kingdom, Russia, Australia                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Education</b>                     | 1981 B.S.: Mining Engineering, University of Pittsburgh.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Registration and Certificates</b> | Registered Professional Engineer — Pennsylvania<br>Certificate — Pennsylvania Mine Examiner                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Memberships</b>                   | Registered Member — Society for Mining, Metallurgy, and Exploration, Inc.<br>National Society of Professional Engineers                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

**Paul D. Anderson**

Director of Geological Services

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**Summary of Expertise**

Design and management of exploration programs, interpretation of exploration data, evaluation of depositional features impacting mineability and utilization, development of computer geologic models, and preparation of resource and reserve estimates for mining companies and for private and public financing.

Exploration

Design, supervision, and management of coal exploration programs. Exploration experience includes all major coalfields in the United States, and in Asia and South Africa. This experience covers all exploration methods and types of equipment associated with all coal ranks and soft and hard rock formations.

Interpretation of Exploration Data

Experience in data interpretation covers the interpretation of geophysical logs and other drilling and coal quality data. The interpretation approach focuses on the identification of geological features that impact mining operations.

Evaluation of Depositional Features that Impact Mineability and Utilization

Experience includes evaluation of both deep and surface mineable reserves. Deep mining studies have included detailed structural interpretation, the mapping of roof and floor types and paleochannel systems that impact mineability and often impact coal quality. Surface mine experience includes the evaluation of flat lying to extremely complex depositional features that impact seam occurrence, coal quality, highwall stability, and mine hydrology.

Development of Computer Geologic Models

Experience includes the review of models of deposits using various methods and techniques. Have supervised the preparations of models using the major industry software packages. These models were prepared using various techniques to accurately represent actual seam conditions.

Preparation of Reserve Estimates and Reports

Experience includes the preparation of hundreds of reserve estimates and reports defining coal quantity and quality that have been used for mine planning at active operations, financing of major mining and power generating projects, acquisition and sale of coal properties, initial public offerings, and litigation.

**Experience****1985 to Present — John T. Boyd Company, Mining and Geological Consultants.**

- Investigated geology and lignite reserves of the Lakhra lignite deposit in Sind Province, Pakistan. Supervised exploration drilling, prepared computer geologic model of this complex deposit, and prepared reserve report and geologic evaluation.

**Paul D. Anderson**

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**Experience — Continued**

- Supervised exploration program in Texas, USA, including large diameter coring and stockpile sampling. Designed and implemented in-pit coring quality control program. Defined complex geologic depositional environments, and prepared geologic model and reserve reports. Installed and expanded computer model on client's system.
- Performed detailed audit of computer model for a proposed large multiple-seam surface mine in Venezuela, including verification of seam correlation, modeling of high angle reverse faults, and reserve estimates.
- Verified quantity and quality of reserves for a proposed large multiple-seam surface mine, including detailed examination of seam correlation and computer modeling estimates.
- Reviewed computer geologic model and reserves of a Texas lignite deposit for development of a surface mine and power plant complex, including assessment of faulting and hydrologic features relative to mineability.
- Performed assessment of the depositional geology, reserve occurrence, and longwall mineability of the Pittsburgh Seam. Designed and supervised exploration program to define depositional features.
- Prepared a computerized geologic model of a lignite deposit in Thailand for mine feasibility studies, including detailed correlation of lignite beds and definition of complex structure. This project successfully completed in a cooperative effort with Thai geologists and engineers.
- Reviewed initial exploration data and prepared an exploration program to provide data for mine feasibility studies for a lignite deposit in Laos.
- Prepared reserve estimates of underground coal deposits in the United Kingdom and developed a system to evaluate these reserves related to the privatization of British Coal.
- Prepared a geologic model of a complex faulted deposit in Indonesia, including design of exploration programs, interpretation of exploration data, and development of computer models. This project was a joint effort with local geologists and engineers.
- Prepared resource and reserve estimate of premium metallurgical coal in Shanxi Province, China.
- Prepared JORC compliant coal resource and reserve estimate for the successful IPO of China's largest coal company.
- Prepared JORC compliant resource and reserve estimate of salt deposits in central China.
- Prepared estimate of coal resources and reserves for a large underground coal mine in Xinjiang Uygur Province, China.

**Paul D. Anderson**

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**Experience — Continued**

- Prepared JORC compliant resource and reserve report for a large private mining company in Ukraine for a successful IPO on the Warsaw Stock Exchange.
- Prepared JORC compliant resource and reserve estimate for a large metallurgical coal mining company in Colombia.
- Evaluated several structurally complex coal deposits in Mongolia.

**1975 to 1985 — Paul Weir Company, Consulting Mining Engineers and Geologists, Chicago, Illinois.**

- Supervised program of close-spaced outcrop drilling of a 2-billion-ton lignite surface mineable reserve in Dunn County, North Dakota. Conducted chemical testing to determine oxidized seam subcrop.
- Prepared seam correlation and reserve estimates for a large surface mineable lignite reserve in Hopkins, Rains, and Wood counties, Texas.
- Supervised exploration programs, including lignite and overburden coring and outcrop drilling in Grimes County, Texas. Prepared reserve estimates for feasibility studies of new operating surface mine and power plant complex. Testified as an expert witness for plant site condemnation proceedings.
- Prepared lignite core description, interpreted geophysical logs, designed exploration programs, and prepared reserves maps and reports for the new operating surface mines in Louisiana and Texas.
- Reviewed geology and reserves of lignite holdings in Texas, Louisiana, and Mississippi for a major coal company.

**Foreign Consulting Experience**

Australia, Canada, China, Colombia, Indonesia, Laos, Mongolia, Pakistan, Republic of South Africa, Thailand, United Kingdom, Venezuela

**Education**

1974 B.S.: Geology, Western Kentucky University

**Registration and Certificates**

American Association of Petroleum Geologists: Certified Coal Geologist

American Institute of Professional Geologists

Certified Professional Geologist: Illinois, Indiana, Kentucky, Pennsylvania, Texas

**Memberships**

Society for Mining, Metallurgy and Exploration, Inc.

American Institute of Professional Geologists

Geology Society of America

American Association of Petroleum Geologists

Pittsburgh Geological Society

**Y. J. Zhang** [張研軍]

Senior Mining Engineer

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**Summary of Expertise**

Twenty-six years of mining industry expertise in project management and engineering, with focus on mine plan/design, rock mechanics, ground and subsidence control, evaluation of mining operation, and mine construction. Extensive background in mining engineering and senior management for dimensional limestone companies. In-depth experience in critical corporate operations/engineering functions, including safety, mine/plant design, production planning and budgeting, quality and inventory control. Strong focuses on customer services and market development. Consistently established and enhanced processes and controls to provide timely, meaningful, and accurate production performance information. Strategic thinker with excellent analytical and negotiating skills.

**Experience****2009 to Date – John T. Boyd Company, Mining and Geological Consultants.**

- Conducted several independent technical reviews of existing underground mining operations and proposed mines in Inner Mongolia Autonomous Region, Shanxi, Shandong, Yunnan, and Heilongjiang provinces, People's Republic of China. Reviewed current mining activities, and evaluated operation forecasts, pro forma operating statements, and business plans (including output and staffing levels, capital expenditures, and operating costs). Conducted site visits to active mining operations, reviewed historical operating data, and discussed future mine plans with company staff. Evaluated reserve base estimates according to SEC and JORC Code requirements. Reviewed current operating and labor practices; safety, training, and fatality experience data; and financial projections for reasonableness and likelihood of successful attainment.
- Provided mining advisory services to Ukraine coal mine operators in negotiation with Chinese mining equipment manufacturers. Performed site visits and evaluated the performance of various mining machineries in Hebei, Shanxi, and Beijing, China.
- Assisted the HKEx listing company and its advisors in the evaluation of the technical aspects of the existing and proposed mine operations, including site visit in British Columbia (Canada) to observe operations, and an assessment of current mining practices, historic and current performance, transportation infrastructure, and reasonableness of future mine plans.
- Performed site visits, operation assessments, environmental program reviews, and due diligence studies for crashed stone and sand/gravel quarries in eastern US.



**Y. J. Zhang**【張研軍】

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**Experience — Continued****2006 to 2009 — Victor Oolitic Stone Co., Bloomington, Indiana.  
Vice President of Operations.**

- Senior Operation Executive for this construction materials producer with \$25 million in annual sales. Developed and implemented company's first formalized annual mining plan and production schedule and a weekly/monthly performance reporting package, including benchmarking metrics tracked against plan and prior years, allowing management to stay on target with strategic objectives.
- Directed quarry planning, budgeting, forecasting, vendor/contract negotiations, and quality/inventory control. Responsibilities included: property exploration, reserve estimations/analysis, training of supervisors at all levels on achieving operating objectives, and the financial impacts of their decisions. Analyzed building stone competitors and developed strategic plans to grow the business by creating and responding to customer demand and to build the business along product lines that improve and diversify the customer base. Evaluated and advised on a wide range of issues such as potential acquisitions, strategic alliances, capital purchases, major contracts, new products and programs, and other incentive plans.
- Installed safety program for changing the safety culture and improved quarry working environment; reduced loss time accident event happened in the lowest level of the company history.
- Implemented digital mapping system for quarry operation. The database built up on this system and had been applied and used in the daily production.
- As a state certified operator, managed NPDES permit and ensured appropriate environmental controls were in place to maintain all federal, state, and local compliances and reporting integrity.
- Established production tracking and products inventory system for stripping, cutting, extraction, and sales. Reduced slab process lead time from one month to 10 days.
- Regularly participated in strategic decisions concerning the short- and long-term direction of the corporation; review of the monthly, quarterly, and yearly financials and other matters related to successfully running the business, including acquisition target and investment decisions.

**1996 to 2006 — Indiana Limestone Company, Inc., Bedford, Indiana. Chief Engineer/Director of Mining Engineering (2002–2006), Mining Engineer (1996–2001).**

- Joined this leading Indiana Limestone quarrier/fabricator as a mining engineer and advanced within two years to Corporate Chief Engineer, supervising and providing all technical and engineering support for each department and at all levels.

**Y. J. Zhang**【張研軍】

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**Experience — Continued**

- Directed the development of both long- and short-term mine plans for all quarry locations, supervised and performed quarry/plant design and planning, prepared quarry operation budget and scheduling, managed capital projects in close coordination with operations, provided engineering analysis and other technical supports to operations managers, developed and implemented environmental control plan and permits, and oversaw the processes in property exploration, reserve estimations/analysis.
- Moved stone mass from 2 million ft<sup>3</sup> in 1997 to over 7 million in 2005. Improved saleable stone yield by implementation of standard quality control procedures and better management.
- Applied new quarry technologies to the mining operations and defined quarrying production and performance metrics for better monitoring and tracking.
- Successfully developed annual budget and long-term quarry plans based on existing reserve and market demands.
- Completed geological exploration and reserve studies, added more deposits, and extended mine life.
- Managed all environmental affairs and established safety program for the workforce in the quarry. Accomplished with environmental violations-free record and worked closely with MSHA personnel to keep the workplace safe.
- Participated in all staff meetings focused on a variety of subjects/topics/issues, including: P/L, budgeting, forecasting, company policies, inventory management, manufacturing and sales order processes, capital/production equipment procurement, measures to increase profitability and productivity, safety issues, benchmarking, and establishment of metrics.

**1995 to 1996 — Weir International Mining Consultants, Ltd., Lexington, Kentucky. Project Mining Engineer.**

- Provided technical expertise in the areas of mine/plant design and planning, mining permitting, storm drainage control design, ground/subsidence control, mine reclamation design, rock mechanics, slope stability analysis, and field testing instrumentation.

**1991 to 1995 — McCoy & McCoy Environmental Consultants, Inc., Lexington, Kentucky. Project Engineer.**

- Duties included mine and processing plant design and planning, drainage control and structures design, and slope stability analysis. Also, responsible for ground and subsidence control design, developing construction plans and specifications for abandoned mined land and reclamation projects, NPDES permits, and environmental assessments.

**Y. J. Zhang**【張研軍】

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|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Education</b>                     | <p>2004 MBA: International Business/Finance — Indiana Wesleyan University, Bloomington, Indiana.</p> <p>1995 PhD: Mining Engineering — University of Kentucky, Lexington, Kentucky.</p> <p>1989 MS: Mining Engineering — West Virginia University, Morgantown, West Virginia.</p> <p>1982 BS: Mining Construction — China University of Mining &amp; Technology, Xuzhou, China.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Registration and Certificates</b> | <p>Registered Professional Engineer: Indiana, Kentucky</p> <p>The National Council of Examiners for Engineering and Surveying</p> <p>Licensed Wastewater Treatment Plant Operator in Indiana</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Memberships</b>                   | <p>Registered Member — Society for Mining, Metallurgy, and Exploration, Inc.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Publications and Papers</b>       | <p>2006, "Hybrid Modeling Methods (Strata/Block) and the Application for Dimensional Limestone Mining," <u>The 2006 SME Annual Meeting and Exhibit</u>, by Y.J. Zhang and R.B. Carlson, St. Louis, Missouri.</p> <p>2006, "Application of Modern Technology in Today's Limestone Quarry Operation," <u>Mining Engineering</u>, by Y.J. Zhang and B.E. Moore, Vol. 58, No. 10.</p> <p>1996, "A New Approach to Determine the In-Situ Strength of Coal in Mine Pillars," <u>Mining Engineering</u>, by Y.J. Zhang, K.F. Unrug, and E.D. Thompson; Vol. 48, No. 10.</p> <p>1995, <u>Development of In-Situ Rock Property Measurement Technique Using a Borehole Penetrometer</u>, Ph.D. Dissertation, College of Engineering, University of Kentucky, Lexington, Kentucky.</p> <p>1993, <u>Monitoring and Evaluation of Different Shield Supports in Longwall Mining</u>, Second International Symposium on Modern Mining Technology, Fuxin Mining Institute, Fuxin City, Liaoning, China.</p> |

**VALUATION REPORT**  
**INNER MONGOLIA YITAI GROUP COMPANY LIMITED**  
**UNDERGROUND COAL MINING OPERATIONS**  
Inner Mongolia Autonomous Region  
People's Republic of China

Prepared For  
**INNER MONGOLIA YITAI COAL CO., LTD.**

By  
**John T. Boyd Company**  
Mining and Geological Consultants  
Pittsburgh, Pennsylvania



Report No. 3434.13  
March 2012



**John T. Boyd Company**  
Mining and Geological Consultants

**Chairman**

James W. Boyd

7 March 2012

File: 3434.13

**President and CEO**

John T. Boyd II

**Managing Director and COO**

Ronald L. Lewis

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Tianjiao North Road

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**Vice Presidents**

Richard L. Bate

James F. Kvitkovich

Russell P. Moran

John L. Weiss

William P. Wolf

Attention:

Ms. Jian Qing'e

Secretary of the Board of Directors

Subject:

Valuation Report

Inner Mongolia Yitai Group Company Limited

Underground Coal Mining Operations

Inner Mongolia Autonomous Region

People's Republic of China

**Vice President****Business Development**

George Stepanovich, Jr.

**Managing Director — Australia**

Ian L. Alexander

**Managing Director — China**

Dehui (David) Zhong

Ladies and Gentlemen:

**Assistant to the President**

Mark P. Davic

John T. Boyd Company (BOYD) was engaged on 23 June 2010 to complete an independent valuation of five underground coal mining operations of Inner Mongolia Yitai Group Company Limited (Yitai Group) located in the Dongsheng Coalfield in the Inner Mongolia Autonomous Region. The basis of coal resource and reserve reporting is the JORC Code and of valuation preparation is the VALMIN Code.

**Pittsburgh**

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The reader is referred to a companion Competent Person's Report prepared by BOYD in March 2012, which provides the basis of the estimated coal reserves, mine plans, and related economics used to prepare this Valuation Report.

**Denver**

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Respectfully submitted,

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JOHN T. BOYD COMPANY

By:

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## GLOSSARY AND DEFINITIONS

The following terminology and definitions are used in this coal valuation report.

| <u>Terminology</u>            | <u>Source</u> | <u>Definition</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Competent Evaluator           | HKEx          | A Competent Person undertaking mineral valuations that satisfy HKEx rule 18.23.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Competent Person              | HKEx          | A person that satisfies HKEx rules 18.21 and 18.22.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| DCF                           | BOYD          | Discounted cash flow.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Depreciated Replacement Value | BOYD          | <p>The current value of a fixed or personal property/equipment asset to an ongoing mining operation calculated by multiplying the current (new) cost of an asset by its percentage of remaining life. Percentage of remaining life is determined by dividing estimated remaining asset life by the assigned original useful life:</p> $DRV = NC \times \left( \frac{RL}{UL} \right)$ <p>DRV: Depreciated replacement value<br/> NC: New cost<br/> RL: Remaining life<br/> UL: Useful original life</p> <p>Remaining life is the appraiser's judgment regarding such factors as age, operating schedule, maintenance history, obsolescence, condition, remaining mine life, and overall original useful life of the asset. If the asset is useful to the mining operation and does not have a life as long as the remaining mine life, then the asset must be replaced. If mine life is shorter than remaining life, the installed useful life of the asset ends with termination of mining (with possibly some salvage value remaining).</p> <p>This method yields the highest value for the asset, predicated on the premium paid for a required asset which is installed and in-service as part of an ongoing business. Depreciated replacement value has no relationship to accounting practices (book value) or to prevailing market conditions for used mining equipment.</p> |
| Expert                        | VALMIN        | <p>D10: may be either:</p> <ol style="list-style-type: none"> <li>an "Independent individual" who prepares and accepts responsibility for a Report, or</li> <li>a "Representative Expert" who is the nominated representative of a legally constituted body. He or she supervises the preparation of a Report and accepts responsibility for it on behalf of that body.</li> </ol> <p><b>Independent Individual Expert:</b></p> <ol style="list-style-type: none"> <li>must be Competent in and have had at least ten years of relevant and recent general mining experience in the mining industry, as may be appropriate;</li> <li>have had at least five years of relevant and recent experience in the assessment and/or valuation of mineral assets or securities, as may be appropriate;</li> <li>hold appropriate licenses;</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

| <u>Terminology</u> | <u>Source</u> | <u>Definition</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    |               | <p>(d) be a member of an appropriate professional association having an enforceable code of ethics.</p> <p><b>Representative Expert:</b> should preferably have the same length of experience and degree of competence as is required of an Independent Individual Expert. If this is not the case, he or she must engage a "Senior Specialist" who:</p> <p>(a) is competent and has had at least ten years of relevant and recent experience in the mining industry, as may be appropriate;</p> <p>(b) has had at least five years of relevant and recent experience in the assessment and/or valuation of mineral assets and securities, as may be appropriate;</p> <p>(c) holds the appropriate licenses;</p> <p>(d) is a member of an appropriate professional association having an enforceable code of ethics.</p> |
| Fair Market Value  | VALMIN        | D43: the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the mineral asset should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently, and without compulsion.                                                                                                                                                                                                                                                                                                                                                                                             |
| Feasibility Study  | HKEx          | A comprehensive design and costing study of the selected option for the development of a mineral project in which appropriate assessments have been made of realistically assumed geological, mining, metallurgical, economic, marketing, legal, environmental, social, governmental, engineering, operational, and all other relevant factors, which are considered in enough detail to demonstrate at the time of reporting that extraction is reasonably justified and the factors reasonably serve as the basis for a final decision by a financial institution to finance the development of the project.                                                                                                                                                                                                           |
| Gross Cash Flow    | BOYD          | Revenue less operating cash cost; can be determined on a pre-tax (income tax) or a post-tax basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Indicated Resource | HKEx          | That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a reasonable level of confidence.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Inferred Resource  | HKEx          | That part of a mineral Resource for which tonnage, grade, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling, and assumed but not verified geological and/or grade continuity.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| JORC               | HKEx          | The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| LOM                | BOYD          | Life-of-Mine.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Measured Resource  | HKEx          | That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a high level of confidence.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| <u>Terminology</u>          | <u>Source</u> | <u>Definition</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mineral                     | VALMIN        | D19: any naturally occurring material found in or on the earth's crust that is useful to and/or has a value placed on it by humankind, excluding crude oil, natural gas, coal-based methane, tar sands, and oil-shale, which are classified as Petroleum as defined in D35.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Mineral Asset               | VALMIN        | <p>D20: all property, including but not limited to real property, intellectual property, mining, and exploration tenements held or acquired in connection with the exploration of, the development of, and the production from those tenements together with all plant, equipment, and infrastructure owned or acquired for the development, extraction, and processing of minerals in connection with those tenements. Most Mineral Assets can be classified as either:</p> <p><b>Exploration Areas</b> — properties where mineralization may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified.</p> <p><b>Advanced Exploration Areas</b> — properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralization present and encouragement that further work will elevate one or more of the prospects to the resource category.</p> <p><b>Pre-Development Projects</b> — properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance, and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further Valuation, Technical Assessment, delineation, or advanced exploration is being undertaken.</p> <p><b>Development Projects</b> — properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels.</p> <p><b>Operating Mines</b> — mineral properties, particularly mines and processing plants, that have been commissioned and are in production.</p> |
| Net Cash Flow               | BOYD          | Gross Cash Flow less Capital Cost; can be expressed on a pre-tax (income tax) or post-tax basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| NPVs                        | HKEx          | Net present values.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Off-Mine-Site Selling Costs | BOYD          | Includes all transportation and sales component necessary to reach final point of dispatch (truck to rail dispatch, dispatch to port, port fees, rail fees, G&A, sales, commissions, taxes and/or miscellaneous fees).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

| <u>Terminology</u>                   | <u>Source</u> | <u>Definition</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Prefeasibility Study                 | HKEx          | A comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, for underground mining, or the pit configuration, for an open pit, has been established and an effective method of mineral processing has been determined. It includes a financial analysis based on realistically assumed or reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are enough for a Competent Person, acting reasonably, to determine if all or part of the mineral Resource may be classified as a mineral Reserve. |
| Probable Reserve                     | HKEx          | With regard to minerals, the economically mineable part of an Indicated, and in some circumstances a Measured, Resource.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Professional Association             | VALMIN        | D27: a self-regulating body such as one of engineers or geoscientists or both that: <ul style="list-style-type: none"> <li>(a) has been given authority or recognition by statute;</li> <li>(b) admits members primarily on the basis of their academic qualifications and professional experience;</li> <li>(c) requires compliance with professional standards of expertise and behavior according to a code of ethics established by the association; and</li> <li>(d) has enforceable disciplinary powers, including that of suspension or expulsion of a member, should its code of ethics be breached.</li> </ul>                                              |
| Proved Reserve                       | HKEx          | With regard to minerals, the economically mineable part of a Measured Resource.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Recognized Professional Organization | HKEx          | A self-regulatory organization of professional individuals in the mining or petroleum industry which admits individuals on the basis of their academic qualifications and experience, requires compliance with professional standards of competence and ethics established by the organization, and has disciplinary powers, including the power to suspend or expel a member.                                                                                                                                                                                                                                                                                       |
| Reserve                              | HKEx          | With regard to minerals, the economically mineable part of a Measured, and/or Indicated Resource, taking into account diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments to a minimum of a Prefeasibility Study must have been carried out. Mineral Reserves are subdivided in order of increasing confidence into Probable Reserves and Proved Reserves. Note: although the term Mineral Reserve is used throughout this Chapter, it is recognized that the term Ore Reserve is used in the JORC Code.                                                                                               |
| Resources                            | HKEx          | With regard to minerals, a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality, and quantity that there are reasonable prospects for their eventual economic extraction. The location, quantity, grade, geological characteristics, and continuity of a mineral Resource are known, estimated,                                                                                                                                                                                                                                                                                                   |

| <u>Terminology</u> | <u>Source</u> | <u>Definition</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    |               | or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated, and Measured Resources, as defined in the JORC Code.                                                                                                                                                                                                                                                                       |
| Risk               | VALMIN        | D30: the chance of an event occurring that will have an impact on objectives. A risk may be quantifiable in terms of the likelihood of loss, less than expected returns, or an undesirable outcome.                                                                                                                                                                                                                                                                                                   |
| Scoping Study      | HKEx          | A preliminary evaluation of a mineral project, including an assessment of the economic viability of mineral Resources. Scoping Studies should include forecasts production schedules and cost estimates based on data under which the Resources are identified.                                                                                                                                                                                                                                       |
| Specialist         | VALMIN        | An individual who may be retained by the Expert to prepare sections of Reports concerning matters about which the Expert is not personally Competent. Specialists must accept responsibility for the sections of the reports they prepare.                                                                                                                                                                                                                                                            |
| Technical Value    | VALMIN        | D36: an assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by an Expert or Specialist, excluding any premium or discount to account for such factors as market or strategic considerations.                                                                                                                                                                                                                         |
| Tenement           | VALMIN        | D37: any form of title or right such as a license, permit, or lease granted by the responsible government in accordance with its mining legislation that confers on the holder certain rights to explore for and/or extract minerals that may be, or is known to be contained under the surface of the land. "Tenure" and "Title" have the same connotation as a "Tenement." All references to Tenements should be qualified by denoting its type (e.g., "mining" license or "exploration" Tenement). |
| VALMIN Code        | HKEx          | The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (2005 edition), as prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists, and the Mineral Industry Consultants Association as amended from time to time.                                                                                                            |
| Valuation Date     | VALMIN        | D41: the reference date on which the monetary amount of a Valuation in "dollars of that day" terms is current. This date could be different from the dates of completion or signing of the Report or the cut-off date of available data.                                                                                                                                                                                                                                                              |
| Valuation Report   | HKEx          | The public valuation report prepared by a Competent Evaluator on Mineral or Petroleum Assets in compliance with SEHK rule 18.34 and the applicable Reporting Standard, as modified by this Chapter. It may form part of a Competent Person's Report.                                                                                                                                                                                                                                                  |

## 1.0 INTRODUCTION

### 1.1 Scope of Work/Purpose

This independent valuation of the five Yitai Group underground mining operations was prepared for Inner Mongolia Yitai Coal Co., Ltd (Yitai) for use in a public filing on the Stock Exchange of Hong Kong (HKEx).

In preparing this report, we have relied on a companion report: Competent Person's Report, prepared by BOYD in March 2012. The Valuation Date for this study is 1 January 2012. This report is prepared in accordance with HKEx Chapter 18 and the VALMIN Code.

## 1.2 Assets Summary Description

The Yitai Group assets being valued include the following five underground coal mining operations located within the Dongsheng Coalfield in the Inner Mongolia Autonomous Region:

| Mining Operation  | Yitai Group Equity Interest (% owned) | Date of Initial Operation | Estimated Remaining Reserves (Mt) As of 1 January 2012 | Annual Coal Production (Mt)    |                                          |             |
|-------------------|---------------------------------------|---------------------------|--------------------------------------------------------|--------------------------------|------------------------------------------|-------------|
|                   |                                       |                           |                                                        | Mining Right Approved Capacity | Approved Production Certificate Capacity | 2011 Actual |
| Dadijing .....    | 100.0                                 | 4/1/2008                  | 52                                                     | 1.2                            | 3.0                                      | 4.46        |
| Baoshan .....     | 73.0                                  | 6/1/2007                  | 15                                                     | 1.2                            | 1.9                                      | 2.16        |
| Dingjiaqu .....   | 73.0                                  | 12/1/2008                 | 16                                                     | 1.2                            | 2.3                                      | 3.05        |
| Chengyi .....     | 100.0                                 | 2/1/2009                  | 5                                                      | 0.6                            | 1.2                                      | 0.94        |
| Baijialiang ..... | 100.0                                 | 1/1/2008                  | *                                                      | 0.3                            | 1.9                                      | 2.07        |

\* 0.49 Mt of Estimated Remaining reserve

The five Yitai Group mines are fully developed and have made the transition to modern longwall (LW) mining technology.

## 1.3 Source Data

The reader is referred to the BOYD Competent Person's Report for a listing of source data used to prepare this supporting document. For purposes of this Valuation Report, BOYD requested and received the following additional source data:

- Additional details for forward 2012-2014 mining and business plans (projections).
  - Coal prices by product type.
  - General and administrative cost.
  - Selling costs and taxes.
  - Financial costs.
  - Fully Mechanized (FM) LW and development equipment replacement plan by year for each mine.
- Coal sales.
  - Existing coal sales commitments (or contracts) for forward sales.
  - Summary of historical coal sales contracts, showing the name of customer, name of mine, coal quality requirement, FOB price, tonnage, and other additional pricing agreement.
  - FOB mine coal sales prices for all five mines on the close of the first day of each month in 2011.
  - Minegate sales by product type with tonnage and average FOB mine prices (including VAT) for 2011.
  - Port (off-site) sales by product type with tonnage, point of sales, average port prices, port charges, rail transport, G&A and sales commissions for 2011.

- Existing assets.
  - Fixed asset summary listing for Yitai Group mines and facilities as of 1 January 2012 showing original and net asset values.
  - Annual depreciation rates by asset classes.
  - Depreciation schedule table for all the assets for each mine from 1 January 2012 until the end of mine life.
- Mineral and land costs.
  - Mineral resource compensation fees.
  - Outstanding mining right fees to be paid (owed) for Yitai Group mines as of 1 January 2012.
  - Mining right fees paid in and future payment schedules for Yitai Group mines as of 1 January 2012.
  - Land usage fees and future payment schedules for Yitai Group mines as of 1 January 2012.
- Baijialiang Mine.
 

The equipment use plan after mine closure (where the equipment will be transferred) for Baijialiang Mine, which is projected to be depleted in 2012.
- Other forward planning considerations.
  - Production fee projections by year with detailed breakdowns for the period 2012 — 2014 and beyond.
  - Expected coal processing (coal preparation plant (CPP) processing) requirements for the Yitai Group mines.
  - Rate and calculation method for all the fees/taxes levied by tax department or administrative organizations.
  - Expected VAT obligation as percent of selling price and expected deductions to VAT for purchase of goods and services.

#### 1.4 BOYD Background and Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. We have provided services on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- |                                               |                                            |
|-----------------------------------------------|--------------------------------------------|
| • Due diligence of mining operations          | • Asset appraisals                         |
| • Fuel and energy supply planning             | • Minerals industry restructuring          |
| • Permitting and environmental analysis       | • Privatization studies                    |
| • Contract negotiations                       | • Geologic, reserve and mine plan modeling |
| • Market and transport analyses               | • Exploration design and supervision       |
| • Economic feasibility studies and valuations | • Reserve and geotechnical studies         |
| • Assessment of existing operations           | • Technical assistance in legal matters    |
| • Strategic business planning                 | • Monitoring of operating companies        |
| • Transport issues                            | • Financial analysis                       |

BOYD also possesses extensive computer and software systems to estimate reserves and complete mine plans. These include Vulcan, MINCOM, SurvCADD, and others.



Our headquarters office is located in the Pittsburgh, Pennsylvania, region in the United States. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, People's Republic of China (PRC). Please visit our website, [www.jtboyd.com](http://www.jtboyd.com), for additional details.

BOYD has extensive experience in preparing Competent Person's Technical Review and Valuation reports for international financing purposes and for public stock exchange filings. We are knowledgeable of listing requirements of the HKEx, London Stock Exchange, and NI43-101 (Canadian requirements), JORC Code, U.S. Securities and Exchange (SEC) Rules, etc. We are familiar with the level of independent reporting required by international investors and financial institutions.

Among our Chinese coal projects, we represented Shenhua Group Corporation as their Technical Advisor for the China Shenhua Energy Company Limited (China Shenhua) IPO on the HKEx. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling, rail and ocean transport facilities, and economics. Shenhua Group Corp.'s reserve holdings were evaluated according to JORC Code and the HKEx Rule 18 requirements. We subsequently prepared four resource studies commissioned by China Shenhua for material acquisition HKEx filings. We also prepared ITRs for MP Logistics International Holdings Limited (Ming Kei Energy Holdings Limited) for a transaction involving two openpit mines in Xinjiang Uygur Autonomous Region, for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, for Artfield Group Limited's very substantial acquisition HKEx filing for the Ming Kei Energy Holdings Limited openpit mines in Xinjiang Uygur Autonomous Region, and for GCL-Poly Energy Holdings Limited's acquisition of the Duolun Mine in the Inner Mongolia Autonomous Region. Our Chinese non-coal projects include the ITR for the Lumena Resources Corporation IPO on the HKEx.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and were actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry, and the coal mining operations of British Coal were successfully privatized.

We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers. We have worked with and for virtually all of the major international banks. Numerous financial agencies have used our services to opine on property/mine operations. We have the proven ability to prepare a bankable document that is accepted and used with confidence by major financial institutions and other investors around the world.

### 1.5 Competent Evaluator and Specialists

Competent Evaluator for this Valuation Report is Mr. Ronald L. Lewis, who is serving as Representative Expert as defined by VALMIN. Mr. Lewis clearly meets all HKEx Rule 18.23 requirements:

- Employed by BOYD for approximately 40 years, currently serving as Chief Operating Officer (COO) and overall Managing Director (MD).
- Relevant experience includes: oversight of all BOYD consulting activities and senior management approval of BOYD work products, direct participation in mining and mineral resource/reserve and valuation assignments.
- Independently recognized expert in mineral valuation serving as an expert witness in over 40 legal proceedings.
- Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. (a Recognized Professional Organization under the JORC Code), and a registered Professional Engineer in the United States.

Mr. Lewis has directed and participated in the preparation of this Report, and accepts responsibility for the Report on behalf of BOYD. Key Senior Specialists who assisted Mr. Lewis are:

**Mr. James F. Kvitkovich — Vice President, BS (Mining Engineering)** Mr. Kvitkovich has 30 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is

a Registered Professional Engineer within the United States and is highly experienced with regard to reviewing and evaluating continuous miner (CM) and LW mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the JORC Code and HKEx Chapter 18 Rule 18.21.

**Mr. Paul D. Anderson — Director of Geological Services, BS (Geology)** Mr. Anderson is a Certified Professional Geologist (AIPG) with 35 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists and is qualified as a Competent Person as defined in the JORC Code and HKEx Chapter 18 Rule 18.21.

## 1.6 Certification of Competent Evaluator

As evidenced by Mr. Lewis's signature to this report, he certifies that, to the best of his knowledge and belief:

- The statements of fact contained in this Report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, and BOYD's impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- I (Mr. Lewis), nor BOYD, have no present or prospective interest in the Yitai Group assets that are the subject of this Report, and I, nor BOYD, have no personal interest with respect to the parties involved.
- I, nor BOYD, have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- BOYD's engagement in this assignment was not contingent upon developing or reporting predetermined results.
- BOYD's compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the VALMIN Code.
- I have not made a personal inspection of the property that is the subject of the report, but representatives of BOYD have visited the Yitai Group mines in conjunction with the preparation of the companion Competent Person's Independent Technical Review report.

## 1.7 Reporting Considerations

BOYD is a privately owned consultancy firm with headquarters in the United States. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation.

Estimates of resources and reserves, as well as projections of mine and processing plant output, and financial results, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variances in the execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies could affect future coal production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report.

We believe the Yitai Group mining operations are appropriately equipped and operated, and except for normal geologic, operational, and other risks associated with underground coal mining in the PRC, BOYD has not identified any concerns and/or risks that we consider extraordinary. Management of each mine is a critical element in achieving both production plans and a high degree of safety. Yitai Group's output plans are based on operating the mines and production facilities consistent with each operation's production capacity. In the event that any unforeseeable events result in decreased production, BOYD is of the opinion that Yitai Group does not have additional capacity and scheduling to make up for any loss of production volumes.

The primary source of information (written and verbal) relied upon by BOYD in preparing this Valuation Report was provided by Yitai and Yitai Group. We have exercised reasonable care in reviewing the information provided and received written confirmation from Yitai that all historical data have been accurately reported and all forward projections are prepared and/or approved by competent professionals and Yitai Group management. Information regarding historical coal sales taking place beyond the minegate (pricing and related costs beyond the minegate) were provided in summary form and used by BOYD as provided. We have no reason to believe that any material facts have been withheld. We are not responsible for any material errors or omissions in the information provided.

The valuation opinion presented in this report represents the independent professional opinion of the Competent Evaluator and BOYD based on our review of available project information. Our expertise is in technical and valuation issues, and BOYD is not qualified to offer, nor do we represent that any of our findings include, matters of a legal or accounting nature. We have relied on information provided by Yitai and Yitai Group regarding land tenure, legal rights held, and ownership. We have not independently researched land and/or coal certificate rights, nor have we reviewed or verified the ownership or structure of the various entities with interests in Yitai Group. BOYD is not qualified to assess PRC legal matters and does not purport to offer a legal opinion on the status of ownership/control and/or the right to mine.

Although we believe all findings and conclusions to be reasonable, we rely on information developed by others and reflect mining and marketing conditions, and our interpretation of regulations, as of the date of the VR.

Following this page are:

Figure

1.1: General Location Map Showing Yitai Group Coal Mines, Coal Measures, Railways, and Ports

1.2: Map Showing Mining and Exploration Right Areas and Selected Transportation Infrastructure

Respectfully submitted,

JOHN T. BOYD COMPANY

By:

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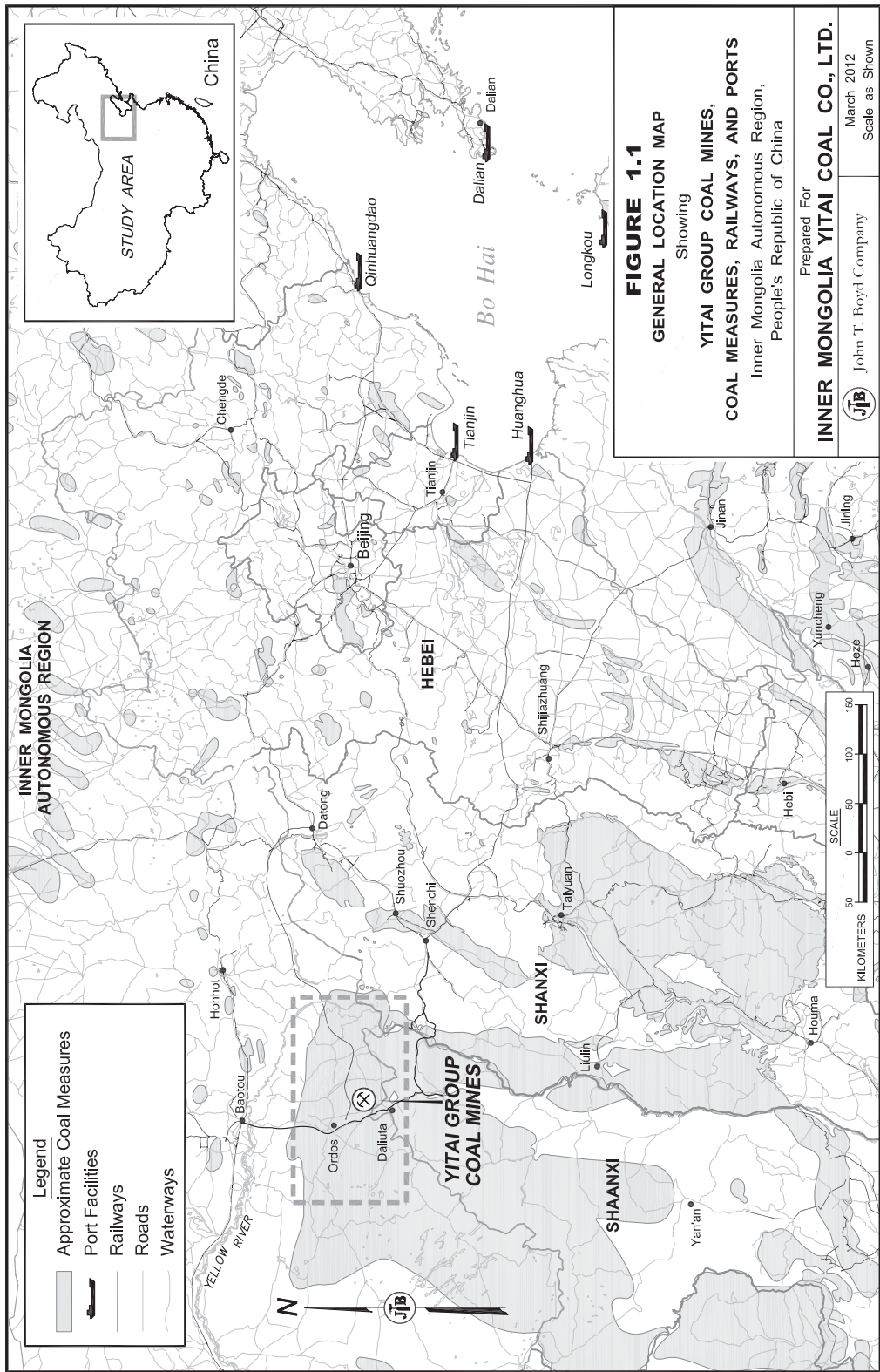
Paul D. Anderson  
Director of Geological Services

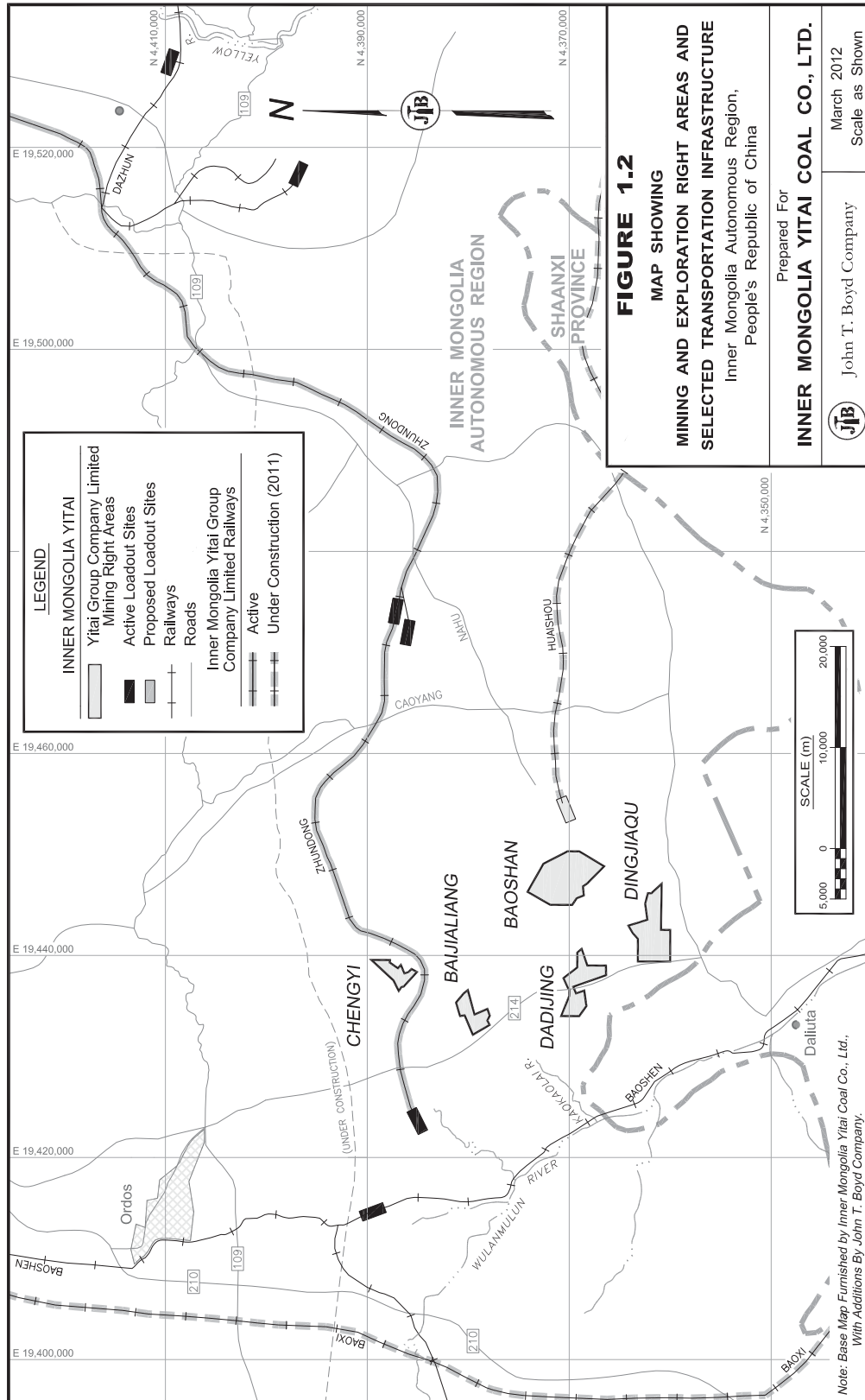
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James F. Kvitkovich  
Vice President

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Ronald L. Lewis  
Managing Director and COO





## 2.0 VALUATION OPINION

The assignment of this report is to opine on the Fair Market Value (FMV) of the five Yitai Group underground coal mines, as of 1 January 2012. Based on the production, sales, cost, and other data provided to BOYD for the purposes of this assignment and our LOM plan and DCF analysis, we developed an independent opinion of the value of the Yitai Group mines.

According to our discounted cash flow analysis, the Base FMV of the five mining operations on the Yitai Group basis is RMB8,726 million.

| Mine              | Full Interest<br>Valuation<br>FMV (DCF-NPV) <sup>(1)(2)</sup> | Yitai Group<br>Ownership (%) | Yitai Group<br>Ownership<br>Valuation <sup>(1),(2),(3)</sup> |
|-------------------|---------------------------------------------------------------|------------------------------|--------------------------------------------------------------|
| Dadijing .....    | 4,349                                                         | 100.0                        | 4,349                                                        |
| Baoshan .....     | 2,559                                                         | 73.0                         | 1,868                                                        |
| Dingjiaqu .....   | 2,495                                                         | 73.0                         | 1,821                                                        |
| Chengyi .....     | 594                                                           | 100.0                        | 594                                                          |
| Baijialiang ..... | 94                                                            | 100.0                        | 94                                                           |
| Total .....       | 10,090                                                        |                              | 8,726                                                        |

(1) RMB millions (as of 1 January 2012).

(2) Figures may not add due to rounding

(3) Yitai Group interest basis.

To provide guidance on the probable range in values, we have completed a series of sensitivity DCF-NPV analyzes. The probable range in value using the variables below to the specified Base Case FMV parameters using a 10% discount factor are as follows:

| Sensitivity Case                         | Valuation<br>FMV<br>(DCF-NPV) <sup>(1),(2)</sup> |
|------------------------------------------|--------------------------------------------------|
| Sales Prices (+20%) .....                | 11,300                                           |
| Sales Price (+10%) .....                 | 10,000                                           |
| Operating Cost (–10%) .....              | 9,200                                            |
| Capital Cost (–10%) .....                | 8,800                                            |
| Capital Cost (+10%) .....                | 8,600                                            |
| Operating Cost (+10%) .....              | 8,300                                            |
| Flat Chinese Income Tax Rate (25%) ..... | 7,800                                            |
| Sales Prices (–10%) .....                | 7,500                                            |
| Production (–10%) .....                  | 7,400                                            |
| Sales Prices (–20%) .....                | 6,100                                            |

(1) RMB millions (as of 1 January 2012).

(2) Yitai Group interest basis.

The probable range in value using discount factors ranging from 8% to 12% are as follows:

| Discount<br>Factor (%) | Yitai Group Ownership<br>Valuation <sup>(1),(2)</sup> |
|------------------------|-------------------------------------------------------|
| 8 .....                | 9,555                                                 |
| 9 .....                | 9,122                                                 |
| 10 .....               | 8,726                                                 |
| 11 .....               | 8,361                                                 |
| 12 .....               | 8,025                                                 |

(1) RMB millions (1 January 2012).

(2) Yitai Group Interest basis.



We developed life-of-mine (LOM) plans for each mine that provide the foundation of the cash flow projections. Level of study of the LOM plans is considered to be Prefeasibility. All plans are limited to defined JORC Code qualified Proven and Probable Reserves (as developed by BOYD in the Competent Person's Report (CPR)).

The major valuation parameters and assumptions used to develop our base FMV are as follows:

1. Annual coal production, operating cost, and capital expenditures are derived from the LOM plan (developed by BOYD) for each mine.
2. All costs and prices are expressed in constant RMB values.
3. Annual cash flow projections are calculated on an after-tax basis, with annual capital expenditures deducted in the year incurred. Yitai provided Chinese tax rates for individual mines, that varied between 15 and 25%, which recognize preferred tax rates for Inner Mongolia A.R. industrial development.
4. Discounting is completed using a fixed rate of 10% with mid-year discounting used when assigning the period applicable to each year.

### 3.0 SUMMARY OF ASSETS

#### 3.1 Introduction

A detailed description of the Yitai Group mining operations is contained in the companion report: Competent Person's Report, Inner Mongolia Yitai Coal Co., Ltd., March 2012, as prepared by BOYD. This chapter provides a summary of the Yitai Group assets included in this independent Valuation Report.

Yitai Group underground mines are located in southern Inner Mongolia, near the boundary of Shaanxi and Shanxi provinces, and within China's largest coal-producing region. The following Yitai Group mining rights areas were included in this Report:

| Mining Rights Area    | Yitai Group Equity Interest (% owned) | Mining Certificate Number | Authorized Mining Right Output Capacity (Mtpa) | Authorized Mining Elevation (m) | Mining Method | Area (km <sup>2</sup> ) | Mining Right          |                             |
|-----------------------|---------------------------------------|---------------------------|------------------------------------------------|---------------------------------|---------------|-------------------------|-----------------------|-----------------------------|
|                       |                                       |                           |                                                |                                 |               |                         | Grant Date (month/yr) | Expiration Date* (month/yr) |
| Dadijing . . . . .    | 100.0                                 | C1500002011061120115049   | 1.20                                           | 1,115-1,320                     | UG            | 11.6                    | 06/2011               | 12/2018                     |
| Baoshan . . . . .     | 73.0                                  | C1500002011071120115196   | 1.20                                           | 1,100-1,300                     | UG            | 25.0                    | 07/2011               | 12/2018                     |
| Dingjiaqu . . . . .   | 73.0                                  | C1500002011061120115051   | 1.20                                           | 1,120-1,240                     | UG            | 17.4                    | 06/2011               | 12/2018                     |
| Chengyi . . . . .     | 100.0                                 | C1500002011061120115048   | 0.60                                           | 1,224-1,362                     | UG            | 5.1                     | 06/2011               | 12/2013                     |
| Baijialiang . . . . . | 100.0                                 | C1500002011061120115050   | 0.30                                           | 1,242-1,308                     | UG            | 6.5                     | 06/2011               | 10/2013                     |

\* Terms are normally renewable prior to expiration.

Note: UG = underground

BOYD has reviewed the mining rights documentation presented by Yitai with regard to the Yitai Group coal holdings. To the extent supported by the documentation and from BOYD's standing as a technical expert, we have accepted that Yitai Group holds the mining right certificates for the areas evaluated in this report. We understand that these rights reference only underground extraction methods.

| Mine              | Coal Production | Authorized | Mining | Certificate | Expiration |
|-------------------|-----------------|------------|--------|-------------|------------|
|                   | Certificate     | Output     |        |             |            |
|                   | Number          | Capacity   | Method | Date        | Date       |
|                   |                 | (Mtpa)     |        |             |            |
| Yitai Group Mines |                 |            |        |             |            |
| Dadijing          | 201527280154    | 3.00       | FM LW  | 4/15/2010   | 12/31/2023 |
| Baoshan           | 201527280369    | 1.90       | FM LW  | 4/15/2010   | 12/31/2025 |
| Dingjiaqu         | 201527280378    | 2.30       | FM LW  | 4/15/2010   | 12/31/2023 |
| Chengyi           | 201527230041    | 1.20       | FM LW  | 4/15/2010   | 4/30/2019  |
| Baijialiang       | 201527280139    | 1.90       | FM LW  | 4/15/2010   | 4/30/2012  |



## 3.2 Geology and Resources

### 3.2.1 Geologic Setting

On a global basis, the geological setting or nature of the coal deposits controlled by Yitai Group are judged to be simple to moderate in complexity (i.e., not geologically complex). The mine and exploration areas evaluated are located within the Dongsheng Coalfield.

The coal-bearing strata within the Dongsheng Coalfield occur in the Middle and Lower Jurassic-age Yan'an Formation, containing coal seams 2 through 7. There are several principal coal seams that are uniform in occurrence generally 3 to 6 m thick and other secondary seams that range in thickness from 1 to 3 m.

Yitai's/Yitai Group's geological and geotechnical staff's technical knowledge of the reserve base and associated geologic settings is adequate to support projected long-term mining operations.

Based on our review of the coal resource data and the methodology used to define the resources, our visits to the active mining operations, and interaction with Yitai personnel, we have a high degree of confidence that the resource estimates shown in this report are professionally prepared and representative of the specified mine properties.

### 3.2.2 Resources and Reserves

Using source data provided by Yitai, BOYD has independently assessed this information and prepared resource and reserve estimates in accordance with JORC Code. Our estimates of the Measured, Indicated, and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves for the five Yitai Group mining rights areas, as of 31 December 2011, are summarized as follows:

| Control Type<br>& Mine                     | In-Place Resource (Mt) |           |          |        | Recoverable Reserves<br>(Mt) |          |       | Processing<br>Yield % | Marketable Reserves<br>(Mt) |          |       | % of<br>Reserves |
|--------------------------------------------|------------------------|-----------|----------|--------|------------------------------|----------|-------|-----------------------|-----------------------------|----------|-------|------------------|
|                                            | Measured               | Indicated | Inferred | Total  | Proved                       | Probable | Total |                       | Proved                      | Probable | Total |                  |
|                                            |                        |           |          |        |                              |          |       |                       |                             |          |       |                  |
| Inner Mongolia Yitai Group Company Limited |                        |           |          |        |                              |          |       |                       |                             |          |       |                  |
| Mining Rights                              |                        |           |          |        |                              |          |       |                       |                             |          |       |                  |
| Dadijing                                   | 7.45                   | 63.01     | —        | 70.46  | 6.20                         | 48.04    | 54.24 | 95                    | 5.82                        | 45.96    | 51.78 | 58               |
| Baoshan                                    | 7.40                   | 17.89     | —        | 25.29  | 4.37                         | 11.66    | 16.03 | 91                    | 3.93                        | 10.62    | 14.55 | 17               |
| Dingjiaqu                                  | 11.14                  | 13.00     | 0.31     | 24.45  | 8.73                         | 8.82     | 17.55 | 93                    | 8.10                        | 8.19     | 16.29 | 19               |
| Chengyi                                    | 5.71                   | 2.41      | 0.37     | 8.49   | 3.57                         | 1.53     | 5.10  | 95                    | 3.38                        | 1.44     | 4.82  | 5                |
| Baijialiang                                | 0.05                   | 0.61      | —        | 0.66   | 0.04                         | 0.47     | 0.51  | 96                    | 0.04                        | 0.45     | 0.49  | 1                |
| Total                                      | 31.75                  | 96.92     | 0.68     | 129.35 | 22.91                        | 70.52    | 93.43 |                       | 21.27                       | 66.66    | 87.93 | 100              |

Note: Tonnages shown for Baoshan and Dingjiaqu reflect 100% equity

Approximately 24% of the Marketable Reserves are in the Proved classification. Based upon projected coal output levels and current BOYD reserve base estimate, projected FM LW mine lives are as follows:

| Mine        | Projected Life (years)* |
|-------------|-------------------------|
| Dadijing    | 21                      |
| Baoshan     | 7                       |
| Dingjiaqu   | 7                       |
| Chengyi     | 4                       |
| Baijialiang | —**                     |

\* Based on BOYD LOM planning projections and BOYD Marketable reserves estimates.

\*\* Depletion of LW reserves in 2nd Q 2012.

### 3.2.3 Coal Quality

The Dongsheng Coalfield supports numerous mining operations and is a major source of thermal coal in the PRC. Therefore, coal quality characteristics are well known and documented. According to Chinese coal

classification, the Yitai Group mines principally produce long flame (CY41) coal with non-caking (BN31) coal production.

The Yitai Group mine output is characterized by medium to high calorific value, non-caking coal (high-volatile C bituminous rank) with low sulfur content. Calorific value varies with moisture and ash content but is typically 5,000 to 5,500 Kcal/kg on an as-received basis, including partings and mining dilution.

Typical Yitai Group coal quality (as-received basis) is as follows:

| Characteristic<br>(as-received basis) |           | Parameter   |
|---------------------------------------|-----------|-------------|
| Moisture                              | (%)       | 17-20       |
| Ash                                   | (%)       | 8-18        |
| Sulfur                                | (%)       | 0.2-0.7     |
| Volatile Matter                       | (%)       | 22-27       |
| Calorific Value                       | (Kcal/kg) | 5,000-5,500 |

The coal seams typically contain few in-seam partings, and therefore, mines can produce an acceptable quality of coal product on a screened, raw (without coal washing) basis.

Yitai Group operations utilize a combination of screening, crushing, and hand-picking to increase product quality. At Baijialiang, Baoshan, and Dadijing mines, the coal is screened at 50 mm. Lump coal (plus 50 mm) is sold directly on site, while the minus 50-mm size coal is transported to nearby rail loading stations. At Chengyi and Dingjiaqu mines, however, coal is crushed to minus 50-mm size to be transported to the rail loading stations. According to Yitai Group, there is no plan to build coal washing facilities at any of the mine sites. It is BOYD's opinion that this arrangement is appropriate since the screened coal products achieve acceptable quality for the markets or, if necessary, raw coal can be transported to Yitai's Zhunge'erzhao CPP for processing. BOYD's valuation analysis assumes that the current practice of producing saleable raw coal products continues.

### 3.3 Mine Operation

#### 3.3.1 Mines

Yitai Group owns and operates five small to medium-sized underground LW mines. These mines have transitioned to FM mining operations by combining multiple small local mining right areas. The current approved production certificate output level for these mines ranges from 1.2 to 3.0 Mtpa, as follows:

| Mine              | Yitai Group<br>Interest<br>(% owned) | Date of Initial<br>Operation <sup>(1)</sup> | Current<br>Approved<br>Mining Right<br>Output<br>Capacity<br>(Mtpa) | Approved<br>Production<br>Certificate<br>Capacity<br>(Mtpa) | Estimated <sup>(2)</sup><br>Remaining<br>Reserve<br>Tonnes<br>as of<br>31 December<br>2011<br>(millions) | Integrated from Local Mines    |
|-------------------|--------------------------------------|---------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------|
| Dadijing . . . .  | 100.0                                | 4/1/2008                                    | 1.2                                                                 | 3.0                                                         | 52                                                                                                       | Dadijing, Dashuigou            |
| Baoshan . . . .   | 73.0                                 | 6/1/2007                                    | 1.2                                                                 | 1.9                                                         | 15                                                                                                       | Baoshan, Qiaojiata, Niujiayang |
| Dingjiaqu . . .   | 73.0                                 | 12/1/2008                                   | 1.2                                                                 | 2.3                                                         | 16                                                                                                       | Sanhechang No. 2, Dingjiaqu    |
| Chengyi . . . .   | 100.0                                | 2/1/2009                                    | 0.6                                                                 | 1.2                                                         | 5                                                                                                        | Chengyi, Yelaisetai            |
| Baijialiang . . . | 100.0                                | 1/1/2008                                    | 0.3                                                                 | 1.9                                                         | *                                                                                                        | Baijialiang, Naomutu           |

(1) After integration from local mines.

(2) BOYD estimate of marketable tonnes according to JORC Code classification.

\* 0.49 Mt of remaining LW mineable reserves.

BOYD visited the five subject mines in August 2009, February 2011 and February 2012. Based on our field observations, the mines are well capitalized and organized, utilizing FM LW mining systems supported predominantly by roadheader development units. Underground mining conditions are generally favorable, with relatively thick coal seams and minimal seam gradients; depth of mining is relatively shallow (less than 200 m). Third-party service entities provide a supplemental source of workers and are employed to provide certain

services in the coal production process on an as-needed basis. Yitai Group maintains the overall management of each mine, while the third-party service providers working at the mines report to the general managers appointed by Yitai Group at each mine.

| Mine                  | BOYD Visit Date                     | Mining Techniques | No. of LW Faces | Manufacturing Source of LW Face | Off-Site Coal Transportation |
|-----------------------|-------------------------------------|-------------------|-----------------|---------------------------------|------------------------------|
| Dadijing . . . . .    | 8/30/2009 & 2/18/2011<br>& 2/2/2012 | LW/RH/DB          | 1               | D                               | T to RLST/C                  |
| Baoshan . . . . .     | 8/30/2009 & 2/17/2011<br>& 2/2/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |
| Dingjiaqu . . . . .   | 8/27/2009 & 2/17/2011<br>& 2/2/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |
| Chengyi . . . . .     | 8/31/2009 & 2/17/2011<br>& 2/2/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |
| Baijialiang . . . . . | 8/30/2009 & 2/17/2011<br>& 2/2/2012 | LW/RH             | 1               | D                               | T to RLST/C                  |

Note:

LW = Longwall  
RH = Roadheader  
DB = Drill and Blast

D = Domestic

T = Truck  
RLST = Rail Loading Station  
C = Customer

Yitai Group's reserve base offers the potential for highly efficient LW mine designs comparable to those employed at similar highly mechanized mines in the United States and Australia. Higher levels of output can be anticipated from the existing and future LW installations.

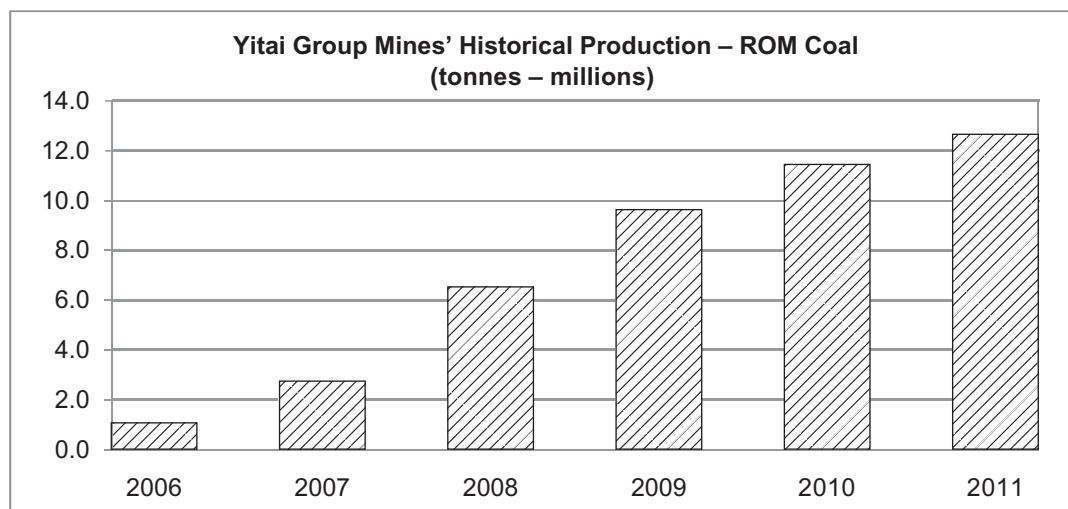
### 3.3.2 Historical Production

Yitai Group's production in the past six years has been increasing, especially in the years 2008 and 2009, when the mines transitioned to FM LW techniques, as shown below:

| Mine                  | ROM Coal Production (tonnes — millions) |    |      |    |      |      |       |      |      |       |      |      |       |      |       |       |
|-----------------------|-----------------------------------------|----|------|----|------|------|-------|------|------|-------|------|------|-------|------|-------|-------|
|                       | 2006                                    |    | 2007 |    | 2008 |      |       | 2009 |      |       | 2010 |      |       | 2011 |       |       |
|                       | DB                                      | FM | DB   | FM | DB   | FM   | Total | DB   | FM   | Total | DB   | FM   | Total | DB   | FM    | Total |
| Dadijing . . . . .    | 0.63                                    | —  | 1.33 | —  | 1.71 | 1.34 | 3.05  | 1.37 | 1.90 | 3.27  | 1.50 | 2.27 | 3.77  | 1.42 | 3.04  | 4.46  |
| Baoshan . . . . .     | 0.06                                    | —  | 0.72 | —  | —    | 1.68 | 1.68  | —    | 1.53 | 1.53  | —    | 1.81 | 1.81  | —    | 2.16  | 2.16  |
| Dingjiaqu . . . . .   | 0.04                                    | —  | 0.17 | —  | 0.13 | —    | 0.13  | —    | 2.21 | 2.21  | —    | 2.80 | 2.80  | —    | 3.05  | 3.05  |
| Chengyi . . . . .     | 0.02                                    | —  | 0.15 | —  | 0.16 | 0.04 | 0.20  | —    | 0.88 | 0.88  | —    | 1.11 | 1.11  | —    | 0.94  | 0.94  |
| Baijialiang . . . . . | 0.32                                    | —  | 0.38 | —  | 0.25 | 1.22 | 1.47  | —    | 1.75 | 1.75  | —    | 1.97 | 1.97  | —    | 2.07  | 2.07  |
| Total . . . . .       | 1.06                                    | —  | 2.74 | —  | 2.25 | 4.28 | 6.53  | 1.37 | 8.27 | 9.64  | 1.50 | 9.96 | 11.46 | 1.42 | 11.26 | 12.68 |

DB = Drill & Blast, FM = Fully Mechanized

Note: Figures may not add due to rounding and reflect 100% equity in all cases.



Yitai Group mines employ modern LW mining techniques. Physical mining conditions are generally considered among the most favorable observed by BOYD in the world coal mining industry and highly conducive to the utilization of LW and roadheaders. Although the mines only evolved from drill and blast (DB) mining techniques to FM LW using domestic equipment in the 2006 — 2011 period, the transition has been successfully managed. Yitai Group's mine plans appear appropriate for the geologic and geotechnical settings observed in the current mines and reflect known or potential mining hazards. Yitai Group mines are producing at higher output levels than those shown in the design documents. This is common in the PRC, particularly where a mining operation has introduced newer FM LW systems.

### 3.3.3 Staffing

Yitai Group engages third-party service providers for their main source of personnel for development and production work. Yitai Group mines had 2,288 mine-related, registered employees (as of 1 January 2012), summarized as follows:

| Mine              | Staffing as of 1 January 2012* |                         |                       |       |
|-------------------|--------------------------------|-------------------------|-----------------------|-------|
|                   | UG                             | Surface Coal Processing | Surface Service/Other | Total |
| Dadijing .....    | 674                            | —                       | 142                   | 816   |
| Baoshan .....     | 317                            | —                       | 102                   | 419   |
| Dingjiaqu .....   | 260                            | 8                       | 85                    | 353   |
| Chengyi .....     | 203                            | 27                      | 77                    | 307   |
| Baijialiang ..... | 213                            | 39                      | 141                   | 393   |
| Subtotal .....    | 1,667                          | 74                      | 547                   | 2,288 |

\* Includes third-party service providers.

Of total personnel, 246 are Yitai Group employees. Yitai Group's employment approach is also commonly used at other mines in the PRC to varying extents. Third-party service providers are generally comprised of experienced workers from other coal-producing areas. Yitai Group's personnel are generally involved in mine management only. The overall staffing level is comparable to similar regional coal producers and is much lower than that of other coal-producing areas within the PRC using more labor-intensive mining techniques and operating in less favorable conditions. The present personnel complement for the headquarters, management support staff, and auxiliary management production support staff is adequate for the planned scale of operations and is expected to remain relatively constant over the mine service lives.

Labor productivity in 2011 for total mine and underground employees was 5,540 and 7,610 product tonnes per employee-year, respectively, for the Yitai Group mines. Yitai Group's average labor efficiency for 2011 detailed by mine is as follows:

| Mine                            | 2011 Output Tonnes (millions) | Number of Employees |             | Productivity (tonnes/employee-yr) |             |
|---------------------------------|-------------------------------|---------------------|-------------|-----------------------------------|-------------|
|                                 |                               | Mine                | Underground | Mine                              | Underground |
| Dadijing .....                  | 4.463                         | 816                 | 674         | 5,470                             | 6,620       |
| Baoshan .....                   | 2.161                         | 419                 | 317         | 5,160                             | 6,820       |
| Dingjiaqu .....                 | 3.055                         | 353                 | 260         | 8,650                             | 11,750      |
| Chengyi .....                   | 0.938                         | 307                 | 203         | 3,050                             | 4,620       |
| Baijialiang .....               | 2.069                         | 393                 | 213         | 5,260                             | 9,710       |
| Yitai Group Total/Average ..... | 12.685                        | 2,288               | 1,667       | 5,540                             | 7,610       |

Note: Figures may not add due to rounding.

Yitai Group's labor efficiency (raw tonnes divided by payroll personnel count) is comparable to the international coal industry.

### 3.3.4 Mine Operating Costs

According to information provided by Yitai Group, average mine operating costs by year were as follows:

| Mine                 | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|----------------------|----------------------------------|------|------|------|------|------|
|                      | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| Dadijing             | 62                               | 74   | 74   | 103  | 102  | 107  |
| Baoshan              | 28                               | 67   | 70   | 69   | 82   | 83   |
| Dingjiaqu            | 50                               | 52   | 111  | 67   | 66   | 67   |
| Chengyi              | 52                               | 55   | 75   | 94   | 100  | 121  |
| Baijialiang          | 45                               | 54   | 72   | 67   | 72   | 73   |
| Yitai Group Average* | 55                               | 67   | 74   | 82   | 85   | 89   |

\* Composite costs include a weighted average of DB and FM output.

A breakdown of operating costs on a composite basis is as follows:

| Category                  | Operating Costs (RMB/ROM tonne)* |      |      |      |      |      |
|---------------------------|----------------------------------|------|------|------|------|------|
|                           | 2006                             | 2007 | 2008 | 2009 | 2010 | 2011 |
| (RMB/ROM tonne)           |                                  |      |      |      |      |      |
| Cash Costs                |                                  |      |      |      |      |      |
| Materials / Supplies      | 4                                | 3    | 6    | 5    | 4    | 7    |
| Maintenance/Repairs       | —                                | —    | 5    | 1    | 2    | 1    |
| Power / Fuel              | 1                                | 1    | 2    | 2    | 3    | 3    |
| Salary & Welfare          | 5                                | 9    | 8    | 7    | 8    | 9    |
| Production Fees           | 38                               | 45   | 47   | 60   | 60   | 62   |
| Subtotal – Cash Costs     | 48                               | 59   | 69   | 75   | 76   | 81   |
| Non-Cash Costs            |                                  |      |      |      |      |      |
| Depreciation              | 7                                | 8    | 5    | 8    | 9    | 8    |
| Subtotal – Non-Cash Costs | 7                                | 8    | 5    | 8    | 9    | 8    |
| Total                     | 55                               | 67   | 74   | 82   | 85   | 89   |

\* Average composite costs include a weighted average of DB with FM output achieved with FM LW face methods.

Note: Figures may not add due to rounding.

Yitai Group mines' operating costs are in-line with BOYD's expectations based on our experience in China and the type of mines, technology employed, and output levels.

### 3.4 Life-of-Mine Planning

In order to have a reliable basis to project future revenue, operating and capital costs, and cash flow for the Yitai Group, BOYD has extended the available three-year projections to a life-of-mine (LOM) plan for mines in the Yitai Group (except for Baijialiang, which closes in 2012). This is a necessary step in the valuation of mining operations using the income method (of valuation). We have restricted all future mine plans to defined Marketable Reserve areas in accordance with VALMIN, JORC, and HKEx Chapter 18 requirements. The level of mine planning is considered Prefeasibility.

BOYD's LOM projections and operating performance, shown in Table 3.7, include annual ROM output, LW face retreat distance (meters), LW face moves, and average seam thickness. The LOM period extends from 2012 to 2033, with the following mine operating schedule:

| Mine        | Last Year of Mine Operation |
|-------------|-----------------------------|
| Dadijing    | 2033                        |
| Baoshan     | 2018                        |
| Dingjiaqu   | 2019                        |
| Chengyi     | 2015                        |
| Baijialiang | 2012                        |

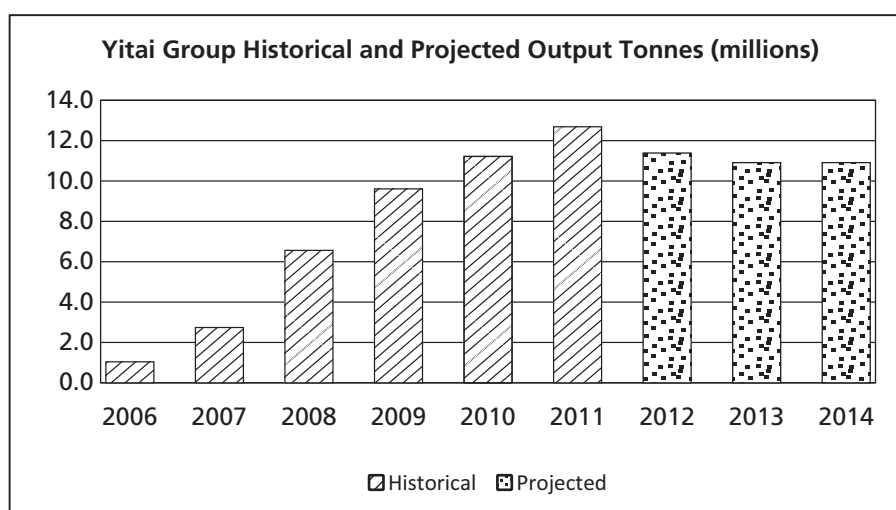
Using the LOM LW face layouts developed for the CPR reserve analysis, we sequenced the Yitai Group mines through the planned LW faces at LW face retreat rates consistent with Yitai Group's recent operating history and our experience with similar Chinese coal mines.

LW face retreat rate varied by mine, based on BOYD estimates. We assume that Yitai Group will maintain sufficient LW face equipment redundancy to support the projected face retreat meterage, where LW face relocations (moves) exceed two per year. BOYD's LOM sequencing by mine by seam is shown in Figures 3.1 to 3.10. Output projections also include tonnage from LW development estimated at 7% of total ROM output. We have assumed that LW development is adequate to avoid LW face relocation delays. Detailed development timing has not been performed, but recognizing the mines' recent LW performance, we are confident that Yitai Group has the resources to avoid LW face delays due to insufficient gate development.

### 3.5 Future Operations

#### 3.5.1 Three-Year Projections

BOYD's review of future operations was based on Yitai's internally prepared three-year mine plans, business projection data submittals, and discussions with corporate and mine management, financial, and engineering staff. The internal mine plan begins 1 January 2012 and ends 31 December 2014. Available mine plan forecasts were evaluated for reasonableness according to recent operating history.



The transition from DB practices to FM LW technology has been accomplished in all Yitai Group mines, and the mine infrastructures in these mines have been shown to be capable of supporting the proposed output levels. BOYD has reviewed the plans for 2012 — 2014 and the reserve tonnages in the Yitai Group mines. Based on our review, output plans for the mines, are achievable in our opinion except as noted. Output from open pit and room and pillar mining may be required to supplement LW face output at Dadijing, Dingjiaqu, and Baijialiang mines. Room and pillar mining methods are deployed on occasion to recover coal resources not suitable for FM LW mining methods. Depletion of FM LW reserves is expected at the Baijialiang Mine in 2012. Of the 0.80 Mt output projected in 2012, 0.31 Mt is generated from room and pillar mining operations and 0.49 Mt from FM LW operations. We project that Dingjiaqu will be transitioning into thinner LW coal reserves in 2013 and LW face out will be affected. Of the 3.0 Mt output projected in 2013 and 2014, 0.50 and 1.00 Mt is generated from room and pillar mining operations and 2.50 and 2.00 Mt is produced from FM LW operations in 2013 and 2014, respectively. Dadijing will continue utilizing room and pillar mining operations for a portion of its output. Output projections for 2012 include 0.90 Mt generated from room and pillar mining operations open pit mining operations are projected to provide 1.0 Mt annually in 2013 and 2014 at Dadijing.

The following table shows Yitai Group ROM coal output projections for the period 2012 through 2014:

| Mine           | Projected ROM Output<br>(tonnes — millions) |       |       |
|----------------|---------------------------------------------|-------|-------|
|                | 2012                                        | 2013  | 2014  |
| Dadijing*      | 4.20                                        | 4.50  | 4.50  |
| Baoshan        | 2.20                                        | 2.20  | 2.20  |
| Dingjiaqu**    | 3.00                                        | 3.00  | 3.00  |
| Chengyi        | 1.20                                        | 1.20  | 1.20  |
| Baijialiang*** | 0.80                                        | —     | —     |
| Total****      | 11.40                                       | 10.90 | 10.90 |

\* Yitai Group Dadijing output projections include 0.90 Mt of room and pillar output 2012.

\*\* We project that Dingjiaqu will be transitioning into thinner coal reserves in 2013 and LW face output will be affected. Of the 3.0 Mt output projected in 2013 and 2014, 0.5 and 1.0 Mt is generated from room and pillar operations.

\*\*\* Based on BOYD's reserve estimation, we project that Baijialiang mine will deplete its FM LW reserves in 2012. Of the 0.80 Mt output projection in 2012, 0.31 Mt is projected from room and pillar mining operations.

\*\*\*\* Open pit mining at several mines may also contribute to Yitai Group's output (including 1.0 Mt annually at Dadijing in 2013 and 2014).

Yitai Group production on a product output tonnage basis is equivalent to the ROM (raw coal) tonnage since Yitai Group sells its coal on an unwashed (raw coal) basis.

Yitai Group staffing projections are summarized as follows:

| Category    | Employees at Full Production |       |           |       |           |       |           |       |             |       |           |       |
|-------------|------------------------------|-------|-----------|-------|-----------|-------|-----------|-------|-------------|-------|-----------|-------|
|             | Dadijing                     |       | Baoshan   |       | Dingjiaqu |       | Chengyi   |       | Baijialiang |       | Total     |       |
|             | Yitai Gp.                    | Other | Yitai Gp. | Other | Yitai Gp. | Other | Yitai Gp. | Other | Yitai Gp.   | Other | Yitai Gp. | Other |
| Underground | 19                           | 610   | 21        | 327   | —         | 269   | —         | 219   | —           | 213   | 40        | 1,638 |
| Surface     | —                            | —     | —         | —     | 4         | 12    | 12        | 15    | 32          | 7     | 48        | 34    |
| Service     | 24                           | 118   | 25        | 86    | 56        | 29    | 32        | 45    | 25          | 116   | 162       | 394   |
| Subtotal    | 43                           | 728   | 46        | 413   | 60        | 310   | 44        | 279   | 57          | 336   | 250       | 2,066 |
| Total       | 771                          |       | 459       |       | 370       |       | 323       |       | 393         |       | 2,316     |       |

Yitai Group's projected average labor productivity at full output by mine is as follows:

| Mine                      | Projected Full Operation Output Tonnes (Mt) | Employees  |                  | Productivity (tonnes/employee-yr.) |                  |
|---------------------------|---------------------------------------------|------------|------------------|------------------------------------|------------------|
|                           |                                             | Total Mine | Underground Only | Total Mine                         | Underground Only |
| Dadijing                  | 4.20                                        | 771        | 629              | 5,450                              | 6,710            |
| Baoshan                   | 2.20                                        | 459        | 348              | 4,790                              | 6,320            |
| Dingjiaqu                 | 3.00                                        | 370        | 269              | 8,110                              | 11,150           |
| Chengyi                   | 1.20                                        | 323        | 219              | 8,720                              | 5,480            |
| Baijialiang               | 0.80                                        | 393        | 213              | 2,040                              | 3,760            |
| Yitai Group Total/Average | 11.40                                       | 2,316      | 1,678            | 4,920                              | 6,790            |

Projected staffing levels remain fairly consistent with actual staffing at the Yitai Group mining operations. Added personnel who were used during the transition period in order to expedite the mine upgrades are reassigned to regular production duties to support the increased mine output levels.



### 3.5.2 Capital Spending

During this assignment, Yitai Group provided internal capital spending estimates from 2012 through 2014 for the five active mines. Additionally, BOYD has projected capital spending for face transitions and additional production equipment as needed in LOM planning. Our analysis utilizes Yitai Group's plans for equipment from the Baijialiang Mine after its closure in 2012. A summary of 2012 through 2014 capital spending is summarized below:

| Mine              | Projected Capital Expenditures (RMB-millions) <sup>(1)</sup> |      |      |       |
|-------------------|--------------------------------------------------------------|------|------|-------|
|                   | 2012                                                         | 2013 | 2014 | Total |
| Dadijing          | 48                                                           | 21   | 16   | 85    |
| Baoshan           | 26                                                           | 14   | 15   | 55    |
| Dingjiaqu         | 23                                                           | 23   | 22   | 68    |
| Chengyi           | 10                                                           | 9    | 8    | 27    |
| Baijialiang       | —                                                            | —    | —    | —     |
| Yitai Group Total | 107                                                          | 67   | 61   | 235   |

(1) Figures may not add due to rounding.

Capital spending is adequate for face replacements during the period. Following 2014, sustaining capital was projected on an approximate RMB6 per ROM tonne basis, excluding new production equipment necessary to sustain LOM planning. Baoshan Mine plans to replace its LW with used equipment from Nalinmiao No. 1 (Yitai). An additional FM LW face is planned at Dadijing Mine, which will be sourced from Baijialiang Mine after its closure in 2012. (RMB40 million) is projected for a second LW Face at Dingjiaqu in 2015.

Projected capital spending is adequate to support the projected output levels utilized in our valuation. The current domestic faces in our opinion are capable of sustaining the projected production plans, although routine maintenance and replacement due to normal wear and tear are required. Capital spending estimates by mine are shown in Tables 4.1 through 4.6.

Since the transition to FM LW technology is complete, Yitai Group's capital spending is used for sustaining the current production level. Operating mines generally have adequate equipment and infrastructure (including shafts, inclines, belt conveyor systems, electrical systems, pumping systems, etc.) necessary to support projected output levels. Additional openings (shafts, inclines) or extensions of openings may be periodically required for ventilation or to access deeper occurring coal seams and/or more remote areas of the reserve. The relatively shallow operating depths of the Yitai Group mines require relatively low levels of excavation work. Thus, the impact of access projects on capital spending is relatively small.

### 3.5.3 Operating Costs

Yitai Group provided operating cost projections for the period 2012—2014. These operating cost projections are reasonable based on our experience, historical performance, and the advanced stage of mine capitalization at the Yitai Group operations. Yitai Group operating cost projections developed by BOYD in this valuation are summarized below and reflect FM LW mining only.

| Mine        | Projected Operating Costs (RMB/ROM tonne) |      |      |
|-------------|-------------------------------------------|------|------|
|             | 2012                                      | 2013 | 2014 |
| Dadijing    | 105                                       | 109  | 112  |
| Baoshan     | 86                                        | 87   | 89   |
| Dingjiaqu   | 68                                        | 70   | 72   |
| Chengyi     | 126                                       | 127  | 130  |
| Baijialiang | 76                                        | —    | —    |
| Composite   | 91                                        | 96   | 100  |

Based on Yitai Group's projections, we extended the operating cost projections through the projected LOM plan for the four mines operating from 2015 onward (Baijialiang closes in 2012). We developed operating cost projections for post-2012 based on assumed production levels, staffing, fixed and variable cost assumptions, selling price, taxes, and fees. Operating cost projections reflect our judgment and modifications for anticipated operating circumstances and reflect FM LW mining only. A breakdown of operating cost projections can be found in Tables 3.1 through 3.6, following this text. Yitai Group operating cost projections by category are as follows:

| Category                      | Projected Operating Costs (RMB/ROM tonne) <sup>(1)</sup> |      |      |
|-------------------------------|----------------------------------------------------------|------|------|
|                               | 2012                                                     | 2013 | 2014 |
| Cash                          |                                                          |      |      |
| Materials/Supplies . . . . .  | 5                                                        | 5    | 5    |
| Maintenance/Repairs . . . . . | 2                                                        | 2    | 2    |
| Power/Fuel . . . . .          | 3                                                        | 3    | 3    |
| Salary & Welfare . . . . .    | 10                                                       | 10   | 10   |
| Production Fees . . . . .     | 62                                                       | 65   | 68   |
| Subtotal — Cash . . . . .     | 82                                                       | 86   | 89   |
| Non-Cash                      |                                                          |      |      |
| Depreciation . . . . .        | 9                                                        | 10   | 11   |
| Subtotal — Non-Cash . . . . . | 9                                                        | 10   | 11   |
| Total . . . . .               | 91                                                       | 96   | 100  |

(1) Figures may not add due to rounding.

Operating cost projections include the following line items:

| Cash Costs                                 | Non-Cash Costs |
|--------------------------------------------|----------------|
| Materials/Supplies                         | Depreciation   |
| Repairs                                    |                |
| Power/Fuel                                 |                |
| Salary & Welfare                           |                |
| Production Fees:                           |                |
| Compensation for Subsidence & Village Move |                |
| FM LW Relocation                           |                |
| Mine Engineering Fee                       |                |
| Contract Mining Fee                        |                |
| Coal Management Fee                        |                |
| Coal Price Adjustment Fund                 |                |
| Environmental Recovery Compensation Fund   |                |
| Other Expenses                             |                |
| Safety Fund Fee                            |                |
| Production Maintenance Fee                 |                |

Operating cost projections follow Yitai Group's cost reporting format that is typically utilized in Chinese cost reporting format. Several cost categories are specific to Yitai Group costing procedures. Comments on specific line items are:

- Salary and welfare costs reference only third-party provider labor costs at the mine site. Yitai Group salary and welfare costs are included in General and Administrative costs (see Chapter 4).
- Compensation for village move costs are included in the Yitai Group projections. Our understanding is that the local government will be responsible for village move costs after 2012. The extent of village moves post-2012 is anticipated to be minor. We have projected monies for subsidence repairs based on Yitai projections.
- FM LW relocation costs are projected in RMB terms according to Yitai Group projections with adjustment for years where three or more face moves occur. Costs in this category relate to outsourcing of services for LW face moving and also include repair and rebuild of face components.

- The Contract Mining fee is paid to the third-party service providers for conducting mine operations.
- The Mine Engineering fee includes payments for services rendered at the mine site by third parties not related to labor services for mine operations.
- Other Expenses include minor cost categories.
- Limited room-and-pillar mining may be conducted at the Yitai Group mines during the LOM plan period, but the impact of these activities on financial performance is not evaluated in this analysis.
- The Environmental Recovery Compensation Fund fee is paid to local governments for mine-related environmental remediation issues and other projects.
- The Coal Price Adjustment Fund fee, RMB15 per ROM tonne, is paid to the Inner Mongolia Autonomous Region government as a general industry tax levy.
- The Coal Management fee in BOYD's projections includes the Coal Resource Compensation fee (1% of sales revenue).
- Depreciation projections are based on Yitai Group asset listings as of 1 January 2012. We extended the book depreciation as scheduled through the respective mine service lives.
- Amortization projections have been excluded from our analysis as directed by Yitai Group.
- The Safety Fund and Production Maintenance fees, RMB6 and RMB10.5 per ROM tonne respectively, have been included as cash costs as directed by Yitai Group.
- Financial expenses have been excluded from our analysis as directed by Yitai Group.

### 3.6 Environmental Overview

Based on observations during our site visits and our review of source data, BOYD concludes that Yitai Group has implemented appropriate environmental protection measures in response to national environmental protection laws. Generally, the company's environmental protection work is comparable to similar mining enterprises elsewhere in the PRC. Based on our site visits, BOYD opines that environmental protection practices at Yitai Group's mining operations function adequately. While the particulars of current environmental practices may need to be upgraded at some mines, there do not appear to be environmental constraints to future coal mining operations in meeting the relevant requirements as required by national laws. In our opinion, the environmental protection practices of Yitai Group comply with the PRC and World Bank's requirements for environmental protection related to coal mining activities.

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LOM Plans

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- 3.5: Baoshan Mine, No. 6 Seam
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- 3.10: Baijialiang Mine, No. 4-2 Seam

**TABLE 3.1**  
**ESTIMATED OPERATING COSTS**  
**DADIJING MINE**  
Inner Mongolia Autonomous Region, People's Republic of China  
Prepared For  
**INNER MONGOLIA YITAI COAL CO., LTD.**  
By  
**John T. Boyd Company**  
**Mining and Geological Consultants**  
**March 2012**

|                                        | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|----------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Production Tonnes (millions) . . . . . | 3.30   | 3.50   | 3.50   | 3.27   | 3.27   | 3.27   | 3.23   | 3.13   | 2.76   | 1.92   | 1.92   |
| Constant (RMB — millions)              |        |        |        |        |        |        |        |        |        |        |        |
| Cash Costs                             |        |        |        |        |        |        |        |        |        |        |        |
| Materials / Supplies . . . . .         | 23.5   | 20.6   | 20.6   | 20.5   | 20.5   | 20.5   | 20.5   | 20.5   | 18.0   | 15.0   | 15.0   |
| Maintenance/Repairs . . . . .          | 9.6    | 9.2    | 9.6    | 9.8    | 9.8    | 9.8    | 9.7    | 9.4    | 8.3    | 5.8    | 5.8    |
| Power / Fuel . . . . .                 | 10.4   | 11.0   | 11.0   | 10.6   | 10.6   | 10.6   | 10.6   | 10.5   | 10.4   | 7.6    | 7.6    |
| Salary & Welfare . . . . .             | 24.4   | 34.7   | 34.7   | 35.0   | 35.0   | 35.0   | 35.0   | 35.0   | 30.0   | 25.0   | 25.0   |
| Production Fees . . . . .              | 240.4  | 261.9  | 275.1  | 247.0  | 250.0  | 247.0  | 244.2  | 243.1  | 219.8  | 157.0  | 154.0  |
| Subtotal — Cash Costs . . . . .        | 308.2  | 337.4  | 351.1  | 322.9  | 325.9  | 322.9  | 320.0  | 318.5  | 286.5  | 210.4  | 207.4  |
| Non-Cash Costs                         |        |        |        |        |        |        |        |        |        |        |        |
| Depreciation . . . . .                 | 38.3   | 44.3   | 39.9   | 32.1   | 46.5   | 48.8   | 45.5   | 37.9   | 48.9   | 50.1   | 51.2   |
| Production Fees . . . . .              | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      |
| Subtotal — Non-Cash Costs . . . . .    | 38.3   | 44.3   | 39.9   | 32.1   | 46.5   | 48.8   | 45.5   | 37.9   | 48.9   | 50.1   | 51.2   |
| TOTAL . . . . .                        | 346.5  | 381.8  | 391.0  | 355.1  | 372.4  | 371.8  | 365.4  | 356.5  | 335.3  | 260.6  | 258.6  |
| Constant (RMB — millions)              |        |        |        |        |        |        |        |        |        |        |        |
| Production Tonnes (millions) . . . . . | 1.92   | 1.92   | 1.92   | 1.74   | 1.81   | 1.84   | 1.84   | 1.84   | 1.82   | 1.81   | 0.25   |
| Cash Costs                             |        |        |        |        |        |        |        |        |        |        |        |
| Materials / Supplies . . . . .         | 15.0   | 15.0   | 15.0   | 13.0   | 13.0   | 13.0   | 13.0   | 13.0   | 13.0   | 13.0   | 2.5    |
| Maintenance/Repairs . . . . .          | 5.8    | 5.8    | 5.8    | 5.2    | 5.4    | 5.5    | 5.5    | 5.5    | 5.5    | 5.4    | 0.8    |
| Power / Fuel . . . . .                 | 7.6    | 7.6    | 7.6    | 7.6    | 7.6    | 7.6    | 7.6    | 7.6    | 7.6    | 7.6    | 1.1    |
| Salary & Welfare . . . . .             | 25.0   | 25.0   | 25.0   | 25.0   | 25.0   | 25.0   | 25.0   | 25.0   | 25.0   | 25.0   | 5.0    |
| Production Fees . . . . .              | 151.0  | 157.0  | 160.0  | 147.2  | 146.2  | 148.3  | 151.3  | 148.3  | 146.9  | 146.2  | 20.3   |
| Subtotal — Cash Costs . . . . .        | 204.4  | 210.4  | 213.4  | 198.0  | 197.2  | 199.5  | 202.5  | 199.5  | 198.0  | 197.2  | 29.6   |
| Non-Cash Costs                         |        |        |        |        |        |        |        |        |        |        |        |
| Depreciation . . . . .                 | 46.2   | 32.9   | 31.6   | 30.3   | 29.3   | 27.4   | 26.3   | 25.1   | 25.2   | 25.3   | 3.8    |
| Production Fees . . . . .              | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      |
| Subtotal — Non-Cash Costs . . . . .    | 46.2   | 32.9   | 31.6   | 30.3   | 29.3   | 27.4   | 26.3   | 25.1   | 25.2   | 25.3   | 3.8    |
| TOTAL . . . . .                        | 250.7  | 243.3  | 245.0  | 228.3  | 226.5  | 226.9  | 228.8  | 224.6  | 223.2  | 222.5  | 33.4   |
| Constant (RMB/tonne)                   |        |        |        |        |        |        |        |        |        |        |        |
| Cash Costs                             |        |        |        |        |        |        |        |        |        |        |        |
| Materials / Supplies . . . . .         | 7.13   | 5.89   | 5.89   | 6.27   | 6.27   | 6.27   | 6.35   | 6.55   | 6.52   | 7.81   | 7.81   |
| Maintenance/Repairs . . . . .          | 2.91   | 2.63   | 2.74   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| Power / Fuel . . . . .                 | 3.15   | 3.15   | 3.15   | 3.24   | 3.24   | 3.24   | 3.27   | 3.37   | 3.77   | 3.98   | 3.98   |
| Salary & Welfare . . . . .             | 7.39   | 9.92   | 9.92   | 10.70  | 10.70  | 10.70  | 10.84  | 11.18  | 10.87  | 13.02  | 13.02  |
| Production Fees . . . . .              | 72.83  | 74.82  | 78.61  | 75.55  | 76.46  | 75.55  | 75.60  | 77.66  | 79.63  | 81.79  | 80.23  |
| Subtotal — Cash Costs . . . . .        | 93.40  | 96.41  | 100.31 | 98.75  | 99.67  | 98.75  | 99.06  | 101.76 | 103.79 | 109.60 | 108.03 |
| Non-Cash Costs                         |        |        |        |        |        |        |        |        |        |        |        |
| Depreciation . . . . .                 | 11.61  | 12.66  | 11.40  | 9.82   | 14.22  | 14.94  | 14.08  | 12.12  | 17.70  | 26.11  | 26.68  |
| Production Fees . . . . .              | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      |
| Subtotal — Non-Cash Costs . . . . .    | 11.61  | 12.66  | 11.40  | 9.82   | 14.22  | 14.94  | 14.08  | 12.12  | 17.70  | 26.11  | 26.68  |
| TOTAL . . . . .                        | 105.01 | 109.07 | 111.71 | 108.58 | 113.90 | 113.69 | 113.14 | 113.88 | 121.49 | 135.71 | 134.71 |

TABLE 3.1 — Continued

|                           | 2023                 | 2024   | 2025   | 2026   | 2027   | 2028   | 2029   | 2030   | 2031   | 2032   | 2033   |
|---------------------------|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                           | Constant (RMB/tonne) |        |        |        |        |        |        |        |        |        |        |
| Cash Costs                |                      |        |        |        |        |        |        |        |        |        |        |
| Materials / Supplies      | 7.81                 | 7.81   | 7.81   | 7.47   | 7.18   | 7.07   | 7.07   | 7.07   | 7.14   | 7.18   | 10.00  |
| Maintenance/Repairs       | 3.00                 | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| Power / Fuel              | 3.98                 | 3.98   | 3.98   | 4.35   | 4.20   | 4.13   | 4.13   | 4.13   | 4.18   | 4.20   | 4.33   |
| Salary & Welfare          | 13.02                | 13.02  | 13.02  | 14.37  | 13.81  | 13.59  | 13.59  | 13.59  | 13.74  | 13.81  | 20.00  |
| Production Fees           | 78.66                | 81.79  | 83.35  | 84.62  | 80.78  | 80.62  | 82.25  | 80.62  | 80.73  | 80.78  | 81.10  |
| Subtotal — Cash Costs     | 106.47               | 109.60 | 111.16 | 113.81 | 108.97 | 108.41 | 110.04 | 108.41 | 108.78 | 108.97 | 118.43 |
| Non-cash Costs            |                      |        |        |        |        |        |        |        |        |        |        |
| Depreciation              | 24.09                | 17.12  | 16.44  | 17.39  | 16.18  | 14.89  | 14.31  | 13.64  | 13.84  | 13.96  | 15.21  |
| Production Fees           | —                    | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      |
| Subtotal — Non-cash Costs | 24.09                | 17.12  | 16.44  | 17.39  | 16.18  | 14.89  | 14.31  | 13.64  | 13.84  | 13.96  | 15.21  |
| TOTAL                     | 130.56               | 126.72 | 127.60 | 131.20 | 125.15 | 123.30 | 124.35 | 122.05 | 122.62 | 122.93 | 133.63 |

TABLE 3.2  
**ESTIMATED OPERATING COSTS**  
**BAOSHAN MINE**  
Inner Mongolia Autonomous Region, People's Republic of China  
Prepared For  
**INNER MONGOLIA YITAI COAL CO., LTD.**  
By  
**John T. Boyd Company**  
Mining and Geological Consultants  
March 2012

|                                    | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Production Tonnes (millions) ..... | 2.20        | 2.20        | 2.20        | 2.20        | 2.20        | 2.00        | 1.55        |
| <b>Constant (RMB — millions)</b>   |             |             |             |             |             |             |             |
| Cash Costs                         |             |             |             |             |             |             |             |
| Materials / Supplies .....         | 15.2        | 15.2        | 15.2        | 15.0        | 15.0        | 15.0        | 12.0        |
| Maintenance/Repairs .....          | 2.5         | 4.7         | 3.5         | 5.0         | 5.0         | 4.5         | 3.5         |
| Power / Fuel .....                 | 6.5         | 6.5         | 6.5         | 6.5         | 6.5         | 6.4         | 5.9         |
| Salary & Welfare .....             | 22.9        | 22.9        | 22.9        | 23.0        | 23.0        | 23.0        | 18.0        |
| Production Fees .....              | 121.0       | 121.0       | 125.3       | 117.7       | 123.7       | 119.9       | 97.9        |
| Subtotal — Cash Costs .....        | 168.1       | 170.4       | 173.5       | 167.2       | 173.2       | 168.8       | 137.3       |
| Non-Cash Costs                     |             |             |             |             |             |             |             |
| Depreciation .....                 | 20.2        | 21.7        | 23.2        | 18.1        | 18.9        | 19.5        | 13.5        |
| Production Fees .....              | —           | —           | —           | —           | —           | —           | —           |
| Subtotal — Non-Cash Costs .....    | 20.2        | 21.7        | 23.2        | 18.1        | 18.9        | 19.5        | 13.5        |
| TOTAL .....                        | 188.3       | 192.1       | 196.7       | 185.3       | 192.1       | 188.3       | 150.8       |
| <b>Constant (RMB/tonne)</b>        |             |             |             |             |             |             |             |
| Cash Costs                         |             |             |             |             |             |             |             |
| Materials / Supplies .....         | 6.92        | 6.92        | 6.92        | 6.82        | 6.82        | 7.50        | 7.74        |
| Maintenance/Repairs .....          | 1.13        | 2.13        | 1.58        | 2.25        | 2.25        | 2.25        | 2.25        |
| Power / Fuel .....                 | 2.97        | 2.97        | 2.97        | 2.98        | 2.98        | 3.18        | 3.83        |
| Salary & Welfare .....             | 10.42       | 10.42       | 10.42       | 10.45       | 10.45       | 11.50       | 11.61       |
| Production Fees .....              | 54.98       | 55.01       | 56.98       | 53.50       | 56.22       | 59.95       | 63.14       |
| Subtotal — Cash Costs .....        | 76.42       | 77.45       | 78.87       | 75.99       | 78.72       | 84.38       | 88.58       |
| Non-Cash Costs                     |             |             |             |             |             |             |             |
| Depreciation .....                 | 9.19        | 9.87        | 10.55       | 8.24        | 8.59        | 9.77        | 8.70        |
| Production Fees .....              | —           | —           | —           | —           | —           | —           | —           |
| Subtotal — Non-Cash Costs .....    | 9.19        | 9.87        | 10.55       | 8.24        | 8.59        | 9.77        | 8.70        |
| TOTAL .....                        | 85.61       | 87.32       | 89.42       | 84.23       | 87.31       | 94.14       | 97.28       |



TABLE 3.3

## ESTIMATED OPERATING COSTS

## DINGJIAQU MINE

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

INNER MONGOLIA YITAI COAL CO., LTD.

By

John T. Boyd Company

Mining and Geological Consultants

March 2012

|                                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019   |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|--------|
| Production Tonnes (millions) ..... | 3.00  | 2.50  | 2.00  | 2.00  | 2.00  | 2.00  | 2.00  | 0.79   |
| Constant (RMB — millions)          |       |       |       |       |       |       |       |        |
| Cash Costs                         |       |       |       |       |       |       |       |        |
| Materials / Supplies .....         | 8.5   | 7.1   | 5.7   | 6.0   | 6.0   | 6.0   | 6.0   | 4.0    |
| Maintenance/Repairs .....          | 3.6   | 3.0   | 2.4   | 2.4   | 2.4   | 2.4   | 2.4   | 0.9    |
| Power / Fuel .....                 | 7.3   | 6.0   | 4.8   | 4.5   | 4.5   | 4.5   | 4.5   | 3.2    |
| Salary & Welfare .....             | 23.3  | 19.4  | 15.5  | 15.5  | 15.5  | 15.5  | 15.5  | 8.0    |
| Production Fees .....              | 144.5 | 123.8 | 102.2 | 106.6 | 106.6 | 109.6 | 121.6 | 50.3   |
| Subtotal — Cash Costs .....        | 187.1 | 159.2 | 130.5 | 135.0 | 135.0 | 138.0 | 150.0 | 66.4   |
| Non-Cash Costs                     |       |       |       |       |       |       |       |        |
| Depreciation .....                 | 16.7  | 15.2  | 13.5  | 20.6  | 28.1  | 29.0  | 29.3  | 24.7   |
| Production Fees .....              | —     | —     | —     | —     | —     | —     | —     | —      |
| Subtotal — Non-Cash Costs .....    | 16.7  | 15.2  | 13.5  | 20.6  | 28.1  | 29.0  | 29.3  | 24.7   |
| TOTAL .....                        | 203.8 | 174.4 | 144.0 | 155.7 | 163.2 | 167.0 | 179.4 | 91.1   |
| Constant (RMB/tonne)               |       |       |       |       |       |       |       |        |
| Cash Costs                         |       |       |       |       |       |       |       |        |
| Materials / Supplies .....         | 2.83  | 2.83  | 2.83  | 3.00  | 3.00  | 3.00  | 3.00  | 5.06   |
| Maintenance/Repairs .....          | 1.18  | 1.18  | 1.18  | 1.20  | 1.20  | 1.20  | 1.20  | 1.20   |
| Power / Fuel .....                 | 2.42  | 2.42  | 2.42  | 2.25  | 2.25  | 2.25  | 2.25  | 4.05   |
| Salary & Welfare .....             | 7.75  | 7.75  | 7.75  | 7.75  | 7.75  | 7.75  | 7.75  | 10.13  |
| Production Fees .....              | 48.17 | 49.51 | 51.08 | 53.32 | 53.32 | 54.82 | 60.82 | 63.62  |
| Subtotal — Cash Costs .....        | 62.36 | 63.70 | 65.27 | 67.52 | 67.52 | 69.02 | 75.02 | 84.06  |
| Non-Cash Costs                     |       |       |       |       |       |       |       |        |
| Depreciation .....                 | 5.57  | 6.07  | 6.74  | 10.31 | 14.07 | 14.49 | 14.65 | 31.31  |
| Production Fees .....              | —     | —     | —     | —     | —     | —     | —     | —      |
| Subtotal — Non-Cash Costs .....    | 5.57  | 6.07  | 6.74  | 10.31 | 14.07 | 14.49 | 14.65 | 31.31  |
| TOTAL .....                        | 67.93 | 69.77 | 72.01 | 77.83 | 81.59 | 83.51 | 89.68 | 115.36 |

TABLE 3.4  
ESTIMATED OPERATING COSTS  
CHENGYI MINE  
Inner Mongolia Autonomous Region, People's Republic of China  
Prepared For  
INNER MONGOLIA YITAI COAL CO., LTD.  
By  
John T. Boyd Company  
Mining and Geological Consultants  
March 2012

|                                        | 2012                      | 2013   | 2014   | 2015   |
|----------------------------------------|---------------------------|--------|--------|--------|
| Production Tonnes (millions) . . . . . | 1.20                      | 1.20   | 1.20   | 1.22   |
|                                        | Constant (RMB — millions) |        |        |        |
| Cash Costs                             |                           |        |        |        |
| Materials / Supplies . . . . .         | 6.9                       | 6.9    | 6.9    | 6.9    |
| Maintenance/Repairs . . . . .          | 4.0                       | 4.0    | 4.0    | 4.0    |
| Power / Fuel . . . . .                 | 4.2                       | 4.2    | 4.2    | 4.4    |
| Salary & Welfare . . . . .             | 20.5                      | 20.5   | 18.7   | 18.8   |
| Production Fees . . . . .              | 98.5                      | 101.3  | 104.3  | 100.3  |
| Subtotal — Cash Costs . . . . .        | 134.0                     | 136.8  | 138.1  | 134.3  |
| Non-Cash Costs                         |                           |        |        |        |
| Depreciation . . . . .                 | 16.7                      | 16.4   | 18.1   | 12.8   |
| Production Fees . . . . .              | —                         | —      | —      | —      |
| Subtotal — Non-Cash Costs . . . . .    | 16.7                      | 16.4   | 18.1   | 12.8   |
| TOTAL . . . . .                        | 150.7                     | 153.2  | 156.2  | 147.1  |
|                                        | Constant (RMB/tonne)      |        |        |        |
| Cash Costs                             |                           |        |        |        |
| Materials / Supplies . . . . .         | 5.73                      | 5.73   | 5.73   | 5.64   |
| Maintenance/Repairs . . . . .          | 3.32                      | 3.32   | 3.32   | 3.26   |
| Power / Fuel . . . . .                 | 3.48                      | 3.48   | 3.48   | 3.58   |
| Salary & Welfare . . . . .             | 17.05                     | 17.05  | 15.61  | 15.37  |
| Production Fees . . . . .              | 82.09                     | 84.39  | 86.92  | 82.22  |
| Subtotal — Cash Costs . . . . .        | 111.66                    | 113.96 | 115.06 | 110.06 |
| Non-Cash Costs                         |                           |        |        |        |
| Depreciation . . . . .                 | 13.94                     | 13.69  | 15.10  | 10.50  |
| Production Fees . . . . .              | —                         | —      | —      | —      |
| Subtotal — Non-Cash Costs . . . . .    | 13.94                     | 13.69  | 15.10  | 10.50  |
| TOTAL . . . . .                        | 125.59                    | 127.65 | 130.16 | 120.57 |

TABLE 3.5

## ESTIMATED OPERATING COSTS

## BAIJIALIANG MINE

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

INNER MONGOLIA YITAI COAL CO., LTD.

By

John T. Boyd Company

Mining and Geological Consultants

March 2012

|                                        |                                  |
|----------------------------------------|----------------------------------|
|                                        | <u>2012</u>                      |
| Production Tonnes (millions) . . . . . | 0.49                             |
|                                        | <u>Constant (RMB — millions)</u> |
| Cash Costs                             |                                  |
| Materials / Supplies . . . . .         | 1.6                              |
| Maintenance/Repairs . . . . .          | 0.3                              |
| Power / Fuel . . . . .                 | 1.0                              |
| Salary & Welfare . . . . .             | 6.6                              |
| Production Fees . . . . .              | <u>24.6</u>                      |
| Subtotal — Cash Costs . . . . .        | 34.1                             |
| Non-Cash Costs                         |                                  |
| Depreciation . . . . .                 | 2.4                              |
| Production Fees . . . . .              | <u>—</u>                         |
| Subtotal — Non-Cash Costs . . . . .    | 2.4                              |
| TOTAL . . . . .                        | 36.5                             |
|                                        | <u>Constant (RMB/tonne)</u>      |
| Cash Costs                             |                                  |
| Materials / Supplies . . . . .         | 3.39                             |
| Maintenance/Repairs . . . . .          | 0.68                             |
| Power / Fuel . . . . .                 | 2.08                             |
| Salary & Welfare . . . . .             | 13.79                            |
| Production Fees . . . . .              | <u>51.42</u>                     |
| Subtotal — Cash Costs . . . . .        | 71.35                            |
| Non-Cash Costs                         |                                  |
| Depreciation . . . . .                 | 4.93                             |
| Production Fees . . . . .              | <u>—</u>                         |
| Subtotal — Non-Cash Costs . . . . .    | 4.93                             |
| TOTAL . . . . .                        | 76.28                            |

**TABLE 3.6**  
**ESTIMATED OPERATING COSTS**  
**YITAI GROUP COMPOSITE**  
**Inner Mongolia Autonomous Region, People's Republic of China**  
**Prepared For**  
**INNER MONGOLIA YITAI COAL CO., LTD.**  
**By**  
**John T. Boyd Company**  
**Mining and Geological Consultants**  
**March 2012**

|                                        | 2012         | 2013         | 2014         | 2015         | 2016         | 2017          | 2018          | 2019          | 2020          | 2021          | 2022          |
|----------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Production Tonnes (millions) . . . . . | 10.18        | 9.40         | 8.90         | 8.69         | 7.47         | 7.27          | 6.78          | 3.92          | 2.76          | 1.92          | 1.92          |
| <b>Constant (RMB — million)</b>        |              |              |              |              |              |               |               |               |               |               |               |
| <b>Cash Costs</b>                      |              |              |              |              |              |               |               |               |               |               |               |
| Materials / Supplies . . . . .         | 55.7         | 49.8         | 48.4         | 48.4         | 41.5         | 41.5          | 38.5          | 24.5          | 18.0          | 15.0          | 15.0          |
| Maintenance/Repairs . . . . .          | 19.9         | 20.8         | 19.4         | 21.1         | 17.2         | 16.7          | 15.6          | 10.3          | 8.3           | 5.8           | 5.8           |
| Power / Fuel . . . . .                 | 29.3         | 27.8         | 26.6         | 26.0         | 21.6         | 21.4          | 21.0          | 13.7          | 10.4          | 7.6           | 7.6           |
| Salary & Welfare . . . . .             | 97.6         | 97.5         | 91.9         | 92.3         | 73.5         | 73.5          | 68.5          | 43.0          | 30.0          | 25.0          | 25.0          |
| Production Fees . . . . .              | 628.9        | 607.9        | 607.0        | 571.7        | 480.4        | 476.6         | 463.7         | 293.3         | 219.8         | 157.0         | 154.0         |
| Subtotal — Cash Costs . . . . .        | 831.6        | 803.8        | 793.2        | 759.4        | 634.2        | 629.7         | 607.3         | 384.9         | 286.5         | 210.4         | 207.4         |
| <b>Non-Cash Costs</b>                  |              |              |              |              |              |               |               |               |               |               |               |
| Depreciation . . . . .                 | 94.3         | 97.6         | 94.7         | 83.7         | 93.5         | 97.3          | 88.3          | 62.7          | 48.9          | 50.1          | 51.2          |
| Production Fees . . . . .              | —            | —            | —            | —            | —            | —             | —             | —             | —             | —             | —             |
| Subtotal — Non-Cash Costs . . . . .    | 94.3         | 97.6         | 94.7         | 83.7         | 93.5         | 97.3          | 88.3          | 62.7          | 48.9          | 50.1          | 51.2          |
| <b>TOTAL . . . . .</b>                 | <b>925.9</b> | <b>901.5</b> | <b>887.9</b> | <b>843.1</b> | <b>727.7</b> | <b>727.1</b>  | <b>695.6</b>  | <b>447.6</b>  | <b>335.3</b>  | <b>260.6</b>  | <b>258.6</b>  |
|                                        | 2023         | 2024         | 2025         | 2026         | 2027         | 2028          | 2029          | 2030          | 2031          | 2032          | 2033          |
| Production Tonnes (millions) . . . . . | 1.92         | 1.92         | 1.92         | 1.74         | 1.81         | 1.84          | 1.84          | 1.84          | 1.82          | 1.81          | 0.25          |
| <b>Constant (RMB — million)</b>        |              |              |              |              |              |               |               |               |               |               |               |
| <b>Cash Costs</b>                      |              |              |              |              |              |               |               |               |               |               |               |
| Materials / Supplies . . . . .         | 15.0         | 15.0         | 15.0         | 13.0         | 13.0         | 13.0          | 13.0          | 13.0          | 13.0          | 13.0          | 2.5           |
| Maintenance/Repairs . . . . .          | 5.8          | 5.8          | 5.8          | 5.2          | 5.4          | 5.5           | 5.5           | 5.5           | 5.5           | 5.4           | 0.8           |
| Power / Fuel . . . . .                 | 7.6          | 7.6          | 7.6          | 7.6          | 7.6          | 7.6           | 7.6           | 7.6           | 7.6           | 7.6           | 1.1           |
| Salary & Welfare . . . . .             | 25.0         | 25.0         | 25.0         | 25.0         | 25.0         | 25.0          | 25.0          | 25.0          | 25.0          | 25.0          | 5.0           |
| Production Fees . . . . .              | 151.0        | 157.0        | 160.0        | 147.2        | 146.2        | 148.3         | 151.3         | 148.3         | 146.9         | 146.2         | 20.3          |
| Subtotal — Cash Costs . . . . .        | 204.4        | 210.4        | 213.4        | 198.0        | 197.2        | 199.5         | 202.5         | 199.5         | 198.0         | 197.2         | 29.6          |
| <b>Non-Cash Costs</b>                  |              |              |              |              |              |               |               |               |               |               |               |
| Depreciation . . . . .                 | 46.2         | 32.9         | 31.6         | 30.3         | 29.3         | 27.4          | 26.3          | 25.1          | 25.2          | 25.3          | 3.8           |
| Production Fees . . . . .              | —            | —            | —            | —            | —            | —             | —             | —             | —             | —             | —             |
| Subtotal — Non-Cash Costs . . . . .    | 46.2         | 32.9         | 31.6         | 30.3         | 29.3         | 27.4          | 26.3          | 25.1          | 25.2          | 25.3          | 3.8           |
| <b>TOTAL . . . . .</b>                 | <b>250.7</b> | <b>243.3</b> | <b>245.0</b> | <b>228.3</b> | <b>226.5</b> | <b>226.9</b>  | <b>228.8</b>  | <b>224.6</b>  | <b>223.2</b>  | <b>222.5</b>  | <b>33.4</b>   |
|                                        | 2012         | 2013         | 2014         | 2015         | 2016         | 2017          | 2018          | 2019          | 2020          | 2021          | 2022          |
| <b>Constant (RMB/tonne)</b>            |              |              |              |              |              |               |               |               |               |               |               |
| <b>Cash Costs</b>                      |              |              |              |              |              |               |               |               |               |               |               |
| Materials / Supplies . . . . .         | 5.47         | 5.30         | 5.44         | 5.57         | 5.56         | 5.71          | 5.68          | 6.25          | 6.52          | 7.81          | 7.81          |
| Maintenance/Repairs . . . . .          | 1.96         | 2.22         | 2.18         | 2.43         | 2.30         | 2.30          | 2.30          | 2.64          | 3.00          | 3.00          | 3.00          |
| Power / Fuel . . . . .                 | 2.88         | 2.95         | 2.98         | 2.99         | 2.89         | 2.95          | 3.10          | 3.50          | 3.77          | 3.98          | 3.98          |
| Salary & Welfare . . . . .             | 9.59         | 10.37        | 10.32        | 10.62        | 9.84         | 10.11         | 10.10         | 10.97         | 10.87         | 13.02         | 13.02         |
| Production Fees . . . . .              | 61.79        | 64.68        | 68.20        | 65.79        | 64.31        | 65.55         | 68.39         | 74.83         | 79.63         | 81.79         | 80.23         |
| Subtotal — Cash Costs . . . . .        | 81.70        | 85.51        | 89.12        | 87.39        | 84.89        | 86.62         | 89.57         | 98.19         | 103.79        | 109.60        | 108.03        |
| <b>Non-Cash Costs</b>                  |              |              |              |              |              |               |               |               |               |               |               |
| Depreciation . . . . .                 | 9.27         | 10.39        | 10.64        | 9.63         | 12.52        | 13.39         | 13.02         | 15.99         | 17.70         | 26.11         | 26.68         |
| Production Fees . . . . .              | —            | —            | —            | —            | —            | —             | —             | —             | —             | —             | —             |
| Subtotal — Non-Cash Costs . . . . .    | 9.27         | 10.39        | 10.64        | 9.63         | 12.52        | 13.39         | 13.02         | 15.99         | 17.70         | 26.11         | 26.68         |
| <b>TOTAL . . . . .</b>                 | <b>90.97</b> | <b>95.90</b> | <b>99.77</b> | <b>97.02</b> | <b>97.42</b> | <b>100.01</b> | <b>102.59</b> | <b>114.18</b> | <b>121.49</b> | <b>135.71</b> | <b>134.71</b> |

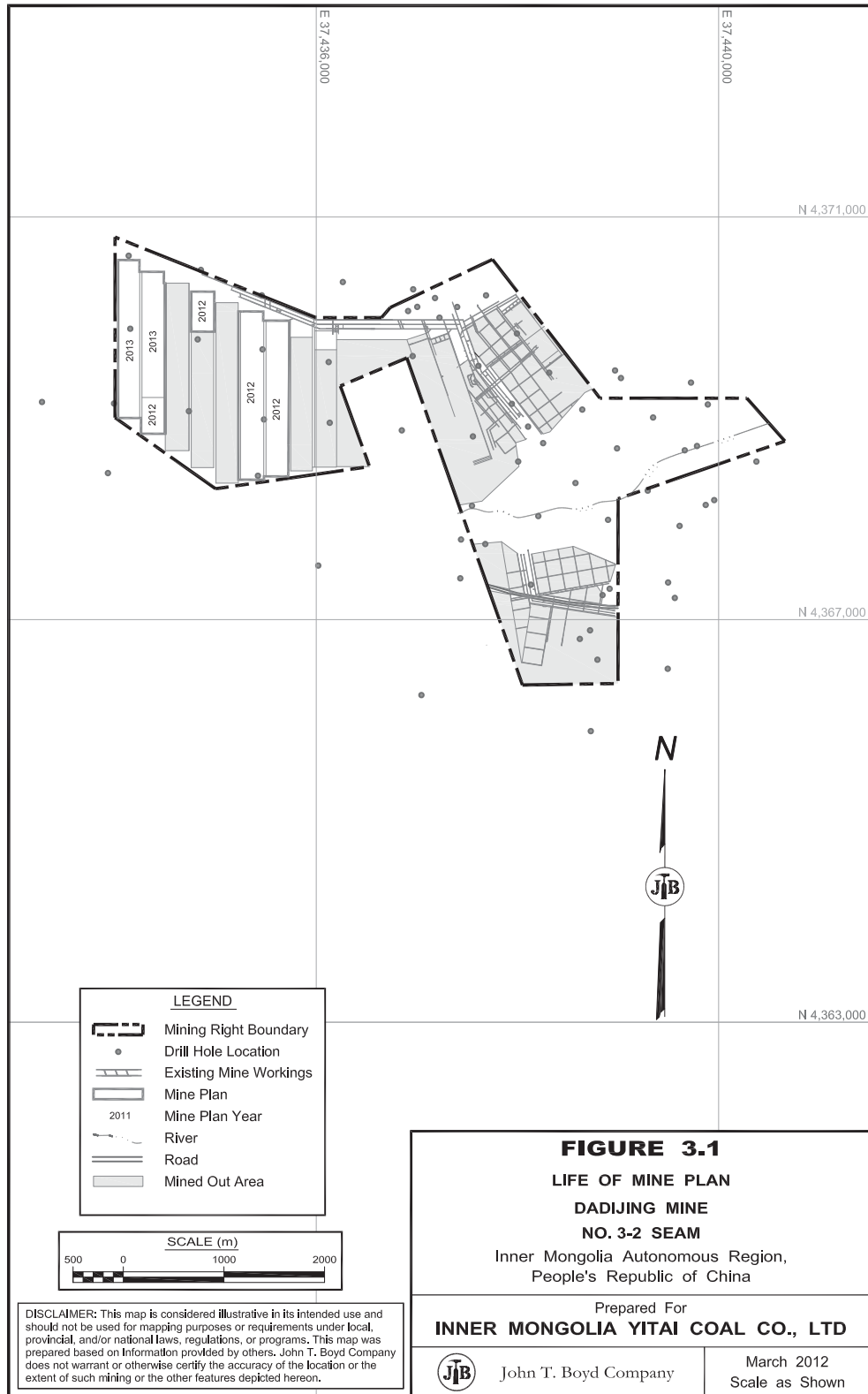
TABLE 3.6 — Continued

|                                 | 2023                 | 2024   | 2025   | 2026   | 2027   | 2028   | 2029   | 2030   | 2031   | 2032   | 2033   |
|---------------------------------|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                 | Constant (RMB/tonne) |        |        |        |        |        |        |        |        |        |        |
| Cash Costs                      |                      |        |        |        |        |        |        |        |        |        |        |
| Materials / Supplies . . . . .  | 7.81                 | 7.81   | 7.81   | 7.47   | 7.18   | 7.07   | 7.07   | 7.07   | 7.14   | 7.18   | 10.00  |
| Maintenance/Repairs . . . . .   | 3.00                 | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| Power / Fuel . . . . .          | 3.98                 | 3.98   | 3.98   | 4.35   | 4.20   | 4.13   | 4.13   | 4.13   | 4.18   | 4.20   | 4.33   |
| Salary & Welfare . . . . .      | 13.02                | 13.02  | 13.02  | 14.37  | 13.81  | 13.59  | 13.59  | 13.59  | 13.74  | 13.81  | 20.00  |
| Production Fees . . . . .       | 78.66                | 81.79  | 83.35  | 84.62  | 80.78  | 80.62  | 82.25  | 80.62  | 80.73  | 80.78  | 81.10  |
| Subtotal — Cash Costs . . . . . | 106.47               | 109.60 | 111.16 | 113.81 | 108.97 | 108.41 | 110.04 | 108.41 | 108.78 | 108.97 | 118.43 |
| Non-Cash Costs                  |                      |        |        |        |        |        |        |        |        |        |        |
| Depreciation . . . . .          | 24.09                | 17.12  | 16.44  | 17.39  | 16.18  | 14.89  | 14.31  | 13.64  | 13.84  | 13.96  | 15.21  |
| Production Fees . . . . .       | —                    | —      | —      | —      | —      | —      | —      | —      | —      | —      | —      |
| Subtotal — Non-Cash             |                      |        |        |        |        |        |        |        |        |        |        |
| Costs . . . . .                 | 24.09                | 17.12  | 16.44  | 17.39  | 16.18  | 14.89  | 14.31  | 13.64  | 13.84  | 13.96  | 15.21  |
| TOTAL . . . . .                 | 130.56               | 126.72 | 127.60 | 131.20 | 125.15 | 123.30 | 124.35 | 122.05 | 122.62 | 122.93 | 133.63 |

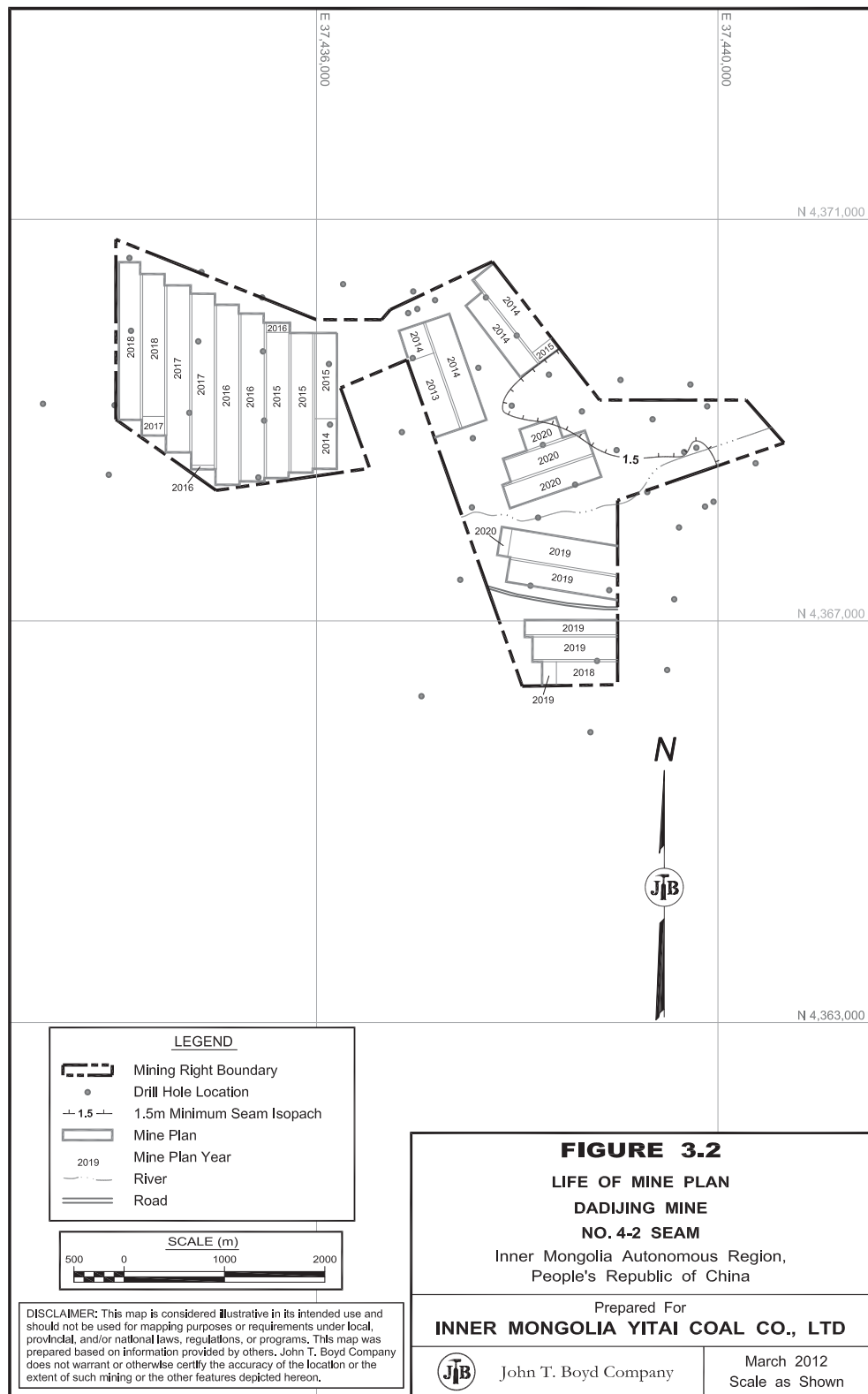
TABLE 3.7

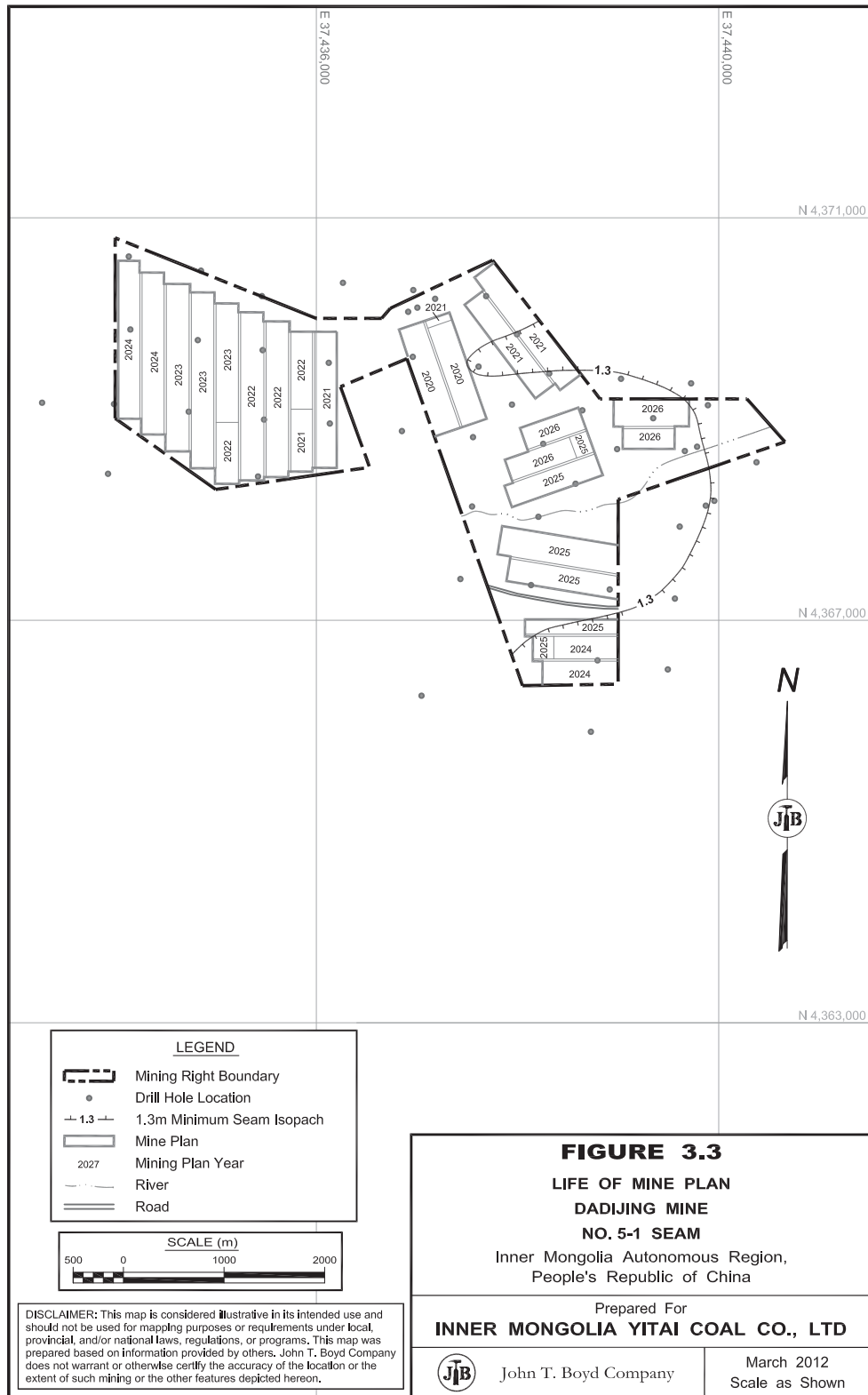
**PROJECTED OPERATING PERFORMANCE**  
**YITAI GROUP MINES**  
**Prepared For**  
**INNER MONGOLIA YITAI COAL CO., LTD.**  
**By**  
**John T. Boyd Company**  
**Mining and Geological Consultants**  
**March 2012**

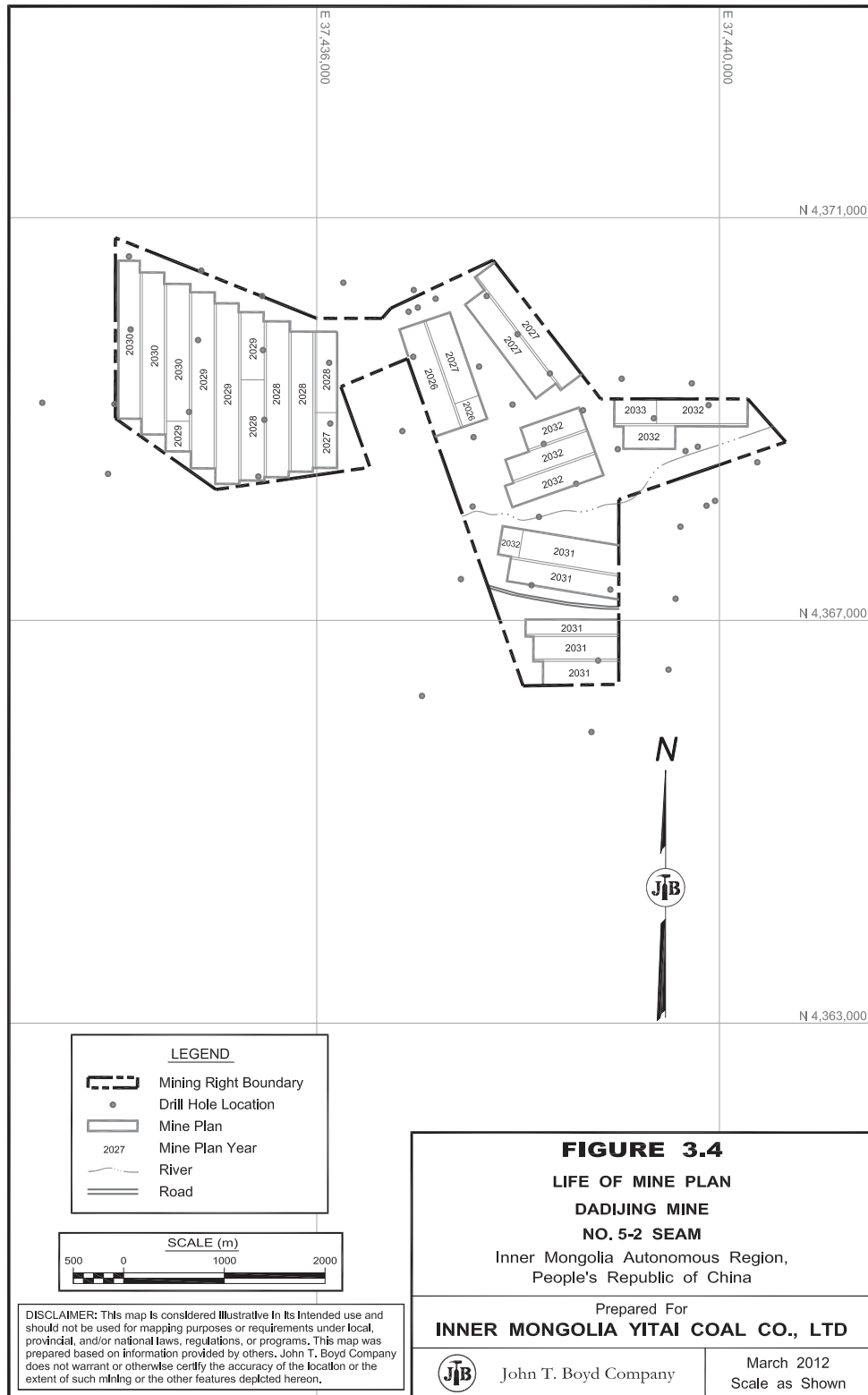
|                                    | 2012<br>Year 2 | 2013<br>Year 3 | 2014<br>Year 4 | 2015<br>Year 5 | 2016<br>Year 6 | 2017<br>Year 7 | 2018<br>Year 8 | 2019<br>Year 9 | 2020<br>Year 10 | 2021<br>Year 11 | 2022<br>Year 12 | 2023<br>Year 13 | 2024<br>Year 14 | 2025<br>Year 15 | 2026<br>Year 16 | 2027<br>Year 17 | 2028<br>Year 18 | 2029<br>Year 19 | 2030<br>Year 20 | 2031<br>Year 21 | 2032<br>Year 22 | 2033<br>Year 23 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Annual Production (ROM tonnes-000) |                |                |                |                |                |                |                |                |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Dadling                            | 3,300          | 3,500          | 3,500          | 3,270          | 3,270          | 3,270          | 3,230          | 3,130          | 2,760           | 1,920           | 1,920           | 1,920           | 1,920           | 1,920           | 1,740           | 1,810           | 1,840           | 1,840           | 1,840           | 1,820           | 1,810           | 250             |
| Baoshan                            | 2,200          | 2,200          | 2,200          | 2,200          | 2,200          | 2,000          | 1,550          | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Dingliaqu                          | 3,000          | 2,500          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 790            | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Chengyi                            | 1,200          | 1,200          | 1,200          | 1,220          | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Baijialiang                        | 490            | —              | —              | —              | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Total — Production                 | 10,190         | 9,400          | 8,900          | 8,690          | 7,470          | 7,270          | 6,780          | 3,920          | 2,760           | 1,920           | 1,920           | 1,920           | 1,920           | 1,920           | 1,740           | 1,810           | 1,840           | 1,840           | 1,840           | 1,820           | 1,810           | 250             |
| Longwall Retreat(m)                |                |                |                |                |                |                |                |                |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Dadling                            | 3,740          | 4,130          | 4,610          | 3,500          | 3,500          | 3,500          | 3,550          | 4,000          | 4,515           | 4,500           | 4,500           | 4,500           | 4,500           | 4,500           | 4,000           | 4,000           | 4,000           | 4,000           | 4,000           | 4,000           | 4,000           | 420             |
| Baoshan                            | 3,150          | 3,150          | 3,150          | 3,150          | 3,150          | 3,900          | 3,850          | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Dingliaqu                          | 4,840          | 4,840          | 4,840          | 7,400          | 7,400          | 7,400          | 7,400          | 2,960          | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Chengyi                            | 4,550          | 4,600          | 4,580          | 4,650          | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Baijialiang                        | 1,050          | —              | —              | —              | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Total — Longwall Retreat           | 17,330         | 16,720         | 17,180         | 18,700         | 14,050         | 14,800         | 14,800         | 6,960          | 4,515           | 4,500           | 4,500           | 4,500           | 4,500           | 4,500           | 4,000           | 4,000           | 4,000           | 4,000           | 4,000           | 4,000           | 4,000           | 420             |
| Longwall Moves                     |                |                |                |                |                |                |                |                |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Dadling                            | 2              | 2              | 4              | 2              | 3              | 2              | 2              | 4              | 5               | 4               | 3               | 2               | 4               | 5               | 5               | 3               | 3               | 2               | 3               | 4               | 3               | —               |
| Baoshan                            | 2              | 1              | 2              | 1              | 2              | 4              | 4              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Dingliaqu                          | 3              | 6              | 2              | 4              | 4              | 5              | 9              | 2              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Chengyi                            | 7              | 5              | 6              | 4              | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Baijialiang                        | 2              | —              | —              | —              | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Total — Longwall Moves             | 16             | 14             | 14             | 11             | 9              | 11             | 15             | 6              | 5               | 4               | 3               | 2               | 4               | 5               | 5               | 3               | 3               | 2               | 3               | 4               | 3               | —               |
| Seam Thickness(m)                  |                |                |                |                |                |                |                |                |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Dadling                            | 3.2            | 3.1            | 2.8            | 3.6            | 3.6            | 3.6            | 3.5            | 2.9            | 2.5             | 1.5             | 1.5             | 1.5             | 1.5             | 1.5             | 1.6             | 1.7             | 1.6             | 1.6             | 1.6             | 1.7             | 1.7             | 1.7             |
| Baoshan                            | 3.5            | 3.5            | 3.5            | 3.5            | 3.5            | 3.5            | 2.8            | 1.9            | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Dingliaqu                          | 2.8            | 2.5            | 2.0            | 1.3            | 1.3            | 1.3            | 1.3            | 1.3            | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Chengyi                            | 1.5            | 1.2            | 1.3            | 1.2            | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Baijialiang                        | 3.2            | —              | —              | —              | —              | —              | —              | —              | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Wt Avg — In Seam Thickness         | 3.0            | 2.8            | 2.6            | 2.7            | 3.0            | 2.8            | 2.5            | 2.6            | 2.5             | 1.5             | 1.5             | 1.5             | 1.5             | 1.5             | 1.6             | 1.7             | 1.6             | 1.6             | 1.6             | 1.7             | 1.7             | 1.7             |

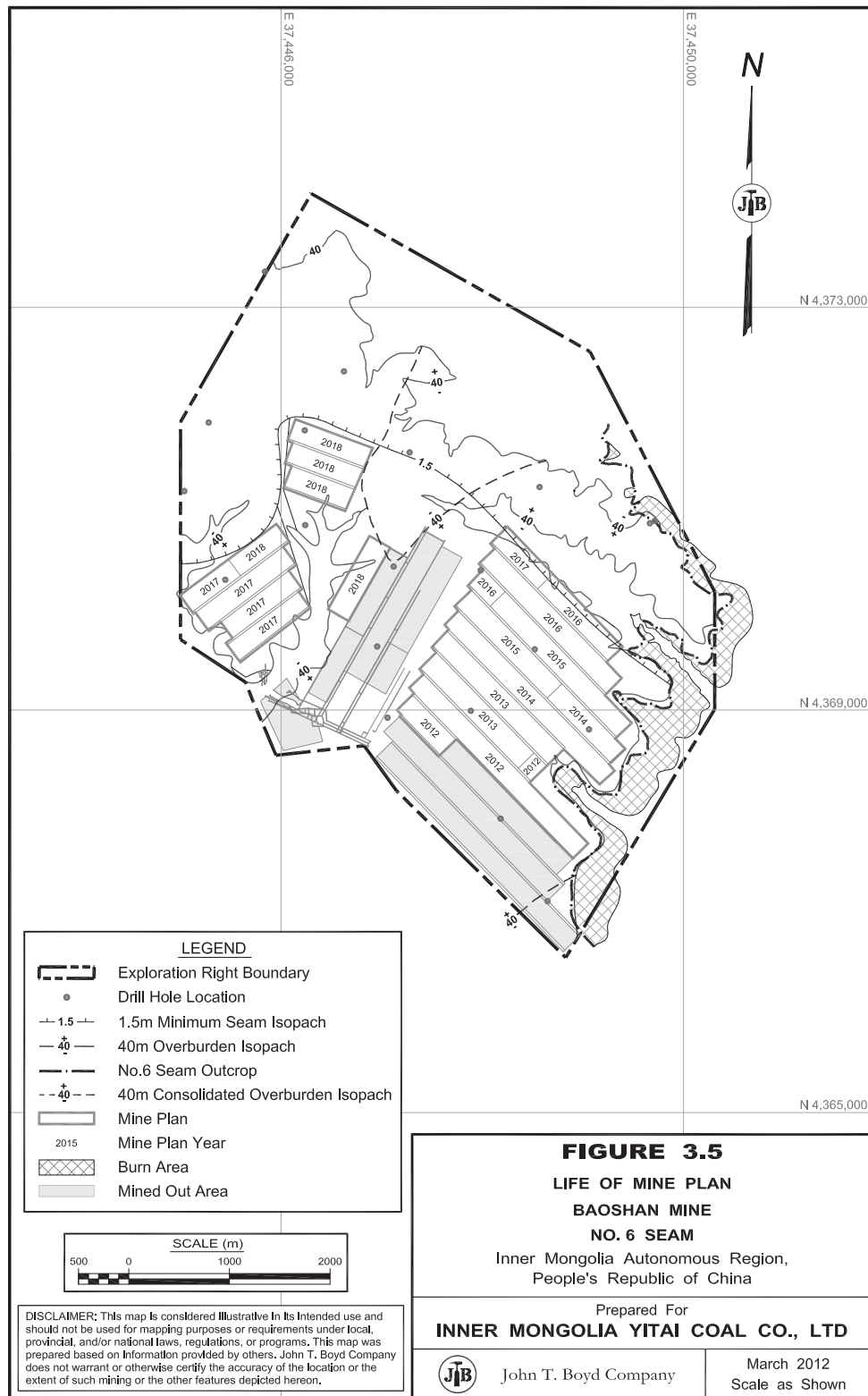


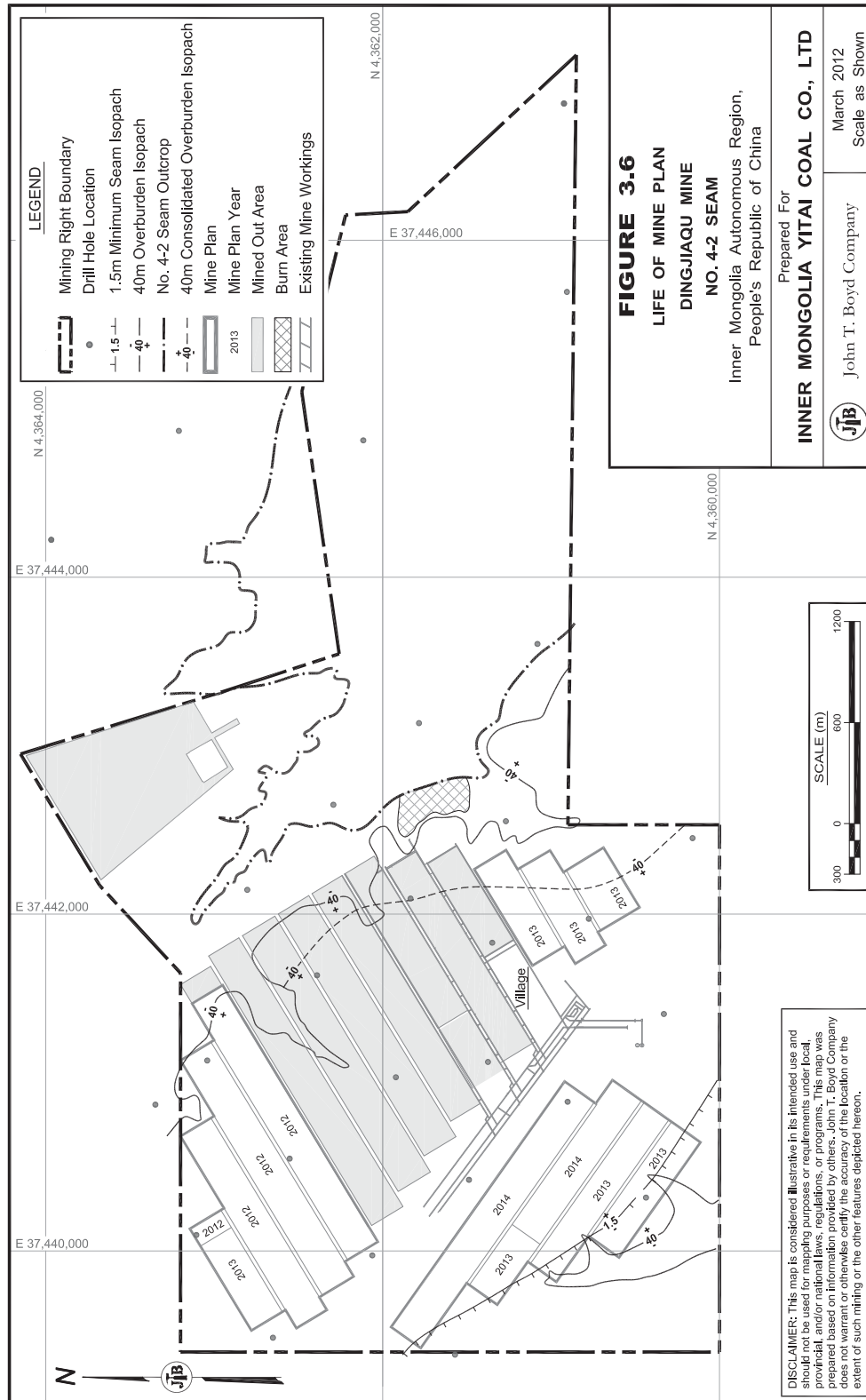


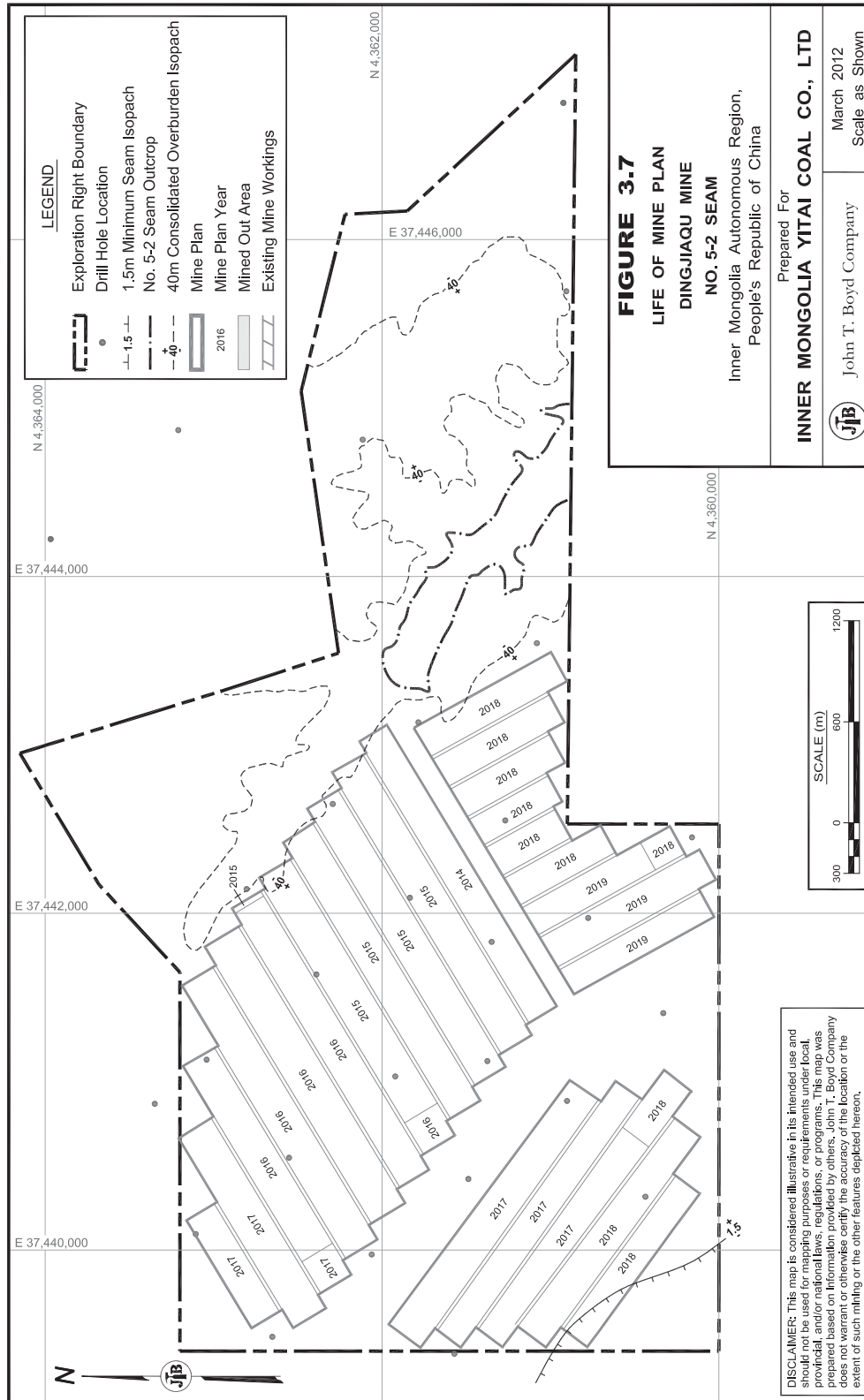


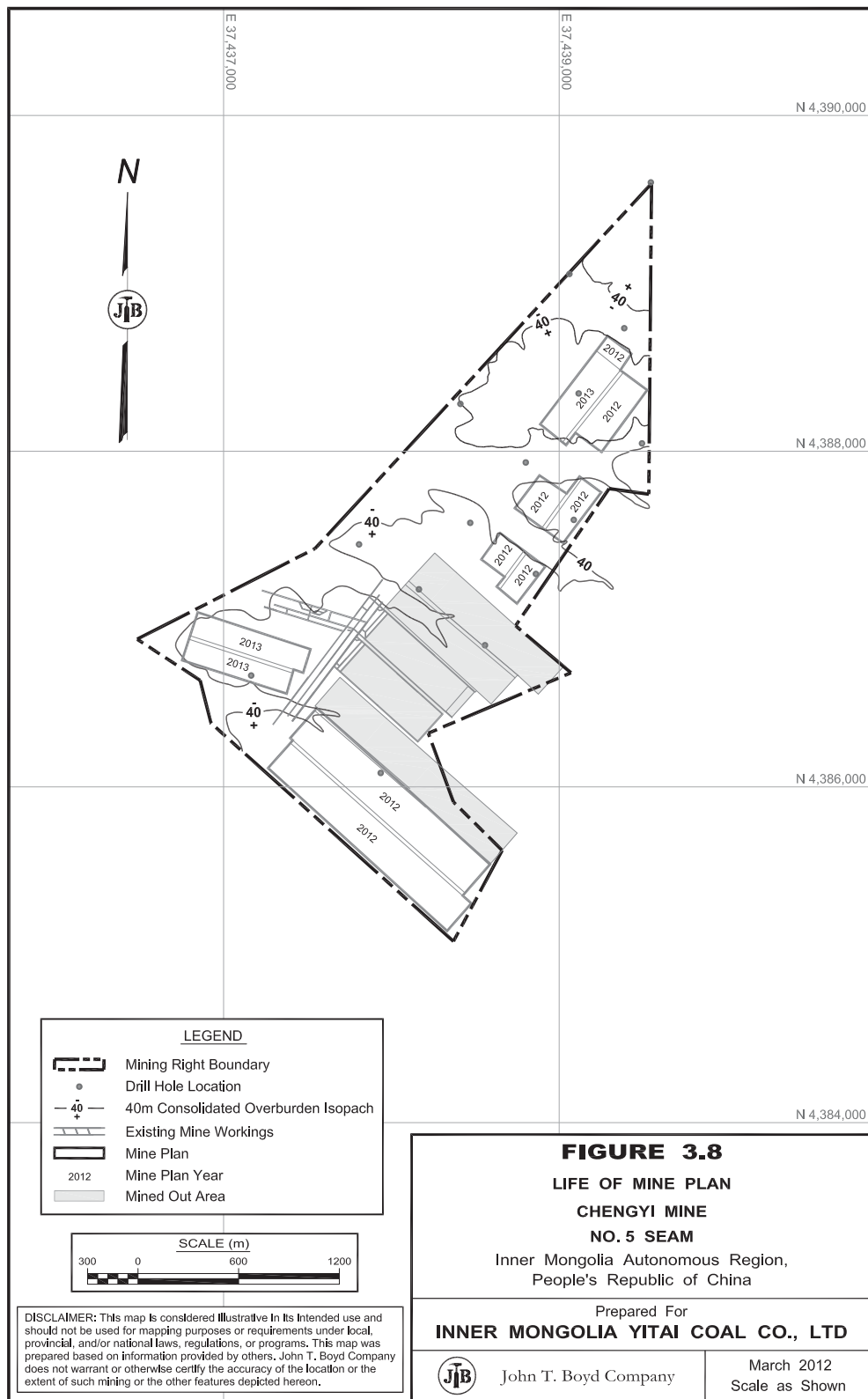




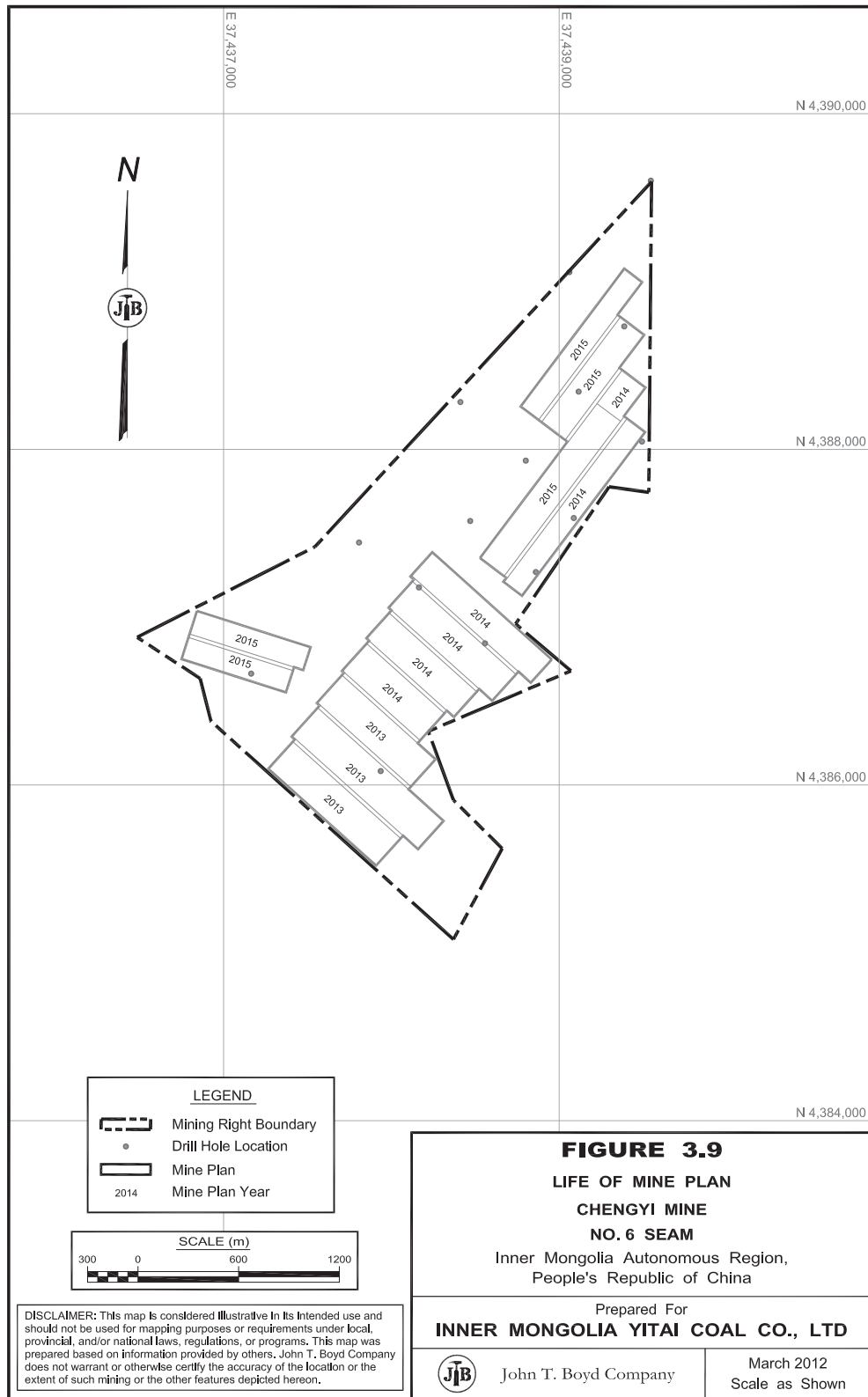


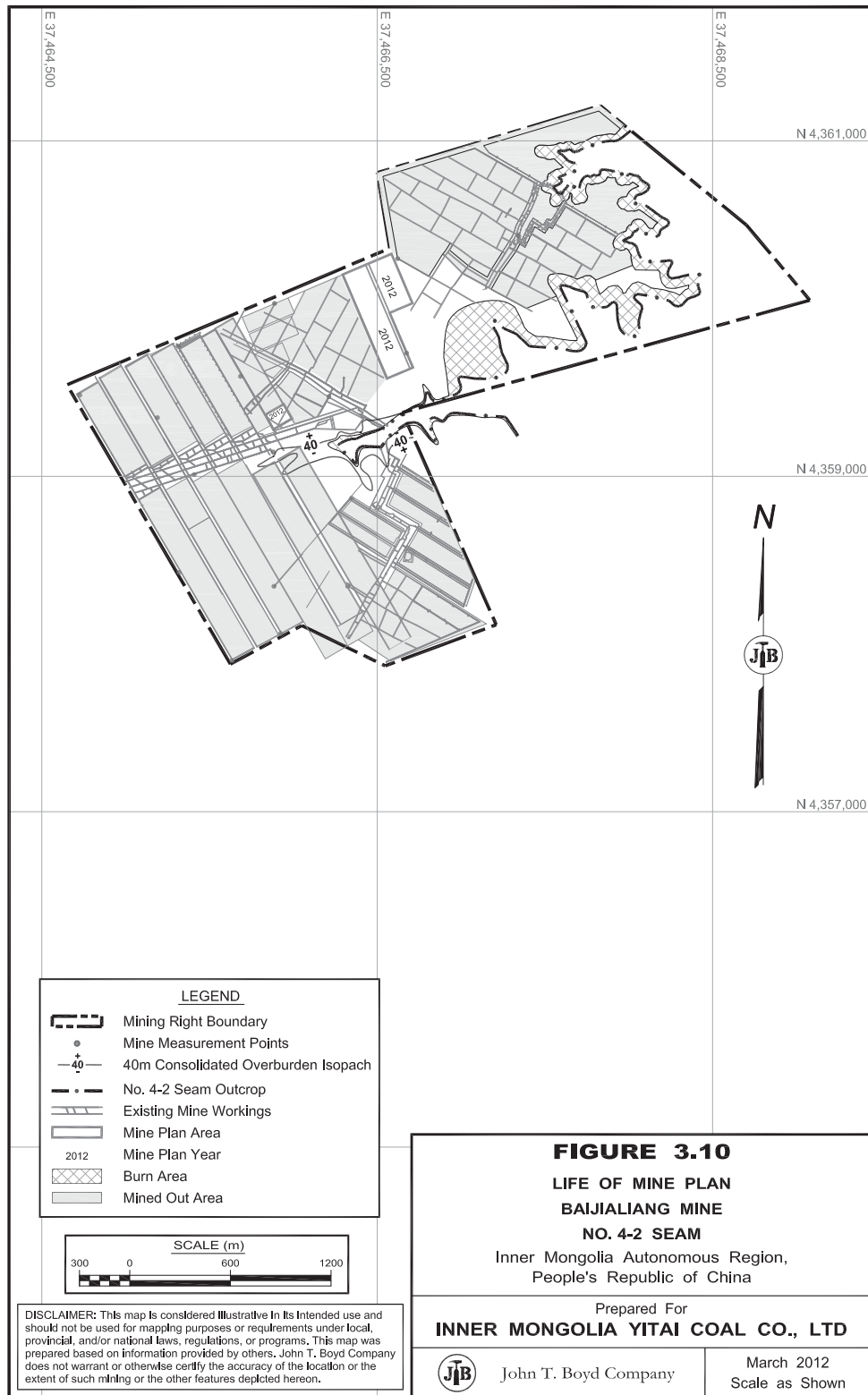












## 4.0 VALUATION

### 4.1 Introduction

The assignment of this report is to opine on the FMV of the five Yitai Group underground coal mines, as of 1 January 2012. Following are the three generally accepted methods for valuing mineral and mineral-producing assets.

**Replacement Cost** determines the value of the mineral asset by first calculating the new cost to replicate the asset to its condition on the Valuation Date, then adjusting plant and equipment to a depreciated replacement value basis. In the case of undeveloped mineral holdings, the new cost would include exploration and mining right fees, exploration, technical studies, and other site development work. Although the Replacement Cost method has application in some situations (i.e., normally when valuing fixed assets and/or undeveloped mineral holdings), it seldom is appropriate when valuing developed or operating mineral properties.

**Market Transaction/Comparable Sales** method involves a comparison of the coal or mineral lands under study with transactions involving similar property interests that were sold in the open market. The known comparable sale(s) are, ideally, contemporaneous and include reserves having similar geologic and quality characteristics and are located in the general vicinity of the property being valued. The comparable sales approach, where comparisons are reasonably direct, is an acceptable method of appraisal. If direct comparable sales are not available, data from other mineral property sales can still be valuable to the appraiser. A general review, even though direct comparisons may not be possible, still provides insight into market activity, the number and nature of potential buyers and sellers, the level of market activity, range of prices paid, etc. This information is important in considering how a potential buyer would evaluate a property. The ability to use the Market Transaction method relies on both the availability of recent comparable transactions and an in-depth knowledge of the details of each transaction (e.g., assets conveyed, associated debt and liabilities, structure of payment, etc.).

Income method uses a discounted cash flow (DCF) operational analysis to estimate the net present value (NPV) of projected cash flow of the existing or planned mining operation. It is important to identify what asset is being valued. In the case of an operating mining business, the annual revenues and expenses are estimated for the mine over its remaining operating life, given realistic assumptions regarding mining plans, markets, etc. The revenues, less capital expenditures, operating costs, and taxes, derive the net cash flow from the property, which, when discounted at an appropriate rate, yield the NPV amount a willing buyer would pay for the business, including reserves, equipment and facilities, sales agreements, and other assets incorporated into the cash flow model.

### 4.2 Risk Assessment

#### 4.2.1 Introduction

Coal mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of precise production, cost, and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters. Coal mining operations in the region have a demonstrated track record in sustaining consistent and predictable levels of performance.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation, namely: geologic, operational, and market. For purposes of this study, we define risk in three general categories of consequence of risk rating, as follows:

- *Major Risk:* A factor that would have a material adverse effect (15% to 20% or higher) on project cash flow, if the specific risk occurred and was not corrected.
- *Moderate Risk:* A factor that would have significant adverse effect (10% to 15%) on project cash flow, if the specific risk occurred and was not corrected.
- *Minor Risk:* A factor that would have minimal or no adverse effect (less than 10%) on project cash flow, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important, is the likelihood that the specific risk will occur. For this study the following likelihood of occurrence rating apply:

- *Likely:* Event is likely to occur.
- *Possible:* Event may occur.
- *Unlikely:* Event is unlikely to occur.

The overall risk assessment combines these two components, consequence of risk rating and likelihood of occurrence, to determine the final categorization of risk, as shown below:

| <u>Likelihood of Risk</u> | <u>Consequence of Risk</u>     |                 |              |
|---------------------------|--------------------------------|-----------------|--------------|
|                           | <u>Minor</u>                   | <u>Moderate</u> | <u>Major</u> |
|                           | <u>Overall Risk Assessment</u> |                 |              |
| Likely .....              | Medium                         | High            | High         |
| Possible .....            | Low                            | Medium          | High         |
| Unlikely .....            | Low                            | Low             | Medium       |

#### 4.2.2 General Assessment

BOYD independently assessed the Yitai Group mining operations as a whole to be low in overall risk for the following reasons:

- Risk is mitigated by the diversity of production sources (Five); while production may be temporarily interrupted at one mine, the impact on total company performance is minor.
- The overall ranking of the geologic setting of Yitai Group mine is simple to moderate (i.e., not geologically complex).
- Coals projected to be mined are well explored by drilling and mining experience.
- The Yitai Group mine are located in established coalfields where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.
- As a company, Yitai Group has the experienced management and technical capabilities to successfully operate their mines and to respond to operating interruptions and other event occurrences in a timely, professional, and proactive manner in order to minimize production and financial losses.
- Except for routine production risks, which all underground coal mine operators experience, BOYD has not identified any extraordinary known risk issues related to the future operation of the Yitai Group mines.
- While not anticipated, naturally occurring events such as flooding due to excessive rainfall or an earthquake, could occur but their impact would be regional in extent (i.e., not unique to Yitai Group).

- Yitai Group mines generally produce low sulfur content coals, classified principally as “long flame” (CY41) according to the Chinese coal classification system. The company has established markets for its coals, and risk of future sales (even with Yitai Group’s projected growth in output) is considered low based on the robust nature of the Chinese economy and the competitive cost structure of the Yitai Group mines.

The following text provides an expanded discussion of mining-related risks and BOYD’s assessment of the Yitai Group risk profile.

The risks identified by BOYD in this report apply to all Yitai Group mines generally in equal measure. That is, no mine stands out as having a significantly higher risk profile than the Yitai Group mines taken as a whole. There are no risks identified that appeared to apply to one mine more than other Yitai Group mines. We have not identified significant geological or mining-related issues during our review that would prevent Yitai Group mines from achieving raw coal output levels projected in our life-of-mine plans.

#### 4.2.3 Geologic Risk

##### General Geologic Risk

The Yitai Group portfolio of mining properties includes 5 mines, with all mines located in the established producing Dongsheng coalfield. On a global basis, the geologic setting of the coal deposits controlled by Yitai Group are judged to be simple to moderate (i.e., not geologically complex). The mines are well defined by exploratory drilling and/or mining experience.

##### Unforeseen Geologic Anomalies

Unforeseen geological anomalies that extend over large areas could disrupt underground mine operations and require alterations of mining plans. Such an event can result in the cessation of production activities for an undefined but extended period of time (measured in months, and perhaps years) and a corresponding drop in revenue. Likewise, efforts to resume mining operations may result in cash losses during the period in which recovery and redevelopment activity is underway. Yitai Group mines, are reasonably defined by both drilling and mining experience. This minimizes the risk of unforeseen geologic anomalies.

##### Risk Assessment

###### Consequence

|             |                      |
|-------------|----------------------|
| Rating:     | Low                  |
| Likelihood: | Unlikely to Possible |
| Overall:    | Low                  |

#### 4.2.4 Operational Risks — Naturally Occurring Events

##### Weather

Extraordinary weather occurrences (e.g., excessive rainfall) can result in disruption to the mining operations caused by power outages, loss of access into the mine site (movement of mine personnel, receipt of necessary operating supplies, etc.) and from the mine site (inability to load trucks or trains to dispatch coal to market, etc.).

##### Earthquakes

Available geologic background data report the general location of the Yitai Group mines are not known to be highly seismic active and there is little history of serious earthquake activity.

##### Assessment

Any naturally occurring events would affect the broader region where the Yitai Group mines operate and the impact would be industry-wide.

###### Consequence

|             |                |
|-------------|----------------|
| Rating:     | Minor to Major |
| Likelihood: | Unlikely       |
| Overall:    | Low            |

#### 4.2.5 Operational Production Risks

There are two primary types of operational risks associated with underground coal mining: production and event.

##### 4.2.5.1 Production Risks

The first category of risk includes those variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities. The most common of these are as follows:

- Roof control issues and roof falls.
- Poor mining conditions (poor roof, floor, ribs).
- Water accumulations/soft floor conditions.
- Ventilation disruptions and concentrations of methane gas.
- Variations in seam consistency, thickness, and structure.
- Failures or breakdowns of operating equipment and supporting infrastructure.

The preceding conditions and circumstances can adversely affect production in the short term, but are not regarded as significant to the long-term operation of the mining operations. Mine-level management is experienced and capable in dealing with these risks. BOYD does not regard the issues listed above as being material to Yitai Group mining operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated.

Forward mine planning uses productivity parameters and cost experience which incorporate historic experience (including routine interruptions to the mining process).

#### Assessment

Consequence

Rating: Minor

Likelihood: Likely

Overall: Low

#### Longwall Subsidence

Yitai Group mines utilize longwall (LW) mining practices which by their design cause subsidence of the overlying strata. The damage caused by LW subsidence is an issue in many countries and regions where LW mining techniques are utilized, and mining companies are sometimes restricted as to where LW mining operations can be performed. Generally the surface lands above the LW mines are devoid of densely populated residential areas, or large commercial or industrial structures. These tend to be sited near the lower elevations or shallower cover areas near major drainages. Consequently, undermining of structures is not a significant issue in the case of Yitai, Group and the company is in the position of remediating damages to the occasional structure that may be undermined. Minor surface drainages are likewise undermined after measures are taken to either relocate the course of the drainage or lining for the stream floor. In our view, Yitai Group is essentially unrestricted in its LW planning except for the aquifer zones, which, when and where present, require special planning.

Based on Chinese geotechnical practice, LW mining in areas and coal seams where the depth of cover is less than 40 m is likely to be problematic. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. Where warranted, we adjusted the Yitai Group mine plan projections and reserve estimates to exclude areas with less than 40 m of overburden depth, unless there was an established history of successful mining.

Proper mine design and planning can either avoid or minimize the damages from subsidence in protected surface areas. While subsidence is a by-product of LW mining, it can be controlled and mitigation actions taken by the mine operator to remediate surface damages.

### Assessment

Consequence

Rating: Minor

Likelihood: Unlikely for Surface Land Restrictions  
Possible for Shallow Cover Restrictions

Overall: Low

#### 4.2.5.2 Event Risks

The second type of risk is categorized as event risk. Items in this category are rare, but significant occurrences are confined to an individual mine and ultimately have a pronounced impact on production activities and corresponding financial outcomes for that mine. Following such events, all mines are subject to increased inspection/examinations and subsequent penalties and/or actions imposed by the PRC regulatory authorities. Examples of production-related event risks are:

- Major underground fires.
- Explosions.
- Flooding of the Underground Workings.

#### 4.2.5.3 Major Underground Fires

The potential for major underground fires is significant in any underground coal mining operation due to the combustible nature of the material being mined and the industrial setting with machinery using combustible diesel fuel and lubrications. Fires generally occur from explosions (see below), equipment fires, belt conveyor system fires, or spontaneous combustion. Equipment fires rarely result in major mine fires due to on-board extinguisher systems and in-mine firefighting gear. A major event due to an out-of-control equipment fire is a potential but small risk.

Belt conveyor fires pose a higher order risk due to their extended and generally untended expanse. Belt conveyors by definition have moving parts which can be prone to friction. Monitoring systems and effective belt patrol and maintenance programs are critical to avoiding major events. These practices also result in improved belt availability and performance. Because of the potential for fires, belt conveyors are monitored for products of combustion, and potential event-prone areas such as transfer points have water spray installations designed to engage if a high temperature is detected. Generally these measures are adequate to avoid belt fires, but the potential is always present if the systems are not managed properly.

The last major source of mine fires is spontaneous combustion, which is a common occurrence throughout the world mining industry. Spontaneous combustion typically occurs in areas that are not well-ventilated, where the combination of self-heating and oxygen is adequate to support a sustained heating until a fire breaks out. In well-ventilated areas, the heat is carried away; in tightly sealed areas the oxygen supply does not support sustained combustion. LW gob areas are especially susceptible to spontaneous combustion incidents. If not controlled, the combustion can inflame the surrounding workings and also ignite methane, if present.

Typical of lower rank coals, the coal seams in the Yitai Group mines are rated as having significant potential for spontaneous combustion. This is well-recognized by the company and mine plans take this into account. Proper sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection and mud injection, are planned by Yitai Group. Eliminating gob ventilation also serves to minimize the potential for gob fires due to spontaneous combustion.



According to Yitai Group, there have not been any spontaneous combustion incidents reported to date. Not ventilating the LW gob post-mining (no bleeder systems), the relatively high rate of LW face retreat and rapid sealing of the LW panel upon completion of mining are probably the largest deterrents to spontaneous combustion incidents. Care should be given to seal surface fissures caused by subsidence from mining to prevent air and water from entering the mined-out areas below. These cracks are especially prevalent in shallow cover areas.

The potential for spontaneous combustion incidents will remain a significant risk issue for Yitai Group, but operating experience to date indicates that present practices are effective.

### Assessment

Consequence

Rating: Minor to Major

Likelihood: Unlikely

Overall: Low

#### 4.2.5.4 Explosions

Coal mine explosions typically are initiated by methane ignitions followed by coal dust explosions. Coal dust itself does not typically ignite, although under certain conditions it is possible. The reserves mined by Yitai Group are generally rated as explosive in a dust form as is the case for nearly all coals in the world. The key to preventing explosions is the prevention of methane ignitions. In this regard, Yitai Group is fortunate in that the mines in the have relatively low in situ methane content. Consequently, methane emissions are low during LW mining operations as observed by BOYD on several occasions.

Methane content typically increases with depth, as mining operations in the principal mining right areas proceed, methane levels are likely to increase but will remain relatively low by industry experience. Thus, present mining practices as regards ventilation are likely to be adequate for minimizing the potential for methane ignitions.

Yitai Group mines, as do mines in all progressive, regulated coal industries worldwide, take standard (state mandated) precautions for avoiding methane ignitions, including:

- Monitoring of airways for potential buildup of methane levels.
- Use of flame-proof enclosures for electrical controls and power-related components.
- Use of methane monitors and automatic de-energizing circuits on all road header development and LW face equipment.
- Ban of personal smoking materials.
- Routine sealing of areas where mining has been completed.
- Installation of water curtains in the event an ignition occurs.

Ventilation systems are designed to effectively remove methane from the mines at concentrations that are intrinsically safe (less than 1% of atmosphere). Yitai Group mines do not utilize rock dust, which is commonly used in the United States as an explosion deterrent; rock dust is not typically used in China and other international coal industries.

If diligent practices are pursued, the risk of explosion can be minimized. The occasions of explosions have been relatively rare (although not eliminated) in the advanced international underground coal mining industries. Given present practices, the risk of an explosion is remote in our view.

### Assessment:

Consequence

Rating: Minor to Major

Likelihood: Unlikely

Overall: Low

#### 4.2.5.5 Floods

Risk from floods occurring in the underground mine workings can take two forms. One possibility is intercepting unmapped flooded workings. These incidents have periodically occurred in every major coal mining country, including the United States. Due to the relatively recent history of mining in the Yitai Group mines, past mining is relatively well charted and mining activity can leave protective barriers about abandoned mines with confidence. An accidental flooding from uncharted works has a low likelihood of occurring in the Yitai Group mines.

A second risk arises from the potential inflow of ground water contained in faults and fissures and from surface and ground water entering the mine as a result of LW subsidence. Yitai Group is highly cognizant of the potential disruption to mining activities and takes appropriate precautions to avoid significant intrushes of water from these sources. Standard precautions typically include:

- Barriers left adjacent to known high displacement faults.
- Protection barriers maintained under large bodies of surface water and known high volume aquifers.
- Dewatering of aquifers through surface drilling or advance drilling underground if the potential for high water flow is significant.

Due to the concerns evident in discussions with engineering and geologic personnel, we would rate the potential for disruption to mining operations from intrushes of water as minor. Water inflows experienced at the Yitai Group mines are typical of the region and are within the capabilities of well-designed pumping stations. The underground mines have sufficient water-handling systems. All mines have designed effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/ underlying strata.

#### Assessment

##### Consequence

Rating: Minor to Major  
Likelihood: Unlikely  
Overall: Low

#### 4.2.6 External Risk — Regulation

Various levels of government are involved in the promulgation and enforcement of regulations under which the Yitai Group mines must operate. These include operating standards and requirements, and the payment of fees and taxes. While governmental regulation policies are industry-wide, and beyond the control of Yitai Group, the company is responsible for operating their mines and facilities in compliance with all governmental regulations now in effect (or any future regulations).

The Yitai 2012–2014 projections for coal output significantly exceed current mining right and production certificate output authorizations at a majority of the Yitai and Yitai Group mines. Yitai and Yitai Group mines in some instances have exceeded output authorizations recently, although no regulatory intervention has been reported to BOYD. The practice of exceeding output authorization, which is widespread in China, receives widely varying treatment from local, provincial and regional regulatory bodies. There is uncertainty whether overproduction will be permitted over the long-term, Yitai's applications for higher output levels will be approved, or higher authorizations will equate to output projections.

To our knowledge, Yitai has paid required resource fees to obtain mining rights, and governmental taxes and fees.

Passage of more restrictive or onerous government regulations could have adverse effects on future Yitai Group operations, but such a risk would be industry-wide and is unquantifiable at this time.

**Assessment**

## Consequence

Rating: Minor to Moderate  
 Likelihood: Unlikely  
 Overall: Low

**4.2.7 Market Risk**

Achieving Yitai Group cash flow projections depends on sustaining coal sales at prices specified in the cash flow analysis. A substantial reduction in market prices would have a material effect on financial performance. Such an event would occur if there were surplus alternative coals from other suppliers, or a reduction in demand from Yitai Group's customer base. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approvals. However, such an event would directly impact (lower) total company revenues and could negatively impact the fixed cost structure and sustaining capital investments at individual mines.

Market risk is mitigated by the established nature of Yitai Group mines and customer base, and the sustained growth of the Chinese economy, which is expected to continue over the seven-year risk assessment study period.

**Assessment**

## Consequence

Rating: Minor to Moderate  
 Likelihood: Unlikely  
 Overall: Low

**4.3 Valuation Method Selected**

The Income Method of mineral valuation is used in this report based on:

- Nature of the valuation.
- Development status of the coal assets being valued.
- Extent and reliability of available source data.

Yitai has entered into an Assets Transfer Agreement with Yitai Group under which Yitai Group agrees to transfer the subject mineral assets to Yitai after completion of the Yitai Global Offering and listing on the HKEx. This Valuation Report provides our independent opinion of the FMV of the Yitai Group mining operations on a debt-free basis, in support of the two pending transactions. The Fair Market Value represents both the Technical Value and the Market Value. The DCF-NPV used to develop BOYD's opinion of Market Value is by VALMIN definition, also the Technical Value. In completing the forward mining projections used as the foundation of the cash flow, the BOYD Competent Evaluator reviewed all primary components for reasonableness and adjusted projected output, capital costs, operating costs and coal prices were warranted in our expert opinion. The resulting cash flow projection is intended to be reasonable and achievable, and further adjustments (i.e., changes to the Technical Value for "market strategic or other considerations" (VALMIN Code D43)) are therefore not considered appropriate in the judgment of the Competent Evaluator. The Income Approach is accepted as an appropriate valuation method, and the preferred method when valuing an established mining company.

Income Method (or an operational analysis) is the preferred approach in the case of Yitai Group because all five mines are fully developed as coal (income) producing assets. Our valuation opinion is based on a site (mine) specific analysis of each operation's projected income (net cash flow) over its remaining mine life. Only JORC qualified reserves are included under mine plan and cash flow projections used in this report.

As required by HKEx Chapter 18 rules, all reported reserves are sufficiently explored to be classified as either Proved Reserve or Probable Reserve. In addition, each Yitai Group mine has an established production record. The transition process, to consolidate prior smaller mines into a larger operation (to improve economy of scale — output reliability and lower costs), and to implement modern LW technology, is completed. Reliability of forward mine plans (production and economics) is considered low to moderate risk.

BOYD/Competent Evaluator assigned the 10% discount rate based on our expert judgment and experience considering:

- Yitai Group is a fully developed and operating coal mining and sales business.
- International standards (i.e., guidelines specified by the US federal government when valuing federally owned coals) specify the use of a 10% discount rate. Though situated in the Chinese coal fields (Dongsheng), the Yitai Group mines face risks similar to those found in all major underground coal producing regions in the world. The Yitai Group mining-related risks are not *unique* to Yitai Group but are generally experienced to an extent by all underground coal mining operations worldwide. Accordingly, in the opinion of the Competent Evaluator, Yitai Group mines can be appropriately evaluated in light of international experience.
- Currently, the Chinese coal mining industry utilizes the Minimum Attractive Rate of Return (MARR) to determine the economic viability of projects. The MARR functions as a Discount Rate. The economic evaluation of all FSR, PDR, and project proposals are based on this discounting factor. Presently, a 10% discount rate for all coal-related mining projects is mandated by the PRC State Council's Decisions of Investment Mechanism Reformation, the Economic Valuation and Parameters of Coal Mine Construction Projects (third edition), as compiled in Implementing Regulations of Economic Valuation and Parameters, which was executed as National Energy Coal Policy (2011), 380<sup>th</sup> Pronouncement.
- Under Chapter 18 and Appendix 25 of Hong Kong Listing Rules, the alternative of using a fixed discount rate of 10% is permitted when valuing (proven and probable) petroleum reserves. While this rate is specified for petroleum reserves, Yitai Group's coal reserves are similarly defined to the same level of reliability in our opinion.
- In our view, the elements of risk associated with Yitai Group mining operations are incorporated into the Company's forward projections through 2015 including annual coal production and estimated mining costs. In addition, the baseline we consider is the historical experience of Yitai Group (and other proprietary industry knowledge) while operating under mining conditions with similar site specific geological and operating risks.
- Research of discount rates used by analysts in several research reports valuing mining concerns operating in a large coal production region (i.e. western Canadian coal producers) indicates discount rates ranging from 8% to 10%. To our knowledge similar analyst research reports are not available for the various Chinese coal producing regions including the region where the Yitai Group mines are situated. Nevertheless, we believe the example cited from a large coal production region supports the 10% discount factor selection.
- Competent Evaluator's coal industry valuation experience developed over 40 years confirms that a 10% discount factor is appropriate for operating companies comparable to Yitai Group.

Additionally, the HKEx has previously accepted (precedent) the use of a fixed 10% discount rate when completing DCF-NPV determinations of Chinese mining companies.

While Yitai Group has five (5) mines, each with specific risks, our valuation is completed on a composite basis (i.e., total company value). Sourcing production from five mines mitigates risk and provides assurances of coal supply with the ability of any possible shortfall in one mine being offset by the remaining mines.

#### 4.4 Major Assumptions

BOYD's valuation analysis is based upon the following major assumptions:

- No material changes in government policies and regulations will occur.
- Geological conditions over the mine service lives will be comparable to recent operating experience (BOYD has made adjustments for seam thickness variations).
- Mining operations will not be interrupted by external factors, such as mine accidents that result in mandated mine idle periods.
- Operating costs will not experience material fluctuations other than fluctuations occurring as a consequence of output variations resulting from anticipated variations in seam thickness or transitions to lower lying seams.

- Imposition of government taxes, fees or other charges will not increase or deviate substantially from current levels.
- The company's capital expenditure program will be implemented as scheduled.
- Company management are competent, responsible and capable to execute work plans as demonstrated by their recent performance.
- Force majeure events such as war, natural disasters, etc. do not occur during the mine service lives.

#### 4.5 Valuation Procedure

As shown in Chapter 3 of this report (and detailed in the separate Competent Person's Report also prepared by BOYD), we have developed LOM plans for each mine that provide the foundation of the cash flow projections. Level of study of the LOM plans is considered to be Prefeasibility. All plans are limited to defined JORC Code qualified Proved and Probable Reserves (as developed by BOYD in the Competent Person's Report).

The following valuation parameters and assumptions are used to develop our base FMV:

1. Annual coal production, operating cost, and capital expenditures are derived from the LOM plan (developed by BOYD) for each mine. A summary of BOYD's LOM plan is shown in Table 3.7. Single LW face operation is projected through depletion at the mines.
2. All costs and prices are expressed in constant RMB values.
3. Annual cash flow projections are calculated on an after-tax basis, with annual capital expenditures deducted in the year incurred. Yitai provided Chinese tax rates for individual mines, that varied between 15%-25%, which recognize preferred tax rates for Inner Mongolia A.R. industrial development.
4. Discounting is completed using a fixed rate of 10% with mid-year discounting when assigning the period applicable to each year.
5. VAT is 17% of revenue with a credit for purchases of materials, supplies, power, and equipment.
6. Corporate general and administrative costs are based on Yitai projections and projected forward on an RMB per tonne of ROM output on a mine specific basis.
7. The Coal Resource Fee is RMB3.2 per tonne of ROM output.
8. Other sales taxes are 4% of the VAT.
9. Working capital/parts/inventory projected in 2012 are estimated at 25% of revenue; a credit is taken in the last year of mine operation. BOYD believes our assignment of 100% working capital requirements in Year 1 of the valuation is appropriate for an arms-length sale between a willing buyer and willing seller on the date of valuation. Credit for existing company working capital would need to be specified since the seller would now be agreeing to transferring this cash amount to the new buyer as part of the sale.
10. Equipment purchases reflect Yitai Group projections for 2012—2014 and BOYD estimates of requirements post-2014.
11. Sustaining capital spending is projected on an approximate RMB6 per tonne of ROM output basis.
12. Decommissioning (reclamation/environmental) costs are projected in the last year of mine operation.
13. Production Maintenance Fee and Safety Fund Fee, RMB9.0 and RMB3 per tonne of ROM output, respectively, have been included as cash costs as directed by Yitai Group.
14. Financial expenses and amortization have been excluded from our analysis as directed by Yitai Group.

Occurrences of Proved Reserve and Probable Reserve are comingled, and it is not technically possible to develop mine plans based solely on Proved Reserves.

#### 4.6 Coal Pricing

Yitai Group sells its coal production at a variety of locations, including: mine-gate, loading station, direct rail and ports (Qinghuangdao, Caofeidian and Jingtanggang). With the exception of mine-gate sales, coal sales at the remaining locations are to customers where rail transport is necessary and as such, price of coal at those locations are higher than mine-gate prices. In order to reflect the value premium of coal sales at those

locations beyond the mine-gate and transportation advantages gained from the Yitai Group transportation divisions, we requested data reflecting market pricing for coal sold at each location. To incorporate the off-mine-site coal sale prices but to adjust such prices to the equivalent netback FOB coal prices at the mine gate, "off-mine-site selling costs" per tonne of coal are deducted.

Netback FOB mine-gate coal price = off-mine-site coal sale price – off-mine-site selling cost

"Off-mine-site selling costs" are intended to include all transportation and sales components necessary to reach final point of dispatch (truck to rail dispatch, dispatch to port, port fees, rail fees, G&A, sales, commissions, taxes and/or miscellaneous fees). We have been provided composite data for all non mine gate sales in order to derive the average historical market-based "off-mine-site selling costs" data for coal sold at dispatch locations.

Off-mine-site coal sales prices and tonnages for Yitai No. 3 and No. 4 port sale coal were provided for the 12-month period from January 2011 to December 2011. Mine-gate coal sale prices for the same period were provided. "Off-mine-site selling costs" were then deducted from the average monthly off-mine-site coal sale prices to reach the monthly netback FOB mine-gate coal price.

The 12-month netback prices were then averaged to arrive at a composite price for each mine. In accordance with HKEx18.33(4), the historical composite pricing was then utilized within the valuation model as future pricing for each mining operation. The off mine gate sales provided a significant premium in pricing as compared to similar quality coals sold at the minegate.

The 12-month netback composite pricing (12 months prior to evaluation: January 2011 - December 2011) is summarized as follows from Table 4.7:

| <u>Year</u>                                    | <u>Sales<sup>1</sup><br/>Tonnes<br/>(Mt)</u> | <u>Price<sup>2</sup><br/>RMB/<br/>Tonne</u> |
|------------------------------------------------|----------------------------------------------|---------------------------------------------|
| Prior 12 Months (January 2011 - December 2011) |                                              |                                             |
| Dadijing .....                                 | 4.68                                         | 429                                         |
| Baoshan .....                                  | 2.16                                         | 477                                         |
| Dingjiaqu .....                                | 5.55                                         | 424                                         |
| Chengyi .....                                  | 4.21                                         | 400                                         |
| Baijialiang .....                              | 2.07                                         | 478                                         |
| Total/Composite .....                          | 18.69                                        | 432                                         |

(1) Total Sales tonnes include all mine-gate and off-site sales. These may differ slightly from historical production output as a result of coal purchased from third parties.

(2) FOB Mine-gate (VAT inclusive): Composite of mine-gate and off-site sales less total "off-mine-site selling cost." \*

\* "Off Mine Site Selling Cost": includes all transportation necessary to reach final points of dispatch (truck to rail dispatch, dispatch to port, port fees, rail fees, G&A, sales, commissions, taxes and/or misc. fees)

#### 4.7 Base Case FMV

As shown on Tables 4.1 through 4.5: Independent Valuation, Discounted Cash Flow Analysis, Yitai Group Mining Operations (by mine), the total Base FMV of the five mining operations on the Yitai Group interest basis is RMB8,726 million.

| <u>Mine</u>       | <u>Full Interest<br/>Valuation<br/>FMV (DCF-NPV)<sup>(1),(2)</sup></u> | <u>Yitai Group<br/>Ownership<br/>(%)</u> | <u>Yitai Group<br/>Ownership<br/>Valuation<sup>(1),(2),(3)</sup></u> |
|-------------------|------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------------|
| Dadijing .....    | 4,349                                                                  | 100.0                                    | 4,349                                                                |
| Baoshan .....     | 2,559                                                                  | 73.0                                     | 1,868                                                                |
| Dingjiaqu .....   | 2,495                                                                  | 73.0                                     | 1,821                                                                |
| Chengyi .....     | 594                                                                    | 100.0                                    | 594                                                                  |
| Baijialiang ..... | 94                                                                     | 100.0                                    | 94                                                                   |
| Total .....       | 10,090                                                                 |                                          | 8,726                                                                |

(1) RMB millions (1 January 2012).

(2) Figures may not add due to rounding.

(3) Yitai Group interest basis.

#### 4.8 Probable Value Range

To provide guidance on the probable range in value, we have completed a series of sensitivity DCF-NPV analyses. The probable range in value using the variables below to the specified Base Case FMV parameters using a 10% discount factors are as follows:

| <u>Sensitivity Case</u>                  | <u>Valuation<br/>FMV<br/>(DCF-NPV)<sup>(1),(2)</sup></u> |
|------------------------------------------|----------------------------------------------------------|
| Sales Price (+20%) .....                 | 11,300                                                   |
| Sales Price (+10%) .....                 | 10,000                                                   |
| Operating Cost (–10%) .....              | 9,200                                                    |
| Capital Cost (–10%) .....                | 8,800                                                    |
| Capital Cost (+10%) .....                | 8,600                                                    |
| Operating Cost (+10%) .....              | 8,300                                                    |
| Flat Chinese Income Tax Rate (25%) ..... | 7,800                                                    |
| Sales Prices (–10%) .....                | 7,500                                                    |
| Production (–10%) .....                  | 7,400                                                    |
| Sales Prices (–20%) .....                | 6,100                                                    |

(1) RMB millions (1 January 2012).

(2) Yitai Group interest basis.

The probable range in value using discount factors ranging from 8% to 12% are as follows:

| <u>Discount<br/>Factor (%)</u> | <u>Yitai Group<br/>Ownership Valuation<sup>(1),(2)</sup></u> |
|--------------------------------|--------------------------------------------------------------|
| 8 .....                        | 9,555                                                        |
| 9 .....                        | 9,122                                                        |
| 10 .....                       | 8,726                                                        |
| 11 .....                       | 8,361                                                        |
| 12 .....                       | 8,025                                                        |

(1) RMB millions (1 January 2012).

(2) Yitai Group interest basis.

Although BOYD has used a 10% discount factor to arrive at our Base FMV for the Yitai Group mines, the sensitivity range of 8% to 12% encompasses the typical range of discount rates applied to these type of assets. While we believe the 10% discount factor is appropriate and reasonable, an alternate factor in the range of 8% to 12% would also be appropriate.

Following this page are:

Tables

##### Discounted Cash Flow

4.1: Dadijing Mine

4.2: Baoshan Mine

4.3: Dingjiaqu Mine

4.4: Chengyi Mine

4.5: Baijialiang Mine

4.6: Yitai Group Composite

4.7: Coal Price Summary, Yitai Group Mines



TABLE 4.1

## DISCOUNTED CASH FLOW

## DADIJING MINE

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

INNER MONGOLIA YITAI COAL CO., LTD.

By

John T. Boyd Company

Mining and Geological Consultants

March 2012

|                                          | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Production Tonnes (millions)             | 3.30  | 3.50  | 3.50  | 3.27  | 3.27  | 3.27  | 3.23  | 3.13  | 2.76  | 1.92  | 1.92  |
| Sales price (RMB/tonne)                  | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   |
| Revenue RMB (millions)                   | 1,417 | 1,503 | 1,503 | 1,404 | 1,404 | 1,404 | 1,387 | 1,344 | 1,185 | 824   | 824   |
| Total Operating Cost (RMB/tonne)         | 105.0 | 109.1 | 111.7 | 108.6 | 113.9 | 113.7 | 113.1 | 113.9 | 121.5 | 135.7 | 134.7 |
| RMB (millions)                           |       |       |       |       |       |       |       |       |       |       |       |
| Total Operating Costs                    | 347   | 382   | 391   | 355   | 372   | 372   | 365   | 356   | 335   | 261   | 259   |
| Value Added Tax                          | 227   | 247   | 248   | 227   | 215   | 232   | 229   | 222   | 180   | 135   | 135   |
| Corporate G&A                            | 35    | 35    | 36    | 37    | 42    | 42    | 41    | 40    | 35    | 25    | 35    |
| Coal Resource Fee                        | 11    | 11    | 11    | 10    | 10    | 10    | 10    | 10    | 9     | 6     | 6     |
| Other Taxes                              | 20    | 22    | 22    | 20    | 19    | 21    | 21    | 20    | 16    | 12    | 12    |
| Total Cost of Sales                      | 639   | 697   | 708   | 649   | 660   | 677   | 667   | 648   | 576   | 439   | 447   |
| Taxable Income                           | 778   | 806   | 795   | 755   | 744   | 727   | 720   | 696   | 609   | 385   | 377   |
| Income Tax                               | 194   | 121   | 119   | 113   | 112   | 109   | 108   | 104   | 91    | 96    | 94    |
| Net After-Tax Income                     | 583   | 685   | 676   | 641   | 633   | 618   | 612   | 591   | 518   | 289   | 283   |
| Working Capital/Parts/Inventory          | 354   | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Equipment                                | 46    | 20    | 15    | 39    | 106   | 10    | 10    | 8     | 98    | 5     | 4     |
| Sustaining Capital                       | 2     | 2     | 2     | 9     | 10    | 10    | 10    | 8     | 23    | 20    | 4     |
| Decommissioning                          | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Deductions to Income                     | 402   | 21    | 16    | 48    | 116   | 19    | 19    | 16    | 121   | 25    | 9     |
| Depreciation                             | 29    | 29    | 27    | 32    | 47    | 49    | 45    | 38    | 49    | 50    | 51    |
| Amortization                             | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Safety Fund Fee                          | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Financial Expenses                       | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Production Maintenance Fee               | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Additions to Income                      | 29    | 29    | 27    | 32    | 47    | 49    | 45    | 38    | 49    | 50    | 51    |
| Net Cash Flow After-Tax (RMB — millions) | 211   | 693   | 687   | 625   | 564   | 648   | 639   | 613   | 446   | 314   | 325   |
| Discounted Cash Flow at 10%              | 201   | 601   | 541   | 448   | 367   | 384   | 344   | 300   | 198   | 127   | 120   |
| Cumulative Discounted Cash Flow          | 201   | 801   | 1,343 | 1,790 | 2,157 | 2,541 | 2,885 | 3,185 | 3,383 | 3,510 | 3,629 |
|                                          | 2023  | 2024  | 2025  | 2026  | 2027  | 2028  | 2029  | 2030  | 2031  | 2032  | 2033  |
| Production Tonnes (millions)             | 1.92  | 1.92  | 1.92  | 1.74  | 1.81  | 1.84  | 1.84  | 1.84  | 1.82  | 1.81  | 0.25  |
| Sales price (RMB/tonne)                  | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   |
| Revenue RMB (millions)                   | 824   | 824   | 824   | 747   | 777   | 790   | 790   | 790   | 781   | 777   | 107   |
| Total Operating Cost (RMB/tonne)         | 130.6 | 126.7 | 127.6 | 131.2 | 125.2 | 123.3 | 124.3 | 122.1 | 122.6 | 122.9 | 133.6 |

TABLE 4.1 — Continued

|                                          | 2023           | 2024  | 2025  | 2026  | 2027  | 2028  | 2029  | 2030  | 2031  | 2032  | 2033  |
|------------------------------------------|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                          | RMB (millions) |       |       |       |       |       |       |       |       |       |       |
| Total Operating Costs                    | 251            | 243   | 245   | 228   | 227   | 227   | 229   | 225   | 223   | 223   | 33    |
| Value Added Tax                          | 135            | 135   | 135   | 123   | 113   | 130   | 130   | 130   | 128   | 128   | 18    |
| Corporate G&A                            | 35             | 35    | 35    | 32    | 33    | 34    | 34    | 34    | 33    | 33    | 13    |
| Coal Resource Fee                        | 6              | 6     | 6     | 6     | 6     | 6     | 6     | 6     | 6     | 6     | 1     |
| Other Taxes                              | 12             | 12    | 12    | 11    | 10    | 12    | 12    | 12    | 12    | 12    | 2     |
| Total Cost of Sales                      | 439            | 432   | 433   | 400   | 388   | 408   | 410   | 406   | 402   | 401   | 67    |
| Taxable Income                           | 385            | 392   | 391   | 347   | 389   | 382   | 380   | 384   | 379   | 376   | 40    |
| Income Tax                               | 96             | 98    | 98    | 87    | 97    | 95    | 95    | 96    | 95    | 94    | 10    |
| Net After-Tax Income                     | 289            | 294   | 293   | 260   | 292   | 286   | 285   | 288   | 284   | 282   | 30    |
| Working Capital/Parts/Inventory          | —              | —     | —     | —     | —     | —     | —     | —     | —     | —     | (354) |
| Equipment                                | 4              | 4     | 4     | 4     | 94    | 4     | 5     | 5     | 5     | 5     | —     |
| Sustaining Capital                       | 4              | 4     | 4     | 4     | 4     | 19    | 20    | 5     | 5     | 5     | —     |
| Decommissioning                          | —              | —     | —     | —     | —     | —     | —     | —     | —     | —     | 5     |
| Deductions to Income                     | 9              | 9     | 9     | 9     | 99    | 24    | 24    | 9     | 9     | 9     | (349) |
| Depreciation                             | 46             | 33    | 32    | 30    | 29    | 27    | 26    | 25    | 25    | 25    | 4     |
| Amortization                             | —              | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Safety Fund Fee                          | —              | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Financial Expenses                       | —              | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Production Maintenance Fee               | —              | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Additions to Income                      | 46             | 33    | 32    | 30    | 29    | 27    | 26    | 25    | 25    | 25    | 4     |
| Net Cash Flow After-Tax (RMB — millions) | 326            | 318   | 316   | 282   | 222   | 290   | 287   | 304   | 300   | 298   | 384   |
| Discounted Cash Flow at 10%              | 109            | 97    | 87    | 71    | 51    | 60    | 54    | 52    | 47    | 42    | 49    |
| Cumulative Discounted Cash Flow          | 3,738          | 3,835 | 3,922 | 3,993 | 4,044 | 4,104 | 4,158 | 4,210 | 4,257 | 4,299 | 4,349 |

TABLE 4.2  
DISCOUNTED CASH FLOW  
BAOSHAN MINE  
Inner Mongolia Autonomous Region, People's Republic of China  
Prepared For  
INNER MONGOLIA YITAI COAL CO., LTD.  
By  
John T. Boyd Company  
Mining and Geological Consultants  
March 2012

|                                                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|----------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Production Tonnes (millions) . . . . .             | 2.20  | 2.20  | 2.20  | 2.20  | 2.20  | 2.00  | 1.55  |
| Sales price (RMB/tonne) . . . . .                  | 477   | 477   | 477   | 477   | 477   | 477   | 477   |
| Revenue RMB (millions) . . . . .                   | 1,050 | 1,050 | 1,050 | 1,050 | 1,050 | 954   | 739   |
| Total Operating Cost (RMB/tonne) . . . . .         | 85.6  | 87.3  | 89.4  | 84.2  | 87.3  | 94.1  | 97.3  |
| RMB (millions)                                     |       |       |       |       |       |       |       |
| Total Operating Costs . . . . .                    | 188   | 192   | 197   | 185   | 192   | 188   | 151   |
| Value Added Tax . . . . .                          | 170   | 172   | 172   | 174   | 174   | 157   | 122   |
| Corporate G&A . . . . .                            | 17    | 18    | 18    | 19    | 21    | 19    | 15    |
| Coal Resource Fee . . . . .                        | 7     | 7     | 7     | 7     | 7     | 6     | 5     |
| Other Taxes . . . . .                              | 15    | 16    | 15    | 16    | 16    | 14    | 11    |
| Total Cost of Sales . . . . .                      | 399   | 405   | 410   | 400   | 409   | 385   | 303   |
| Taxable Income . . . . .                           | 651   | 645   | 640   | 650   | 641   | 569   | 436   |
| Income Tax . . . . .                               | 98    | 97    | 96    | 97    | 96    | 85    | 65    |
| Net After-Tax Income . . . . .                     | 554   | 548   | 544   | 552   | 544   | 483   | 370   |
| Working Capital/Parts/Inventory . . . . .          | 263   | —     | —     | —     | —     | —     | (263) |
| Equipment . . . . .                                | 26    | 14    | 15    | 6     | 6     | 6     | 4     |
| Sustaining Capital . . . . .                       | —     | —     | —     | 6     | 6     | 6     | 4     |
| Decommissioning . . . . .                          | —     | —     | —     | —     | —     | —     | 13    |
| Deductions to Income . . . . .                     | 288   | 14    | 15    | 13    | 13    | 13    | (240) |
| Depreciation . . . . .                             | 19    | 14    | 14    | 18    | 19    | 20    | 13    |
| Amortization . . . . .                             | —     | —     | —     | —     | —     | —     | —     |
| Safety Fund Fee . . . . .                          | —     | —     | —     | —     | —     | —     | —     |
| Financial Expenses . . . . .                       | —     | —     | —     | —     | —     | —     | —     |
| Production Maintenance Fee . . . . .               | —     | —     | —     | —     | —     | —     | —     |
| Additions to Income . . . . .                      | 19    | 14    | 14    | 18    | 19    | 20    | 13    |
| Net Cash Flow After-Tax (RMB — millions) . . . . . | 285   | 548   | 543   | 558   | 551   | 490   | 624   |
| Discounted Cash Flow at 10% . . . . .              | 272   | 475   | 428   | 400   | 359   | 290   | 336   |
| Cumulative Discounted Cash Flow . . . . .          | 272   | 747   | 1,175 | 1,574 | 1,933 | 2,223 | 2,559 |

TABLE 4.3  
DISCOUNTED CASH FLOW  
DINGJIAQU MINE  
Inner Mongolia Autonomous Region, People's Republic of China  
Prepared For  
INNER MONGOLIA YITAI COAL CO., LTD.  
By  
John T. Boyd Company  
Mining and Geological Consultants  
March 2012

|                                                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  |
|----------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Production Tonnes (millions) . . . . .             | 3.00  | 2.50  | 2.00  | 2.00  | 2.00  | 2.00  | 2.00  | 0.79  |
| Sales price (RMB/tonne) . . . . .                  | 424   | 424   | 424   | 424   | 424   | 424   | 424   | 424   |
| Revenue RMB (millions) . . . . .                   | 1,272 | 1,060 | 848   | 848   | 848   | 848   | 848   | 335   |
| Total Operating Cost (RMB/tonne) . . . . .         | 67.9  | 69.8  | 72.0  | 77.8  | 81.6  | 83.5  | 89.7  | 115.4 |
| RMB (millions)                                     |       |       |       |       |       |       |       |       |
| Total Operating Costs . . . . .                    | 204   | 174   | 144   | 156   | 163   | 167   | 179   | 91    |
| Value Added Tax . . . . .                          | 210   | 177   | 142   | 135   | 142   | 142   | 142   | 55    |
| Corporate G&A . . . . .                            | 17    | 18    | 18    | 18    | 26    | 26    | 26    | 13    |
| Coal Resource Fee . . . . .                        | 10    | 8     | 6     | 6     | 6     | 6     | 6     | 3     |
| Other Taxes . . . . .                              | 19    | 16    | 13    | 12    | 13    | 13    | 13    | 5     |
| Total Cost of Sales . . . . .                      | 460   | 393   | 323   | 328   | 350   | 354   | 367   | 167   |
| Taxable Income . . . . .                           | 812   | 667   | 525   | 520   | 498   | 494   | 481   | 168   |
| Income Tax . . . . .                               | 122   | 100   | 79    | 78    | 75    | 74    | 72    | 25    |
| Net After-Tax Income . . . . .                     | 690   | 567   | 446   | 442   | 423   | 420   | 409   | 143   |
| Working Capital/Parts/Inventory . . . . .          | 318   | —     | —     | —     | —     | —     | —     | (318) |
| Equipment . . . . .                                | 21    | 5     | 4     | 43    | 3     | 3     | 3     | 3     |
| Sustaining Capital . . . . .                       | 2     | 18    | 18    | 3     | 3     | 3     | 3     | 3     |
| Decommissioning . . . . .                          | —     | —     | —     | —     | —     | —     | —     | 8     |
| Deductions to Income . . . . .                     | 341   | 23    | 22    | 46    | 7     | 7     | 7     | (303) |
| Depreciation . . . . .                             | 15    | 17    | 19    | 21    | 28    | 29    | 29    | 25    |
| Amortization . . . . .                             | —     | —     | —     | —     | —     | —     | —     | —     |
| Safety Fund Fee . . . . .                          | —     | —     | —     | —     | —     | —     | —     | —     |
| Financial Expenses . . . . .                       | —     | —     | —     | —     | —     | —     | —     | —     |
| Production Maintenance Fee . . . . .               | —     | —     | —     | —     | —     | —     | —     | —     |
| Additions to Income . . . . .                      | 15    | 17    | 19    | 21    | 28    | 29    | 29    | 25    |
| Net Cash Flow After-Tax (RMB — millions) . . . . . | 365   | 561   | 443   | 417   | 444   | 442   | 432   | 471   |
| Discounted Cash Flow at 10% . . . . .              | 348   | 486   | 349   | 298   | 289   | 262   | 232   | 230   |
| Cumulative Discounted Cash Flow . . . . .          | 348   | 834   | 1,183 | 1,481 | 1,770 | 2,032 | 2,264 | 2,495 |

TABLE 4.4  
DISCOUNTED CASH FLOW  
CHENGYI MINE  
Inner Mongolia Autonomous Region, People's Republic of China  
Prepared For  
INNER MONGOLIA YITAI COAL CO., LTD.  
By  
John T. Boyd Company  
Mining and Geological Consultants  
March 2012

|                                                    | 2012           | 2013  | 2014  | 2015  |
|----------------------------------------------------|----------------|-------|-------|-------|
| Production Tonnes (millions) . . . . .             | 1.20           | 1.20  | 1.20  | 1.22  |
| Sales price (RMB/tonne) . . . . .                  | 400            | 400   | 400   | 400   |
| Revenue RMB (millions) . . . . .                   | 480            | 480   | 480   | 488   |
| Total Operating Cost (RMB/tonne) . . . . .         | 125.6          | 127.7 | 130.2 | 120.6 |
|                                                    | RMB (millions) |       |       |       |
| Total Operating Costs . . . . .                    | 151            | 153   | 156   | 147   |
| Value Added Tax . . . . .                          | 78             | 79    | 79    | 81    |
| Corporate G&A . . . . .                            | 21             | 22    | 22    | 22    |
| Coal Resource Fee . . . . .                        | 4              | 4     | 4     | 4     |
| Other Taxes . . . . .                              | 7              | 7     | 7     | 7     |
| Total Cost of Sales . . . . .                      | 261            | 264   | 268   | 262   |
| Taxable Income . . . . .                           | 219            | 216   | 212   | 226   |
| Income Tax . . . . .                               | 55             | 32    | 32    | 34    |
| Net After-Tax Income . . . . .                     | 165            | 183   | 180   | 192   |
| Working Capital/Parts/Inventory . . . . .          | 120            | —     | —     | (120) |
| Equipment . . . . .                                | 10             | 6     | 5     | —     |
| Sustaining Capital . . . . .                       | —              | 3     | 3     | —     |
| Decommissioning . . . . .                          | —              | —     | —     | 4     |
| Deductions to Income . . . . .                     | 130            | 9     | 8     | (116) |
| Depreciation . . . . .                             | 19             | 17    | 15    | 13    |
| Amortization . . . . .                             | —              | —     | —     | —     |
| Safety Fund Fee . . . . .                          | —              | —     | —     | —     |
| Financial Expenses . . . . .                       | —              | —     | —     | —     |
| Production Maintenance Fee . . . . .               | —              | —     | —     | —     |
| Additions to Income . . . . .                      | 19             | 17    | 15    | 13    |
| Net Cash Flow After-Tax (RMB — millions) . . . . . | 53             | 191   | 187   | 322   |
| Discounted Cash Flow at 10% . . . . .              | 51             | 166   | 147   | 230   |
| Cumulative Discounted Cash Flow . . . . .          | 51             | 216   | 363   | 594   |

TABLE 4.5

## DISCOUNTED CASH FLOW

## BAIJIALIANG MINE

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

INNER MONGOLIA YITAI COAL CO., LTD.

By

John T. Boyd Company

Mining and Geological Consultants

March 2012

|                                                    | 2012                  |
|----------------------------------------------------|-----------------------|
| Production Tonnes (millions) . . . . .             | 0.48                  |
| Sales price (RMB/tonne) . . . . .                  | 478                   |
| Revenue RMB (millions) . . . . .                   | 229                   |
| Total Operating Cost (RMB/tonne) . . . . .         | 76.3                  |
|                                                    | <u>RMB (millions)</u> |
| Total Operating Costs . . . . .                    | 36                    |
| Value Added Tax . . . . .                          | 38                    |
| Corporate G&A . . . . .                            | 12                    |
| Coal Resource Fee . . . . .                        | 2                     |
| Other Taxes . . . . .                              | 3                     |
| Total Cost of Sales . . . . .                      | 92                    |
| Taxable Income . . . . .                           | 137                   |
| Income Tax . . . . .                               | 34                    |
| Net After-Tax Income . . . . .                     | 103                   |
| Working Capital/Parts/Inventory . . . . .          | —                     |
| Equipment . . . . .                                | —                     |
| Sustaining Capital . . . . .                       | —                     |
| Decommissioning . . . . .                          | 5                     |
| Deductions to Income . . . . .                     | 5                     |
| Depreciation . . . . .                             | 1                     |
| Amortization . . . . .                             | —                     |
| Safety Fund Fee . . . . .                          | —                     |
| Financial Expenses . . . . .                       | —                     |
| Production Maintenance Fee . . . . .               | —                     |
| Additions to Income . . . . .                      | 1                     |
| Net Cash Flow After-Tax (RMB — millions) . . . . . | 99                    |
| Discounted Cash Flow at 10% . . . . .              | 94                    |
| Cumulative Discounted Cash Flow . . . . .          | 94                    |

TABLE 4.6

DISCOUNTED CASH FLOW  
YITAI GROUP COMPOSITE

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

INNER MONGOLIA YITAI COAL CO., LTD.

By

John T. Boyd Company

Mining and Geological Consultants

March 2012

|                                          | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Production Tonnes (millions)             | 10.18 | 9.40  | 8.90  | 8.69  | 7.47  | 7.27  | 6.78  | 3.92  | 2.76  | 1.92  | 1.92  |
| Sales price (RMB/tonne)                  | 437   | 435   | 436   | 436   | 442   | 441   | 439   | 428   | 429   | 429   | 429   |
| Revenue RMB (millions)                   | 4,448 | 4,093 | 3,881 | 3,790 | 3,302 | 3,206 | 2,974 | 1,679 | 1,185 | 824   | 824   |
| Total Operating Cost (RMB/tonne)         | 91.0  | 95.9  | 99.8  | 97.0  | 97.4  | 100.0 | 102.6 | 114.2 | 121.5 | 135.7 | 134.7 |
| RMB (millions)                           |       |       |       |       |       |       |       |       |       |       |       |
| Total Operating Costs                    | 926   | 901   | 888   | 843   | 728   | 727   | 696   | 448   | 335   | 261   | 259   |
| Value Added Tax                          | 724   | 675   | 640   | 617   | 531   | 531   | 493   | 277   | 180   | 135   | 135   |
| Corporate G&A                            | 103   | 92    | 94    | 96    | 89    | 87    | 82    | 54    | 35    | 25    | 35    |
| Coal Resource Fee                        | 33    | 30    | 28    | 28    | 24    | 23    | 22    | 13    | 9     | 6     | 6     |
| Other Taxes                              | 65    | 61    | 58    | 55    | 48    | 48    | 44    | 25    | 16    | 12    | 12    |
| Total Cost of Sales                      | 1,851 | 1,760 | 1,709 | 1,639 | 1,419 | 1,416 | 1,337 | 816   | 576   | 439   | 447   |
| Taxable Income                           | 2,597 | 2,333 | 2,172 | 2,151 | 1,883 | 1,790 | 1,637 | 863   | 609   | 385   | 377   |
| Income Tax                               | 503   | 350   | 326   | 323   | 282   | 268   | 246   | 130   | 91    | 96    | 94    |
| Net After-Tax Income                     | 2,094 | 1,983 | 1,846 | 1,828 | 1,600 | 1,521 | 1,392 | 734   | 518   | 289   | 283   |
| Working Capital/Parts/Inventory          | 1,055 | —     | —     | (120) | —     | —     | (263) | (318) | —     | —     | —     |
| Equipment                                | 104   | 45    | 39    | 88    | 116   | 19    | 17    | 11    | 98    | 5     | 4     |
| Sustaining Capital                       | 4     | 22    | 22    | 19    | 19    | 19    | 17    | 11    | 23    | 20    | 4     |
| Decommissioning                          | 5     | —     | —     | 4     | —     | —     | 13    | 8     | —     | —     | —     |
| Deductions to Income                     | 1,167 | 67    | 61    | (9)   | 135   | 38    | (215) | (287) | 121   | 25    | 9     |
| Depreciation                             | 84    | 77    | 74    | 84    | 94    | 97    | 88    | 63    | 49    | 50    | 51    |
| Amortization                             | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Safety Fund Fee                          | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Financial Expenses                       | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Production Maintenance Fee               | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     | —     |
| Additions to Income                      | 84    | 77    | 74    | 84    | 94    | 97    | 88    | 63    | 49    | 50    | 51    |
| Net Cash Flow After-Tax (RMB — millions) | 1,012 | 1,993 | 1,859 | 1,921 | 1,559 | 1,580 | 1,695 | 1,083 | 446   | 314   | 325   |
| Discounted Cash Flow at 10%              | 965   | 1,727 | 1,465 | 1,376 | 1,015 | 935   | 912   | 530   | 198   | 127   | 120   |
| Cumulative Discounted Cash Flow          | 965   | 2,692 | 4,157 | 5,533 | 6,548 | 7,484 | 8,396 | 8,926 | 9,124 | 9,251 | 9,371 |



TABLE 4.6 — Continued

|                                                    | 2023  | 2024  | 2025  | 2026  | 2027  | 2028  | 2029  | 2030  | 2031  | 2032   | 2033   |
|----------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Production Tonnes (millions) . . . . .             | 1.92  | 1.92  | 1.92  | 1.74  | 1.81  | 1.84  | 1.84  | 1.84  | 1.82  | 1.81   | 0.25   |
| Sales price (RMB/tonne) . . . . .                  | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429   | 429    | 428    |
| Revenue RMB (millions) . . . . .                   | 824   | 824   | 824   | 747   | 777   | 790   | 790   | 790   | 781   | 777    | 107    |
| Total Operating Cost (RMB/tonne) . . . . .         | 130.6 | 126.7 | 127.6 | 131.2 | 125.2 | 123.3 | 124.3 | 122.1 | 122.6 | 122.9  | 133.6  |
| RMB (millions)                                     |       |       |       |       |       |       |       |       |       |        |        |
| Total Operating Costs . . . . .                    | 251   | 243   | 245   | 228   | 227   | 227   | 229   | 225   | 223   | 223    | 33     |
| Value Added Tax . . . . .                          | 135   | 135   | 135   | 123   | 113   | 130   | 130   | 130   | 128   | 128    | 18     |
| Corporate G&A . . . . .                            | 35    | 35    | 35    | 32    | 33    | 34    | 34    | 34    | 33    | 33     | 13     |
| Coal Resource Fee . . . . .                        | 6     | 6     | 6     | 6     | 6     | 6     | 6     | 6     | 6     | 6      | 1      |
| Other Taxes . . . . .                              | 12    | 12    | 12    | 11    | 10    | 12    | 12    | 12    | 12    | 12     | 2      |
| Total Cost of Sales . . . . .                      | 439   | 432   | 433   | 400   | 388   | 408   | 410   | 406   | 402   | 401    | 67     |
| Taxable Income . . . . .                           | 385   | 392   | 391   | 347   | 389   | 382   | 380   | 384   | 379   | 376    | 40     |
| Income Tax . . . . .                               | 96    | 98    | 98    | 87    | 97    | 95    | 95    | 96    | 95    | 94     | 10     |
| Net After-Tax Income . . . . .                     | 289   | 294   | 293   | 260   | 292   | 286   | 285   | 288   | 284   | 282    | 30     |
| Working Capital/Parts/Inventory . . . . .          | —     | —     | —     | —     | —     | —     | —     | —     | —     | —      | (354)  |
| Equipment . . . . .                                | 4     | 4     | 4     | 4     | 94    | 4     | 5     | 5     | 5     | 5      | —      |
| Sustaining Capital . . . . .                       | 4     | 4     | 4     | 4     | 4     | 19    | 20    | 5     | 5     | 5      | —      |
| Decommissioning . . . . .                          | —     | —     | —     | —     | —     | —     | —     | —     | —     | —      | 5      |
| Deductions to Income . . . . .                     | 9     | 9     | 9     | 9     | 99    | 24    | 24    | 9     | 9     | 9      | (349)  |
| Depreciation . . . . .                             | 46    | 33    | 32    | 30    | 29    | 27    | 26    | 25    | 25    | 25     | 4      |
| Amortization . . . . .                             | —     | —     | —     | —     | —     | —     | —     | —     | —     | —      | —      |
| Safety Fund Fee . . . . .                          | —     | —     | —     | —     | —     | —     | —     | —     | —     | —      | —      |
| Financial Expenses . . . . .                       | —     | —     | —     | —     | —     | —     | —     | —     | —     | —      | —      |
| Production Maintenance Fee . . . . .               | —     | —     | —     | —     | —     | —     | —     | —     | —     | —      | —      |
| Additions to Income . . . . .                      | 46    | 33    | 32    | 30    | 29    | 27    | 26    | 25    | 25    | 25     | 4      |
| Net Cash Flow After-Tax (RMB — millions) . . . . . | 326   | 318   | 316   | 282   | 222   | 290   | 287   | 304   | 300   | 298    | 384    |
| Discounted Cash Flow at 10% . . . . .              | 109   | 97    | 87    | 71    | 51    | 60    | 54    | 52    | 47    | 42     | 49     |
| Cumulative Discounted Cash Flow . . . . .          | 9,480 | 9,576 | 9,664 | 9,734 | 9,785 | 9,845 | 9,900 | 9,952 | 9,998 | 10,041 | 10,090 |

TABLE 4.7

## COAL PRICE SUMMARY

## YITAI GROUP MINES

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

INNER MONGOLIA YITAI COAL CO., LTD

By

John T. Boyd Company

Mining and Geological Consultants

March 2012

|                      | Dadijing                 |                    | Baoshan                  |                    | Dingjiaqu                |                    | Chengyi                  |                    | Baijialiang              |                    | Yitai Group              |                    |
|----------------------|--------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|
|                      | Total Sales <sup>1</sup> | Price <sup>2</sup> | Total Sales <sup>1</sup> | Price <sup>2</sup> | Total Sales <sup>1</sup> | Price <sup>2</sup> | Total Sales <sup>1</sup> | Price <sup>2</sup> | Total Sales <sup>1</sup> | Price <sup>2</sup> | Total Sales <sup>1</sup> | Price <sup>2</sup> |
| Prior 12 Months      | Tonnes 000               | RMB/t              | Tonnes 000               | RMB/t              | Tonnes 000               | RMB/t              | Tonnes 000               | RMB/t              | Tonnes 000               | RMB/t              | Tonnes 000               | RMB/t              |
| January — 2011 ..... | 208                      | 445                | 153                      | 474                | 396                      | 451                | 308                      | 409                | 152                      | 454                | 1,218                    | 442                |
| February .....       | 252                      | 530                | 178                      | 549                | 214                      | 462                | 259                      | 386                | 201                      | 539                | 1,105                    | 488                |
| March .....          | 340                      | 406                | 228                      | 498                | 409                      | 411                | 661                      | 375                | 229                      | 494                | 1,867                    | 418                |
| April .....          | 494                      | 386                | 170                      | 518                | 331                      | 398                | 307                      | 380                | 132                      | 518                | 1,434                    | 415                |
| May .....            | 597                      | 388                | 180                      | 459                | 505                      | 410                | 295                      | 448                | 228                      | 458                | 1,806                    | 420                |
| June .....           | 532                      | 415                | 102                      | 489                | 506                      | 445                | 229                      | 445                | 204                      | 462                | 1,573                    | 440                |
| July .....           | 406                      | 412                | 154                      | 490                | 520                      | 488                | 419                      | 415                | 184                      | 429                | 1,683                    | 445                |
| August .....         | 253                      | 482                | 211                      | 487                | 445                      | 411                | 670                      | 394                | 134                      | 491                | 1,712                    | 430                |
| September .....      | 379                      | 446                | 185                      | 438                | 564                      | 395                | 318                      | 408                | 123                      | 478                | 1,570                    | 421                |
| October .....        | 444                      | 471                | 208                      | 430                | 699                      | 400                | 195                      | 399                | 140                      | 471                | 1,687                    | 428                |
| November .....       | 397                      | 437                | 194                      | 413                | 509                      | 395                | 160                      | 387                | 146                      | 490                | 1,407                    | 418                |
| December .....       | 382                      | 428                | 195                      | 495                | 456                      | 453                | 397                      | 394                | 194                      | 467                | 1,624                    | 439                |
| 12-Month —           |                          |                    |                          |                    |                          |                    |                          |                    |                          |                    |                          |                    |
| Composite .....      | 4,684                    | 429                | 2,161                    | 477                | 5,554                    | 424                | 4,218                    | 400                | 2,069                    | 478                | 18,685                   | 432                |

1.) Total Sales tonnes include all mine-gate and off-site sales. These may differ slightly from historical production output as a result of coal inventories.

2.) FOB Mine-gate (VAT inclusive): Composite of mine-gate and off-site sales less total "Cost of Sales" \*

\* "Cost of Sales": includes all transportation necessary to reach final points of dispatch (truck to rail dispatch, dispatch to port, port fees, rail fees, G&A, sales, commissions, taxes and/or misc. fees)

## APPENDIX A 27 July 2010 Letter to John T. Boyd Company

27 July 2010

John T. Boyd Company  
4000 Town Center Boulevard, Suite 300  
Canonsburg, PA 15317  
USA

Attention: Mr. John T. Boyd II  
President and CEO

Subject: Valuation Report  
Inner Mongolia Yitai Coal Co., Ltd.  
Inner Mongolia Autonomous Region  
People's Republic of China

Dear Sirs:

Inner Mongolia Yitai Coal Co., Ltd. (Yitai) engaged John T. Boyd Company (BOYD) in June 2010 to complete a Valuation Study of the Inner Mongolia Yitai Group Company Limited (Yitai Group) mines. The general locations of the Yitai Group's mines are in Junggar (Zhunge'er) Banner, and Ejin Horo Banner in Inner Mongolian Autonomous Region, People's Republic of China (PRC). Yitai Group's 5 mines are to be included in the Yitai Global Offering and listing on The Stock Exchange of Hong Kong (SEHK). The results of your review of the Yitai Group mines are discussed in the Competent Person's Report prepared by BOYD for Yitai's use in the Global Offering.

Yitai has entered into an Assets Transfer Agreement with Yitai Group. Pursuant to this agreement, Yitai Group agrees to transfer the assets and interests of the Group relating to coal production after completion of the Global Offering.

The BOYD Valuation Report must be prepared in accordance with SEHK Chapter 18 rules. Accordingly, as required by Chapter 18, this letter is intended to provide written confirmation to BOYD that Yitai Group has provided the following to BOYD for use in preparing the Valuation Report:

1. Full, accurate and true disclosure of all Material Information.
2. All necessary access to our Company's personnel and records.

Yitai Group also confirms with this letter that it has respected the independence of John T. Boyd Company during the preparation of the Valuation Report.

Best Regards,

INNER MONGOLIA YITAI COAL CO. LTD.

By: Donghai Zhang

## APPENDIX B 1 March 2012 Letter to John T. Boyd Company

1 March 2012

John T. Boyd Company  
4000 Town Center Boulevard, Suite 300  
Canonsburg, PA 15317  
USA

Attention: Mr. John T. Boyd II  
President and CEO

Subject: Valuation Report  
Inner Mongolia Yitai Coal Co., Ltd.  
Inner Mongolia Autonomous Region  
People's Republic of China

Dear Sirs:

Inner Mongolia Yitai Coal Co., Ltd. (Yitai) engaged John T. Boyd Company (BOYD) in June 2010 to complete a Valuation Study of the Inner Mongolia Yitai Group Company Limited (Yitai Group) mines. The general locations of the Yitai Group's mines are in Junggar (Zhunge'er) Banner and Ejin Horo Banner in Inner Mongolian Autonomous Region, People's Republic of China (PRC). Yitai Group's five mines are to be included in the Yitai Global Offering and listing on The Stock Exchange of Hong Kong (SEHK). The results of your review of the Yitai Group mines are discussed in the Competent Person's Report prepared by BOYD for Yitai's use in the Global Offering.

Yitai has entered into an Assets Transfer Agreement with Yitai Group. Pursuant to this agreement, Yitai Group agrees to transfer the assets and interests of the Group relating to coal production after completion of the Global Offering.

We confirm that Yitai has been provided a draft copy of the BOYD Valuation Report and the management of Yitai has reviewed the subject draft report and hereby verifies that:

- BOYD has accurately stated the material source data provided by Yitai.
- All information of an historical and/or factual nature is properly and accurately recorded.
- There is not any material omission of critical information in the BOYD valuation report.

Respectfully Submitted,

INNER MONGOLIA YITAI COAL CO. LTD

By: Donghai Zhang

**This Appendix contains a summary of laws and regulations in respect of taxation and foreign exchange in Hong Kong and the PRC****Taxation of Security Holders**

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H shares by an investor that purchases such H shares in connection with the Global Offering and holds the H shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H shares, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of the PRC as in effect on the date hereof which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

**PRC Taxation*****Taxation of Dividends******Individual Investors***

Pursuant to the Provisional Regulations Concerning Questions of Taxation on Enterprise Experimenting with the Share System (《股份制試點企業有關稅收問題的暫行規定》) and the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) which was amended on December 29, 2007 and became effective on March 1, 2008 (the "New Individual Income Tax Law"), dividends paid by PRC companies are generally subject to a PRC withholding tax levied at a rate of 20%. For a foreign individual who is not resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20% unless reduced by an applicable tax treaty or specially exempted by the tax authority of the State Council. According to the Notice Regarding Issues Related to the Collection and Administration of Individual Income Tax After the Abolition of Guo Shui Fa [1993]045 Document (Guo Shui Han [2011] 348) (the "IIT Notice") issued by the SAT on June 28, 2011, (i) foreign resident individual shareholders ("FRIs") of a Hong Kong-listed PRC non-foreign-invested enterprise (an "Eligible Enterprise") can enjoy relevant preferential tax treatment in accordance with the tax treaties between China and the countries such individuals reside in and the tax arrangements between PRC mainland and Hong Kong and Macau; (ii) the Eligible Enterprise can withhold 10% of individual income tax ("IIT") when distributing dividend to FRIs, who need not separately apply for such treatment; (iii) FRIs subject to an individual income tax rate of lower than 10% can apply for refund; (iv) FRIs subject to an IIT rate higher than 10% but lower than 20% shall be subject to a withholding tax in accordance with the applicable tax rate under the relevant treaty when receiving dividend and need not separately apply for such treatment; and (v) FRIs residing in countries without tax treaties with the PRC, or other FRIs, shall be subject to a withholding tax rate of 20% when receiving dividend.

According to Circular of the Ministry of Finance and the State Administration of Taxation on Some Policy Issues Concerning Individual Income Tax (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)), the incomes gained by individual foreigners from dividends and bonuses of enterprise with foreign investment are temporarily exempt from individual income tax.

***Enterprise***

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident from a PRC company, but such tax shall not exceed 10% of the total sum of the dividends payable. If a Hong Kong resident holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the total sum of dividends payable by that PRC company.

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) enforced from January 1, 2008 (the “New Enterprise Income Tax Law”) and Regulation on the Implementation of the Enterprise Income Tax Law of PRC (《中華人民共和國企業所得稅法實施條例》), a non-resident enterprise, which did not establish representative office or other facilities or its established representative office or facility has no actual connections with the dividends and bonus received, shall be subject to a 10% enterprise income tax on its revenues sourced in China. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (GuoShuiHan [2008] No. 897) which was promulgated by the State Administration of Taxation and became effective on 6 November 2008, a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards, shall be subject to the enterprise income tax withheld at a uniform rate of 10%. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

### *Tax Treaties*

Investors who are not PRC residents but either reside in countries which have entered into double-taxation treaties with the PRC or reside in Hong Kong SAR or Macau SAR, may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has signed double-taxation avoidance arrangements with Hong Kong SAR and Macau SAR respectively, and has double-taxation avoidance treaties with a number of other countries, which include but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom, the United States and etc. Under each of such double taxation avoidance treaties or arrangements, the rate of withholding tax imposed by PRC’s taxation authorities may be generally reduced.

### **Taxation of Capital Gains**

#### *Individual Investors*

According to the New Individual Tax Law and the Implementation Rules of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》) as amended on February 18, 2008, gains realized on the sales of equity interests shall be subject to individual income tax at a rate of 20%.

Pursuant to the Notice on Continuing the Income Tax-Free Policy on the Share Transfer of Individual Holders (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) jointly issued by the Ministry of Finance and the SAT dated March 30, 1998, gains on the sale of shares of listed companies by individuals were temporarily exempted from individual income tax. In the event that such temporary exemption ceases to be effective, individual holders of H Shares may be subject to income tax at a rate of 20% on capital gains, unless such tax is reduced or eliminated by an applicable double taxation treaty.

#### *Enterprise*

Pursuant to the New Enterprise Income Tax Law and Regulation on the Implementation of the Enterprise Income Tax Law of PRC (《中華人民共和國企業所得稅法實施條例》), a non-resident enterprise, which did not establish representative office or other facilities or its established representative office or facility has no actual connections with the dividends and bonus received, shall be subject to a 10% enterprise income tax on its revenues sourced in China. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

### **Stamp Duty**

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies should not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC by virtue of the Provisional Regulations of China Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》), which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

**Estate Duty**

No liability for estate tax under PRC law will arise from non-PRC national holding H Shares.

**Income Tax**

Pursuant to the New Enterprise Income Tax Law, enterprises incorporated in the PRC will pay enterprise income tax at a rate of 25% on income earned from production and operations, and on other income, with tax concessions available where laws and regulations have provided for tax exemption or reduction.

According to the *Notice on Tax Policy Issues Relating to the In-depth Implementation of the Western Development Strategy* (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) issued by the Ministry of Finance, the General Administration of Customs and the SAT on July 21, 2011, the corporate income tax rate imposed on the enterprises located in Chongqing City, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Ningxia Hui Autonomous Region, Qinghai Province, Xinjiang Uyghur Autonomous Region, Xinjiang Production and Construction Corps, Inner Mongolia Autonomous Region and Guangxi Zhuang Autonomous Region whose principal business belongs to the sector projects as stipulated in the *Catalogue for Encouraged Sectors in the Western Region* (《西部地區鼓勵類產業目錄》) and whose revenue from principal business accounts for over 70% of the total enterprise revenue shall be reduced to 15% for the period from January 1, 2011 to December 31, 2020. According to the *Notice on the Continuous Execution of Corporate Income Tax Concession Policy for Encouraged Projects in the Western Development* (《關於西部大開發鼓勵類項目繼續執行企業所得稅稅收優惠政策的公告》) issued by the Administration of Taxation of Inner Mongolia Autonomous Region on 27 July 2011, the enterprises that have originally enjoyed the income tax concession policy for encouraged sectors in the Western Development located within their jurisdictions, whose principal business projects belong to the encouraged projects listed in the *Guiding Catalogue on Adjustment of Sector Structure* (2011 Version) (《產業結構調整指導目錄》)(2011年本) issued by the NDRC, and whose revenue from principal business accounts for over 70% of the total enterprise revenue shall, upon the confirmation of the competent national tax authority, be entitled to make advance payments of corporate income tax at a provisional tax rate of 15%.

**Value-add Tax**

Pursuant to the PRC Provisional Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例》) (“the VAT Regulations”) which became effective on January 1, 1994 and was amended in November 2008 and the relevant rules for implementation of this law, the Company shall be subject to the value-added tax (the “VAT”) for the goods sold in or imported to the PRC and for the provision of labor services of processing and/or repair and replacement in the PRC. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods, provide processing or repair and replacement services or import goods in the PRC. Except for certain specified categories of goods sold or imported the value-added tax rate for the sale or import of which is 13%, the tax rate for sales or import of goods and provision of processing and repair and replacement services is 17%. The amount of tax payable on the sales of goods or the provision of taxable services is the balance of the amount of tax on sales for the current period after deducting or setting off the amount of tax on purchases for the current period.

**Business Tax**

Pursuant to the PRC Provisional Regulations on Business Tax (《中華人民共和國營業稅暫行條例》) that became effective on January 1, 1994 and was amended in November 2008 and the relevant rules for implementation of this law, the enterprises (including foreign investment enterprises) and individuals that provide various labor services and that assign intangible assets or sell immovable property in the PRC shall be subject to the business tax. The tax rate on the provision of taxable labor services, assignment of intangible assets or sales of immovable property shall be 3%-20%.

**Hong Kong Taxation****Taxation of Dividends**

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by our Company.



### *Taxation of Capital Gains*

No tax is imposed in Hong Kong in respect of capital gains from the sales of property such as the H Shares. However, trading gains from the sales of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% for corporations and at a maximum rate for individuals of 16.0%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for examples, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

### *Stamp duty*

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$5.0 is currently payable on any instrument of transfer of H shares. Where one of the parties to a transfer is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

### *Estate duty*

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

## **FOREIGN EXCHANGE CONTROLS**

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used in the PRC for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center first had to obtain the approval from the SAFE.

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (《中國人民銀行關於進一步改革外匯管理體制的公告》) (the "Notice"), effective from January 1, 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On March 26, 1994, the PBOC promulgated the Provisional

Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理暫行規定》) (the “Provisional Regulations”). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-U.S. Dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-U.S. Dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

On January 29, 1996, the State Council promulgated new Regulations of the People’s Republic of China for the Control of Foreign Exchange (《中華人民共和國外匯管理條例》) (“Control of Foreign Exchange Regulations”) which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 5, 2008 respectively, the latest amendments affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises (《關於對外商投資企業實行銀行結售匯的公告》) (the “Announcement”). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (《關於停辦外匯調劑業務的通知》) which became effective on December 1, 1998. According to the Notice, all foreign exchange swapping business in the PRC targeted on the foreign-invested enterprises shall be discontinued, while the trading of foreign exchanges by foreign-invested enterprises shall be carried out under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005 the PBOC announced that, beginning from that date, it would implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies in the PRC. The Renminbi exchange rate is no longer pegged to the U.S. Dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. Dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity of Renminbi exchange rates on the following business day.

Starting from January 4, 2006, the PBOC introduced Over-the-counter transactions into the inter-bank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the way of matching shall be kept at the same time. In addition to the above, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. After the introduction of Over-the-counter transactions, the formation mechanism of the central parity of Renminbi exchange rates is improved to be a mechanism where the China Foreign Exchange Trade Center would determine the central parity of Renminbi exchange rates based on the Over-the-counter transactions and

announce the central parity of Renminbi against U.S. Dollar at 9:15AM on each business day under the authorization of the PBOC.

Receipts over the current account items may be retained or sold to financial institutions in the business of foreign exchange sale and purchase in accordance with the relevant PRC regulations. Unless otherwise provided by the PRC regulations, approvals by the foreign exchange regulatory authorities shall be obtained for retaining or selling of receipts over the capital account items to financial institutions in the business of foreign exchange sale and purchase.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like our Company), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and/or the relevant branch must be sought.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

**This appendix sets out summaries of the relevant aspects of PRC laws and regulations, which are relevant to the Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix VII of this Prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional summary of provisions required by the Hong Kong Stock Exchange for inclusion in the Articles of Association of the PRC issuers.**

## 1. PRC LAWS AND REGULATIONS

### A. The PRC Legal System

The PRC legal system is based on the Constitution of the People's Republic of China (《中華人民共和國憲法》) (the "PRC Constitution") and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC government is a signatory. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congresses of the PRC (the "NPC") and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil and criminal matters and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of State administration and has the power to formulate administrative regulations based on the constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the constitution, laws and administrative regulations. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and enact the same after submitting to the standing committee of the people's congresses of provinces or autonomous regions for approval. The standing committee of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the People's Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision should be made to resolve the issue. "Larger cities" refer to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

People's congresses of national autonomous areas have the power to enact autonomy regulations and separate regulations in the light of the political, economic and cultural characteristics of the nationality or nationalities in the areas concerned. The autonomy regulations and separate regulations of autonomous regions shall be submitted to the standing committees of the national people's congresses of provinces, autonomous regions or municipalities for approval before taking effect. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate regulations of autonomous prefectures and counties so long as they do not contravene the basic principles of the laws or

administrative regulations, provided that no adaptations shall be made to specific provisions on national autonomous areas contained in the constitution, autonomy law of national areas and other relevant laws and administrative regulations.

The ministries, commissions, People's Bank of China, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations should relate to the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate administrative rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities.

According to the PRC Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

## **B. The PRC Judicial System**

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's court shall apply the system whereby the second instance is final, i.e., the judgment or ruling of the second instance at a people's court is final. A party to the case concerned may appeal to the people's court at the next higher level against the judgment or ruling of the first instance. The people's procuratorate may appeal to the people's court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any appeal by the people's procuratorate within the stipulated period, the judgment or ruling of the people's court shall be the final judgment or rulings. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the president of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the adjudication supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The competent court may also be selected by express agreement amongst the parties to a

contract provided that the court selected is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the object of the action, provided that the provisions of this Law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a juridical system of a foreign country limit the litigation rights of PRC citizens and enterprises, subject to the principle of reciprocity, the PRC courts may apply the same limitations to the citizens and enterprises (in China) of that foreign country. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Should anyone be not able to execute the judgment of the people's court within a stipulated period, as a result of any party's application, the people's court shall enforce such a judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Similarly, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

### **C. The PRC Company Law, Special Regulations and Mandatory Provisions**

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Meeting on December 29, 1993 and came into effect on July 1, 1994. It was amended thrice on December 25, 1999 and on August 28, 2004 and revised on October 27, 2005. The latest revised Company PRC Law came into effect on January 1, 2006.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions promulgated by Securities Commission and the State Restructuring Commission on August 27, 1994 prescribe provisions which must be incorporated in the Articles of Association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

#### **General**

A "company" is a corporate legal person incorporated under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the full amount of its assets and the liability of its shareholders is limited to the extent of the shares held by them. Companies can be divided into two different categories: limited liability companies and joint stock limited companies.

#### **Incorporation**

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than two hundred promoters. And at least half of the promoters must reside within the PRC.

Joint stock limited companies incorporated by promotion are companies with the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the joint stock limited company shall not be less than 20% of the registered capital. The remainder shall be paid up within



two years from the date of incorporation of the joint stock limited company by the promoters. For investment joint stock limited companies, the remainder may be paid up within five years. Share in the company shall not be offered to other persons unless the registered capital has been paid up. For joint stock limited companies incorporated by public subscription, the registered capital is the amount of its total paid up capital as registered with the registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them by the Articles of Association. The full amount of capital contribution shall be paid up if payments are made in one lump sum and the first installment shall be paid forthwith if payments are made in installments. Procedures relating to the transfer of titles for nonmonetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall assume liabilities for breach of contract in accordance with the covenants laid down in the promoters' agreement. After the promoters have completed the initial capital contribution, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the Articles of Association with the company registration authorities, together with capital verification certificate issued by a capital verification institution established by law and other documents required by the law or administrative regulations.

Where joint stock limited companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder can be subscribed for by the public or particular persons, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a shareholder Prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities houses established by law, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to relevant authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inaugural meeting within thirty days and notify each subscriber of or publicly announce the date of the inaugural meeting no less than fifteen days in advance of the meeting. The inauguration meeting shall be formed by the subscribers. Where shares issued remain undersubscribed by the cut-off date stipulated in the share offering Prospectus, or where the promoter fails to convene an inauguration meeting within thirty days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter to return the subscription amounts so paid up together with interests at bank rates for a deposit for the same term. Within thirty days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A joint stock limited company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A joint stock limited company's promoter shall individually and collectively be liable for:

- (i) the payment of all expenses and liabilities incurred in the incorporation process if the joint stock limited company cannot be incorporated;
- (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the joint stock limited company cannot be incorporated; and
- (iii) damages suffered by the joint stock limited company as a result of the default of the promoters in the course of incorporation of the joint stock limited company.



## Share Capital

The promoter of a joint stock limited company may make capital contribution in currencies, or in kind or by way of injection of assets, intellectual property rights or land use rights based on their appraised value, and may also convert lawfully transferred non-monetary assets into capital contribution with a monetary value, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any over-valuation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. Only the amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A joint stock limited company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and China Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of H shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or greater than the par value, but may not be less than the par value.

## Increase in Share Capital

According to the PRC Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank *pari passu* with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares.

Where a joint stock limited company is issuing new shares, resolutions shall be passed by the shareholders' general meeting, the issue price of the new shares, the commencement and end of the new share issue and the class and amount of new shares to be issued to existing shareholders. When a joint stock limited company launches a public issue of new shares with the approval of the securities regulatory authorities under the State Council, a new share offering Prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the Company has been paid up, the change must be registered with the company registration authorities and an announcement must be made. Where a joint stock limited company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with provisions on the payment of subscription amounts in relation to the incorporation of the company.

Besides the PRC Company Law's provision that the issue of new shares shall be approved by shareholders in a shareholders' general meeting, the Securities Law additionally stipulated that any company that makes an initial public offer (IPO) of its stock shall: (i) have a sound corporate governance structure and be well-operated; (ii) have a profitable outlook and be of sound financial status; (iii) have no record of having filed any misleading financial statement in the previous three years or any other major legal irregularity; and (iv) meet any other State Council-approved requirement prescribed by the securities regulatory authority under the State Council.

## Reduction of Share Capital

Subject to the minimum registered capital requirements, a joint stock limited company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the joint stock limited company shall prepare a balance sheet and financial statement;
- (ii) the reduction of registered capital must be approved by shareholders in a shareholders' general meeting;

- (iii) the joint stock limited company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within thirty days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

### Repurchase of Shares

A Company may not purchase its own shares other than for one of the following purposes:

- (i) to reduce its registered share capital;
- (ii) to merge with another company that holds its shares;
- (iii) to grant shares to its employees as incentives;
- (iv) to purchase its own shares from its shareholders who vote against the resolution regarding the merger and demerger with other company in a shareholders' general meeting; and
- (v) such other purposes permitted by law and administrative regulations.

The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution of the shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be canceled within ten days from the date of acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

Shares acquired by the company in accordance with (iii) under paragraph one shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees of the company within one year.

### Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder. Subject to the PRC Company Law, no changes of registration in the share register provided in the foregoing shall be effected during a period of twenty days prior to the convening of the shareholders' general meeting or five days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. Subject to the Mandatory Provisions, the shareholders' register may not be modified within the thirty days preceding the shareholder's general meeting or within the five days preceding any ex-dividend date fixed by the company.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company his shareholdings in the company and any changes of such shareholdings. During their term of office, they shall transfer no more than 25% of the shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have resigned from their positions with the

company. The Articles of Association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and the senior management of the company. During their respective terms of office, any shares transferred by any of the company's directors, supervisors and senior managers in any year shall not exceed 25% of the relevant individual's total stake in the company. Company shares held by any director, supervisor or senior manager shall not be transferred within one year of the date on which the shares are first listed and traded on a stock exchange.

## Shareholders

The shareholder's rights and duties are all stipulated in the company's Articles of Association, which is binding on all the shareholders.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend a shareholders' general meeting and exercise the voting rights on the basis of the number of the shares held by such shareholder personally or appoint an agent to attend the meeting and exercise the rights referred to hereinabove;
- (ii) to transfer the shares held by such shareholder subject to the applicable laws, regulations and the company's article;
- (iii) to bring an action in the people's court to stop the illegal violation when any law or administrative regulation or any legal right or interest of any shareholder is violated by a resolution passed by the shareholders' general meeting or the board of directors;
- (iv) to inspect the Articles of Association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory committee and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (vii) any other shareholders' rights provided for in the Articles of Association.

The obligations of a shareholder include the obligation to abide by the company's Articles of Association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's Articles of Association.

## Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principle powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors (not being staff representative) and to decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the supervisory committee or supervisor;

- (v) to examine and approve the company's proposed annual financial budget and final accounts;
- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to amend the company's Articles of Association; and
- (xi) other authorities as provided for in the Articles of Association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the Articles of Association;
- (ii) the aggregate losses of the company which are not made up reach one third of the company's total paid in share capital;
- (iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary;
- (v) when the supervisory committee so requests; or
- (vi) other circumstances as provided for in the Articles of Associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for ninety days consecutively may unilaterally convene and preside over such meeting.

Subject to the PRC Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders twenty days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders fifteen days prior to the meeting. Notice of the issuance of bearer's share shall be announced thirty days before the meeting. Subject to the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the shareholders forty-five days in advance, and the matters to be considered at the meeting shall be specified. Subject to the Special Regulations and the Mandatory Provisions, the confirmation letter of the shareholders planning to attend the meeting shall be delivered to the company twenty days in advance of the meeting. Moreover, subject to the Special Regulations, the shareholders holding more than 5% of the company's shares may put forward a new proposal in writing for the meeting to discuss on the shareholder's annual meeting, and if the proposal falls within the purview of the meeting, it shall be placed in the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the Articles of Association, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the Articles of Association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be

approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the Articles of Association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected meeting for the election of directors and supervisors at the shareholders' general meeting, and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any class, warrants or other similar securities, and bonds or debentures, the liquidation of the company and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received twenty days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of H shares are deemed to be different classes of shareholders for this purpose.

## Directors

A company shall have a board of directors, which shall consist of five to 19 members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the Articles of Association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and Articles of Association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed in general meetings;
- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;

- (ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other power under the Articles of Association.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's Articles of Association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debts due and outstanding.

The election, appointment or engagement of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. Directors committing the above during his term of office shall be released of his duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall perform his duties.



## Supervisors

A company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the Articles of Association, provided that the proportion of representatives of the company's staff shall not be less than one third. Directors and members of the officers may not act concurrently as supervisors. Representatives of the company's staff and workers at the supervisory committee shall be democratically elected at the staff representative assembly, general staff meeting or otherwise. The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by the majority of supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if reelected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and Articles of Association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and officers in their performance of their duties and to propose the removal of directors and officers who have violated laws, regulations, the Articles of Association or shareholders' resolution;
- (iii) when the acts of a directors and managers are in a harm to the company's interests, to require correction of these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;
- (v) to propose resolution in a general meeting;
- (vi) to initiate proceedings against directors and officers;
- (vii) other powers specified in the Articles of Association.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in his work at the company's expense.

## Managers and Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall be responsible to the board of directors and may exercise the following powers:

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;



- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller;
- (vii) appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- (viii) other powers conferred by the board of directors or the Articles of Association.

Other provisions of the Articles of Association on the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings.

According to the PRC Company Law, officers shall mean the general manager, deputy general manager(s), financial controller, board secretaries (in case of a listed company) of a company and other personnel as stipulated in the Articles of Association.

#### **Duties of the Directors, Supervisors, General Managers and Other Officers**

Directors, supervisors, managers and officers of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the Articles of Association, carry out their duties honestly and diligently. Directors, supervisors, managers and officers are prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties. Directors and officers are prohibited from:

- (i) Misappropriation of company funds;
- (ii) Deposit of company funds into accounts under his own name or the name of other individuals;
- (iii) Loaning company funds to others or providing guarantees in favor of others on the back of the company properties in violation of the Articles of Association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (iv) Entering into contracts or deals with the company in violation of the Articles of Association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (v) using one's position and powers to procure business opportunities for oneself or others that should have otherwise been available to the company or operating for one's own benefit or managing on behalf of other businesses similar to that of the company without prior approval of the shareholders' meeting or the shareholders' general meeting;
- (vi) Accepting for one's own benefit commission from a third party dealing with the company;
- (vii) Unauthorized divulgence of confidential business information of company; or
- (viii) Other acts in violation of the fiduciary duty to the company.

Income generated by directors or officers in violation of the foregoing provisions shall be reverted to the company.

A director, supervisor or officer who contravenes any law, regulation or the company's Articles of Association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where the attendance of a director, supervisor or officer is requested by the shareholders' general meeting, such director, supervisor or officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and officers should furnish with all truthfulness facts and information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without obstructing the discharge of duties by the supervisory board or the supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other officers shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions contains detailed stipulations on these duties.

### Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of financial department of the State Council.

The financial report of a liability limited company shall be delivered to all the shareholders within the time limit stipulated in the company's article. A joint stock limited company shall deposit its financial statements at the company for the inspection by the shareholders at least twenty days before the convening of an annual general meeting of shareholders. A joint stock limited company issuing its shares in public must publish its financial statements. When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, or in other manners. Profit distributed to shareholders by the shareholders' meeting or shareholders' general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. The own shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital reserve shall be accounted for as capital reserve. The common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital, however, the capital reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

### Appointment and Retirement of Auditors

Pursuant to the PRC Company Law, the appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' meeting, the shareholders' general meeting or the board of directors in accordance with the Articles of Association. The accountant should be allowed to make representations when the shareholders' meeting, the shareholders' general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ an independent qualified firm of accountants to audit the company's annual report and review and check other financial reports. The accountant's term of office shall commence from the end of the annual general meeting of the company's shareholders and it shall expire on the end of the next annual general meeting of the company's shareholders.

### Distribution of Profits

According to the PRC Company Law, the company shall not distribute profits before losses are covered and the statutory common reserve is drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

### Amendment of Articles of Association

Any amendments to the Articles of Association must be made in accordance with the procedures set forth in applicable laws, regulations and the Articles of Association. Any amendment of provisions incorporated in the Articles of Association in accordance with the Mandatory Provisions will only be effective after approval by the company's approval department authorized by the CSRC and the State Council and filed with the State Administration of Industry and Commerce or any of its local bureaus for registration. If the amendment to the Articles of Association falls to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

### Dissolution and Liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following:

- (i) the term of its operations set down in the company's Articles of Association has expired or other events of dissolution specified in the company's Articles of Association have occurred;
- (ii) the shareholders in a shareholders' general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business license is invalidated; the operation is suspended, or the company is dissolved by order of the court;
- (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses for shareholders.

In the event of (i) above, the company may carry on its existence by amending its Articles of Association. The amendment of the Articles of Association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two thirds of voting rights in the case of companies with limited liability and more than two thirds of voting rights of shareholders attending a shareholders' general meeting in the case of a joint stock limited company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee shall be established and liquidation within fifteen days after the occurrence of an event of dissolve. Members of the liquidation committee of a joint stock limited company shall be appointed by the directors or the shareholders in a general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation committee. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;

- (iii) to deal with and settle any outstanding businesses of the company;
- (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue public notices in the newspapers within sixteen days. A creditor shall lodge his claim with the liquidation committee within thirty days after receiving notification, or within forty-five days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' meeting, shareholders' general meeting or people's court for endorsement.

The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to their proportion of capital contribution in the case of companies with limited liability and according to shareholding proportion in the case of joint stock limited companies. The company shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy.

Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, shareholders' general meeting or the court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

### Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue H shares and domestic invested shares which has been approved by CSRC may be implemented respectively by the board of directors of the company by way of separate issues, within fifteen months after approval is obtained from the CSRC.

### Loss of Share Certificates

A shareholder may apply, in accordance with the announcement and notice procedures set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

### Suspension and Termination of the Listing

The PRC Company Law's provisions about suspension and termination of the listing have been cancelled, and the following amendments have been made by the Securities Law:

In any of the following circumstances, the stock exchange shall suspend the listing of the relevant stock in it:

- (i) where the market capitalization or share ownership structure of the company changes, thus causing the company to breach listing requirements;
- (ii) where the company fails to make a public disclosure on its financial status in accordance with the relevant provisions, or includes any false information in its financial statements that may mislead investors;
- (iii) where the company is responsible for any major legal irregularity;
- (iv) where the company has been operating at a loss for the last three consecutive years; or
- (v) under any other circumstances prescribed in the listing rules of the stock exchange.

According to the Securities Law, the relevant stock exchange shall terminate the listing of the relevant stock where the company subsequently fails to meet listing requirements within the period of time prescribed by the stock exchange under the circumstance referred in (i) above or refuses to take any remedial steps under the circumstance referred in (ii) above or fails to make a profit in the following year under the circumstance referred in (iv) above.

### Merger and Demerger

When companies merge, the creditor rights and debts of the merging parties shall be assumed by the surviving company or the new company. When a company demerges, its assets must be divided accordingly and a balance sheet and inventory of assets must be drawn up. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered with company's registration authorities. Cancellation of a company should be registered in accordance with the law when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated.

### D. Securities Law and Regulations and Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of the securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and the functions of the Securities Commission was assumed by the CSRC.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On August 28, 2004 and October 27, 2005, the Securities Law was respectively revised twice. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council, etc. Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

#### **E. Arbitration Laws**

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was passed by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, contract disputes or other property disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court, unless the arbitration agreement has lapsed.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association of a company listed in Hong Kong and, in the case of the Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of H shares and the company; (ii) a holder of H shares and a holder of domestic shares; or (iii) a holder of H shares and the directors, supervisors or other officers of the company; such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

CIETAC is an economic and trade arbitration organ in the PRC. In accordance with CIETAC Arbitration Rules as amended on January 11, 2005 (which amendment became effective on May 1, 2005), the jurisdiction of CIETAC covers disputes involving Hong Kong. CIETAC is located in Beijing with South China branch office in Shenzhen as well as the other branch office in Shanghai. Under the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee or the giving of an award beyond the scope of the arbitration agreement or the jurisdiction of the arbitration commission).

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the



public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention to disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on June 18, 1999. This new arrangement has been approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforceable in Hong Kong in accordance with law and awards by Hong Kong arbitral authorities to be enforceable in the PRC.

#### **F. Foreign Exchange Control**

Foreign exchange control is implemented in China. The PRC Foreign Exchange Control Regulations promulgated by the State Council on January 29, 1996 and came into effect on April 1, 1996 (as amended on January 14, 1997 and August 7, 2008) stipulates the principles and the punishment of the country's control of foreign exchange revenue and spending. The PBOC stipulates the basic regulation of the foreign exchange control and the SAFE and its lower organs take the responsibility of the execution of the detail regulations and the foreign exchange control. Besides the PRC Foreign Exchange Control Regulations, the Regulations on the Foreign Exchange Settlement, Sale and Payments which were promulgated on June 20, 1996 by PBOC and took effect on July 1, 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, economic organizations and social institutions in the PRC. The Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime issued by the PBOC on July 21, 2005 stipulated that starting from July 21, 2005, China will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The People's Bank of China will announce the closing price of a foreign currency such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.

Control of revenue and spending of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises that require foreign exchange for dividend payments, such as profit distribution to foreign investors, may draw funds in their foreign exchange bank accounts kept with designated banks after paying due dividend taxes. Should such foreign exchange be insufficient, foreign investment enterprises may purchase foreign exchange from designated banks. While foreign exchange control on current account transactions has been relaxed, the direct investment by foreign investors, the drawdown of foreign currency loans by onshore companies, the provision of foreign exchange guarantees, overseas investments and any other types of capital account transactions that involve the purchase of foreign exchange remain subject to the approval of the State Administration of Foreign Exchange Control or the registration in accordance with the laws. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the POBC and subject to certain limits, freely determine the applicable exchange rate.

#### **G. Regulations of Overseas Investment**

According to the Measures for the Administration of Overseas Investment promulgated by Ministry of Commerce on March 16, 2009 and came into effect on May 1, 2009, the enterprises' overseas investment stipulation in such measures shall require the ratification of the departments in charge of commerce. If there is any change to be made to the application items of the original overseas investment after ratification, the enterprise concerned shall apply to the original ratifying organ for going through the procedure of alteration ratification.

According to the Procedures for the Administration of the Foreign Exchange Involved in Investment Abroad approved by the State Council and stipulated by the State Administration of Foreign Exchange and



came into effect on August 1, 2009, Chinese enterprises that have been permitted to make investment abroad shall handle with the department for control of foreign exchange the procedures of registration about the foreign exchange for investment abroad.

According to the Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects promulgated by the National Development and Reform Commission, the direct or indirect overseas investment projects of resource development and the overseas investment projects using large amount of foreign exchange shall be subject to the examination and approval of the National Development and Reform Commission or the State Council. The investors should apply to the National Development and Reform Commission for alteration in case the alteration of the investors or their stock rights occurs to the approved projects.

## **2. HONG KONG LAWS AND REGULATIONS**

### **(a) Hong Kong company law and its comparison with the PRC company law applicable to a joint stock limited company incorporated under the PRC Company Law**

Hong Kong company law is primarily set out in the Hong Kong Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC Company Law applicable to a joint stock limited company incorporated under the PRC Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain of the material differences between the PRC Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the PRC Company Law.

#### ***(i) Derivative action by minority shareholders***

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure.

Although the PRC Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the PRC Company Law.

However, each of the Directors and Supervisors (as required by the Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This may allow minority shareholders to commence actions directly against defaulting Directors.

#### ***(ii) Remedies of the Company***

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the Articles of Association of a company, resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Listing Rules and the Mandatory Provisions, the Articles of Association set out remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer).

#### ***(iii) Directors, officers and supervisors***

The PRC Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorized benefits, but contain no provision restricting the authority of the directors to make major

dispositions or prohibiting payment to them for loss of office without shareholders' approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the Articles of Association of the company, by its directors and managers. Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

***(iv) Minority protection***

There is no specific provision in the PRC Company Law to guard against oppression by the majority shareholders of minority shareholders but the Company, as required by the Mandatory Provisions and the Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to achieve certain objectives.

***(v) Receiving agent***

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. In accordance with the requirements of the Mandatory Provisions and the Listing Rules, the Articles of Association provide for the appointment of an agent in Hong Kong, which is a trust corporation registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) in Hong Kong to receive all dividends and all other monies payable to H Share holders on behalf of such shareholders as required by the Listing Rules. The Articles of Association also contain provisions which provide that unclaimed dividends may only be forfeited by the Company after six years from declaration.

***(vi) Variation of class rights***

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question.

The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where the Company issues and allots, in any 12-month period pursuant to a shareholders' mandate (obtained by way of a special resolution in general meeting), not more than 20% of each of the issued overseas listed foreign invested shares and the domestic invested shares existing as of the date of the shareholders' mandate. For the purpose of the above, holders of overseas non-listed foreign invested shares are treated as the same class of holders of domestic invested shares.

***(vii) Share capital***

For a joint stock limited company formed under the PRC Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of

the shareholders if required, cause the company to issue new shares. In the case of a PRC company, any increase in the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant SAIC.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB50 million under the PRC Company Law. Hong Kong law does not effectively prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital if the concerned joint stock limited company is not one of those hi-tech companies specified by the State Council. There is no such restriction under Hong Kong law on a Hong Kong company.

***(viii) Restriction on shareholding and transfer of shares***

The PRC Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

***(ix) Notice of meetings***

Under the PRC Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions (which apply to the Company) written notice of 45 days must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions 21 days. The notice period for an annual general meeting is also 21 days.

***(x) Quorum***

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the Articles of Association provide otherwise. The PRC Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights in the Company at least 20 days before the proposed date, or if that 50% level is not achieved, that the Company shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

***(xi) Voting***

Under Hong Kong company law, ordinary resolutions are passed by more than one half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three quarters of such votes. Under the PRC Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the Articles of Association, merger, division or dissolution of a company where the approval of a two-thirds majority is required.

***(xii) Dividends***

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws the relevant limitation period is two years.

***(xiii) Financial disclosure***

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Hong Kong Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within two months after the end of the first six months of a financial year and within three months after the end of a financial year respectively. The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

***(xiv) Information on directors and shareholders***

The PRC Company Law gives shareholders the right to inspect the Company's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

***(xv) Corporate reorganisation***

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Hong Kong Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Hong Kong Companies Ordinance which requires the sanction of the court. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and the relevant governmental authorities.

***(xvi) Arbitration of disputes***

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, supervisors, managers or other senior officers or a holder of Domestic Shares, arising from the Articles of Association, the PRC Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Centre or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

***(xvii) Mandatory deductions***

Under the PRC Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory common welfare fund of the company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Hong Kong Companies Ordinance.

**(b) LISTING RULES**

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited liability company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

***(i) Compliance adviser***

The Company is required to retain, for at least one year following its listing or such shorter period as the Stock Exchange may permit, the services of a compliance adviser that is acceptable to the Stock Exchange, to provide us with professional advice on continuous compliance with Listing Rules, and to act at all times, in addition to our two authorized representatives, as our principal channel of communication with the Stock Exchange.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require us to terminate the compliance adviser's appointment and appoint a replacement as soon as possible.

The compliance adviser must keep the Company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. It must act as the principal channel of communication between the Company and the Stock Exchange if the Company's authorized representatives are expected to be frequently outside Hong Kong.

***(ii) Accountants' reports***

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong accounting standards or International Financial Reporting Standards.

***(iii) Process agent***

We are required to appoint and a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Stock Exchange and must notify the Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

***(iv) Public shareholding***

If at any time we issue securities other than the H Shares that are listed on the Stock Exchange, the Listing Rules require that all of our H Shares must be held by the public, the H Shares must represent not less than 10% of our issued share capital and the aggregate number of our H Shares and other securities held by the public must constitute not less than 25% of our issued share capital.

***(v) Independent non-executive directors and supervisors***

Independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as Supervisors.

***(vi) Restrictions on purchase and subscription***

Subject to governmental approval and the Articles of Association, we may purchase our own H Shares on the Stock Exchange in accordance with the provisions of Listing Rules. Approvals by way of a special resolution of holders of Domestic Shares and unlisted Foreign Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of any or all of its equity securities, whether or not listed or traded on the Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar PRC law of which the Directors are aware, if any. Any special approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

***(vii) Redeemable shares***

We must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of H Shares are adequately protected.

***(viii) Pre-emptive rights***

Except in the circumstances mentioned below, Directors must obtain the approval by special resolution of shareholders of the Company in general meeting and the approvals by special resolutions of holders of Domestic Shares, B Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association prior to:

- (i) authorising, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities; or
- (ii) any major subsidiary making any such authorization, allotment, issue or grant so as materially to dilute the percentage of our equity interest in such subsidiary.

No such approval will be required, except to the extent that our existing shareholders have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued Domestic Shares, B Shares and H Shares as of the date of the passing of the relevant special resolution or, such Shares are part of our plan at the time of our establishment, to issue Domestic Shares, B Shares and H Shares as long as such plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

***(ix) Amendment to Articles of Association***

We may not permit or cause any amendment to our Article of Association which would cause them to cease to comply with the PRC Company Law, the Mandatory Provisions or the Listing Rules.

***(x) Documents for inspection***

We are required to make available at a place in Hong Kong for inspection by the public and our shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (i) a complete duplicate register of shareholders;
- (ii) a report showing the state of the issued share capital of the Company;
- (iii) our latest audited financial statements and the Directors', auditors' and (if any) Supervisors' reports thereon;
- (iv) special resolutions;



- (v) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares, B Shares and H Shares);
- (vi) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
- (vii) for shareholders only, copies of the minutes of meetings of shareholders.

**(xi) *Statements in share certificates***

We are required to ensure that all our listing documents and H Share certificates include the statement stipulated below and to instruct and cause our H Share Registrar not to register the subscription, purchase or transfer of any of our H Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those H Shares bearing statements to the following effect, that the holder of H Shares:

- agrees with us and each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and other officers, and we acting both for ourselves and for each of our Directors, Supervisors, managers and other officers, agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Share; and
- authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.



This Appendix contains a summary of the main provisions in our Articles of Association. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is only a summary form, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for inspection as mentioned in “Appendix XI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection.”

The Articles of Association and relevant amendments thereto were adopted or authorized by the shareholders in general shareholders’ meetings in accordance with applicable laws and regulations, including the *PRC Company Law*, the *Securities Law of the PRC*, the *Opinion Letter Regarding Supplementary Amendments to Articles of Association of Companies Limited by Shares Seeking Listing in Hong Kong*, the *Special Regulations*, the *Mandatory Provisions* and the *Hong Kong Listing Rules*.

## Directors and Other Officers

### *Power to allot and issue shares*

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the capital of the Company, the Board is responsible for formulating proposals for approval at a shareholders’ general meeting by way of special resolution.

### *Power to dispose of the fixed assets of the Company or any subsidiary*

The Board is accountable to the shareholders’ general meeting.

When the Board is disposing the Company’s fixed asset, it shall not, without the prior approval or consent of shareholders’ general meeting, dispose or agree to dispose of, any fixed assets of the Company where the anticipated value of the assets to be disposed, together with the value of fixed assets that have been disposed in the period of four months immediately preceding the proposed disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet reviewed by the shareholders’ general meeting.

The validity of a disposition transaction by the Company of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of the Articles of Association, a disposition of fixed assets includes certain acts of transfer of interests in assets but does not include the provision of fixed assets as security.

### *Emoluments and compensation or payments for loss of office*

The Company shall, with the prior approval of shareholders’ general meeting, enter into a contract in writing with each of the Directors and Supervisors wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as a Director, Supervisor or senior executive officer of the Company;
- (2) emoluments in respect of his service as a Director, Supervisor or senior executive officer of any subsidiary of the Company;
- (3) emoluments in respect of other service in relation to the management of the Company and any subsidiary of the Company; and
- (4) payment by way of compensation for loss of office or retirement from office of a Director or Supervisors.

Except under the contract in accordance with the foregoing, no proceedings may be brought by a Director and Supervisor against the Company for any benefit due to him in respect of the above matters.

The contracts concerning the emoluments between the Company and its Directors or Supervisors shall provide that, when an acquisition of the Company is about to happen, the Directors and Supervisors shall, subject to the prior approval of the shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. The "acquisition of the Company" referred in this paragraph means either:

- (1) an offer made by any person to all shareholders; or
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles of Association (see the section headed "Rights of the Minorities in Relation to Fraud or Oppression" below).

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the offer made. The expenses incurred in distributing such sum pro rata shall be borne by the relevant Director or Supervisor and not paid out of that sum.

***Loans or Guarantees of Loans to Directors, Supervisors, other senior executive officers and/or their associates***

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to a Director, Supervisor, Manager and other senior executive officer of the Company and of the Company's parent company. The Company shall not make a loan to, or provide any guarantee in connection with the making of a loan to an associate of the aforesaid parties. However, the following situations are not subject to such prohibition:

- the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to a Director, Supervisor, Manager and other senior executive officer for him to pay for expenditure incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant Directors, Supervisors, Manager and other senior executive officers on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the payment regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, but except in the following situations:

1. the loan was provided to an associate of any of the Directors, Supervisors, Manager and other senior executive officers of the Company or of the Company's parent company and at the time the loan was advanced the lender did not know the relevant circumstances; or
2. the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser. For these purposes, a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor.

*Financial assistance for the acquisition of shares in the Company or any subsidiary*

Subject to the exceptions in the Articles of Association, the Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of the Company. The said acquirer of shares of the Company includes a person who directly or indirectly assumes any obligations (as defined below) due to the acquisition of the shares; the Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to above for the purpose of reducing or discharging the obligations assumed by that person.

The following conducts shall not be deemed to be prohibited conducts as referred to in the paragraphs above:

- the provision of financial assistance by the Company where the financial assistance is given honestly in the interest of the Company, and the principal purpose in giving the financial assistance is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger plans of the Company;
- the distribution of the Company's assets by way of dividend in accordance with laws;
- the allotment of bonus shares as shares;
- a reduction of registered capital, a repurchase of shares of the Company or an adjustment of the share capital structure of the Company effected in accordance with the Articles of Association;
- the lending of money by the Company for its normal business activities within the scope of business (however, the net assets of the Company shall not be thereby reduced; or, even if the assets were thereby reduced, the financial assistance is however provided out of distributable profits); and
- the provision of money by the Company for contributions to staff and workers' shares schemes (however, the net assets of the Company shall not be thereby reduced; or, even if the assets were thereby reduced, the financial assistance is however provided out of distributable profits).

For these purposes:

(a) "Financial assistance" includes (without limitation) the following means:

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation caused by the Company's own default) or release or waiver of rights;
- (3) provision of a loan or entering into a contract under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such loan or agreement; or
- (4) any other form of financial assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced to a material extent.

(b) "Assuming an obligation" includes obligations assumed by the obligor that change its financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

***Disclosure of interests in contracts, transactions or arrangements with the Company***

Where a Director, Supervisor, Manager or other senior executive officer of the Company is directly or indirectly materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than the employment contracts the Company entered into with its Directors, Supervisors, Manager and other senior executive officers), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the Board under normal circumstances.

A Director shall not vote on a board resolution that approves a contract, transaction, arrangement or any other proposals in which he or his associate (refer to the definition in applicable securities listing requirements from time to time) is materially interested; the relevant director shall refrain from voting and not be counted in the quorum for the meeting. Unless the interested Director, Supervisor, Manager or other senior executive officer discloses his interests to the Board in accordance with the aforesaid provisions and the Board approved that matter at a meeting in which the interested person is not counted in the quorum and refrains from voting, the Company has a right to void the contract, transaction or arrangement, except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, Manager or other senior executive officer.

A Director, Supervisor, Manager or other senior executive officer of the Company is deemed to be materially interested in a contract, transaction or arrangement in which an associate of his/hers is materially interested.

Where a Director, Supervisor, Manager or other senior executive officer of the Company gives to the Board a notice in writing stating that, by reason of the content specified in the notice, he is interested in contracts, transactions or arrangements of any description, which may subsequently be made by the Company, such notice shall be deemed for the purposes of this paragraph to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

***Remuneration***

The remuneration of Directors must be approved by the shareholders' general meeting, as referred to under the section headed "Emoluments and Compensation or Payments for Loss of Office" above.

***Appointment, removal and retirement***

Directors shall be elected by the shareholders' general meeting with a three-year term of office. Upon the expiration of a director's term of appointment, he may be re-elected and re-appointed.

Provided that relevant laws and administrative regulations have been complied with, the Shareholders' general meeting may remove any of its directors whose term of office may not expire from office by way of an ordinary resolution; the removal of an independent Director must be subject to relevant rules (but it will not affect any claim for damages that may arise from any contract).

A written notice of the intention to nominate a person for election as a director and a notice in writing by that person indicating his acceptance of such election is required to be given to the Company seven days prior to the day of meeting. The period for such nomination and such acceptance shall be not less than seven days (the beginning date of the seven-day notice period shall be not earlier than the second day after the notice of designed meeting of the nomination is dispatched and the ending date shall be not later than seven days before the shareholders' general meeting is convened).

The Board shall consist of 11 Directors, of which seven shall be Directors with four independent Directors. The Board shall have one chairman. The chairman and vice-chairman shall be elected and removed by more than half of all of the Directors. A Director is not required to hold shares of the Company.

A person may not serve as a Director, Supervisor, Manager or any other senior executive officer of the Company if any of the following circumstances apply:

- a person without or with restricted civil capacity;
- a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where no more than five years has elapsed since the date of the completion of implementation of such punishment or deprivation;
- a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where no more than three years has elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- a person who is a legal representative of a company or enterprise which had its business license revoked due to a violation of the law and who incurred personal liability, where no more than three years has elapsed since the date of the revocation of the business license;
- a person who has a relatively large amount of debts due and outstanding;
- a person who is penalized by the China securities regulatory authority by being denied access to the securities market and the penalty remains in effect;
- a person who is under criminal investigation by judicial organization for violation of the criminal law which investigation is not yet concluded;
- a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- a non-natural person;
- a person convicted of the contravention of provisions of relevant securities regulations by a relevant governing authority, and such conviction involves fraudulent or dishonest conduct, where less than five years has elapsed since the date of the conviction; or
- any other person who is otherwise not eligible under laws or rules set out by the securities regulatory bodies or stock exchanges on which Shares of the Company are listed.

The election, appointment or delegation of Directors in violation of the aforesaid provisions shall be null and void. Directors committing the above during his term of office shall be released of his duties by the Company.

There is no provision in the Articles of Association that imposes any age limit for Directors beyond which retirement of a Director is mandatory.

The validity of an act of a Director, a manager or other senior executive officer on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

### ***Borrowing powers***

The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Board the power to formulate proposals for the issuance of debentures by the Company; and (b) provisions which provide that the issuance of debentures must be approved by the shareholders' general meeting by way of a special resolution.

*Duties*

In addition to obligations imposed by laws, administrative regulations or required by listing rules of the stock exchanges on which Shares are listed, each of the Company's Directors, Supervisors, Managers and other senior executive officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- not to cause the Company to exceed the scope of the business stipulated in its business license;
- to act honestly in the best interest of our Company;
- not to expropriate in any guise the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company; and
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association.

Any liabilities of the Directors, Supervisors, Manager or other senior executive officers arising from violation of certain specific obligations may be released when the Shareholders' general meeting is informed, except in the aforesaid situations.

Each of the Company's Directors, Supervisors, Managers and other senior executive officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's Directors, Supervisors, Managers and other senior executive officers shall carry on his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- to act honestly in the best interests of the Company;
- to exercise powers within the scope of his powers and not to exceed those powers;
- to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders' general meeting, not to delegate the exercise of his discretion;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- except in accordance with the Articles of Association or with the informed consent of shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- without the informed consent of shareholders' general meeting, not to use the Company's property by any means for his own benefit;
- not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;
- without the informed consent of shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- to abide by the Articles of Association, faithfully execute his duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- not to compete with the Company in any form unless with the informed consent of shareholders' general meeting;
- not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and

- unless otherwise permitted by informed shareholders' general meeting, to keep in confidential information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure is required under law; (ii) the interests of the public require disclosure; (iii) the interests of the relevant Director, Supervisor, Manager or other senior executive officers require disclosure.

Each Director, Supervisor, Manager or other senior executive officer of the Company shall not cause the following persons or institutions ("associates") to do what he is prohibited from doing:

- (1) the spouse or minor child of that Director, Supervisor, Manager or other senior executive officers;
- (2) the trustee of that Director, Supervisor, Manager or other senior executive officers or any person referred to in the preceding paragraph;
- (3) the partner of that Director, Supervisor, Manager or other senior executive officers or any person referred to in paragraphs (1) and (2) above;
- (4) a company in which that Director, Supervisor, Manager or other senior executive officer, alone or jointly with any person(s) referred to in paragraphs (1), (2) and (3) above; and other Directors, Supervisors, Manager and other senior executive officers have a de facto controlling interest;
- (5) the directors, supervisors, manager and other senior executive officers of the controlled company referred to in the preceding paragraph.

The fiduciary duties of the Directors, Supervisors, Managers and other senior executive officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and any circumstance and condition under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, Manager or other senior executive officer of the Company is in breach of his duties to the Company, the Company has a right to adopt the following measures:

- claim damages from the Director, Supervisor, Manager or other senior executive officer in compensation for losses sustained by the Company as a result of such a breach of duties;
- rescind any contract or transaction entered into by the Company with relevant Director, Supervisor, Manager or other senior executive officer or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, Manager or other senior executive officer);
- demand an account of the profits made by the Director, Supervisor, Manager or other senior executive officer in breach of his duties;
- recover any funds received by the Director, Supervisor, Manager or other senior executive officer that should have been received by the Company, including (without limitation) commissions; and
- demand payment of the interest earned or which may have been earned by the Director, Supervisor, Manager or other senior executive officer on the funds that should have been paid to the Company.

### Alterations to Constitutional Documents

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Articles of Association.



Any alteration or rectification to the Articles of Association resolved by the Shareholders' general meeting subject to approvals of the authorities shall be approved by the original authorities. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

### Variation of Rights of Existing Shares or Classes of Shares

Holders of Domestic Shares and holders of overseas listed foreign Shares of the Company shall be considered as different classes of shareholders. Rights conferred on any class of shareholders in the capacity of shareholders excluding other classes of Shareholders, which include holders of non-listed foreign-invested shares (holders of domestic-invested shares and B shares inclusive) ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders' general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class of shareholders:

- (1) to increase or decrease the number of Shares of such class, or to increase or decrease the number of Shares of a class having voting or equity rights or any other privileges equal or superior to those of the Shares of such class;
- (2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or grant a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (4) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to obtain securities of the Company;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;
- (7) to create a new class of Shares having voting or equity rights or privileges equal or superior to those of the Shares of such class;
- (8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;
- (9) to issue rights to subscribe for, or convert into, shares of such class or another class;
- (10) to increase the rights and privileges of Shares of another class;
- (11) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of proposed of the Company;
- (12) to vary or abrogate provisions set out in Chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be made only if it has been passed by votes representing more than two-thirds of the voting rights of shareholders represented at the class meeting who are entitled to vote at class meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters proposed to be considered in the class meeting and the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days before the date of the class meeting. When the Company calculates the above period, it shall not include the day when the meeting is convened.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting Shares of such class at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the shareholders of the class, again by public notice, of the matters proposed to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after publication of such notice. If the region in which Shares of the Company are listed has other specific requirements in respect of public listing, they shall be complied with.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in procedures as similar as possible to those of general meetings of shareholders. The provisions of the Articles of Association relating to the procedures of conducting shareholders' general meeting shall apply to the meeting of a class of shareholders.

The special procedures for voting at a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by a special resolution of its shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued domestic-invested Shares and overseas-listed foreign-invested Shares;
- (2) where the Company's plan to issue domestic-invested Shares and overseas-listed foreign-invested Shares at the time of its establishment is carried out within 15 months from the date of approval of China Securities Regulatory Commission; or
- (3) where upon the approval from the relevant China securities regulatory authority, the domestic shareholders of the company transfer the domestic shares held thereby to overseas investors and such transferred shares are listed and traded overseas.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is as following:

- (1) in the case of a repurchase of Shares by offers to all shareholders pro rata in accordance with the Section 4.04 of the Articles of Associations, or public dealing on a stock exchange, a "materially interested shareholder" means a "controlling shareholder" within the meaning of the Articles of Association;
- (2) in the case of a repurchase of Shares by an off-market agreement in accordance with the Section 4.04 of the Articles of Associations, a "materially interested shareholder" means a holder of the Shares to which the proposed agreement relates; and
- (3) in the case of a restructuring of the Company, a "materially interested shareholder" means a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring plan or who has an interest different from the interest of shareholders of that class.

### **Resolutions — Majority Required**

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution by a shareholders' general meeting, more than half of the voting rights represented by the shareholders (including proxies of shareholders) present at the meeting shall be exercised to pass the resolution.

To adopt a special resolution by a shareholders' general meeting, more than two-thirds of the voting rights represented by the shareholders (including proxies of shareholders) present at the meeting shall be exercised to pass the resolution.

### **Voting Rights (generally, on a poll and right to demand a poll)**

The ordinary shareholders of the Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. At any general meeting of shareholders a resolution shall be decided on a show of hands, unless before or after any vote by show of hands, a poll is demanded by the following persons:

- by the chairperson of the meeting;
- by at least two shareholders entitled to vote or proxies of such shareholders; or
- by one or more shareholders (including proxies of such shareholders) who individually or collectively representing more than 10% (including 10%) of shares carrying the right to vote at the meeting.

Unless a poll be so demanded by some person, a declaration by the chairperson that a resolution has on a show of hands been carried out and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairperson of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other questions shall be taken at such time as the chairperson of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll, a shareholder (including proxies of shareholders) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairperson of the meeting shall be entitled to one additional vote.

### **Requirements for Annual General Meetings**

The Board shall convene an annual shareholders' meeting once each year and within six months from the close of the preceding financial year.

### **Accounts and Audit**

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The Board shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directive documents promulgated by regional government and competent authorities to be prepared by the Company. Such financial reports shall be verified by an accounting firm.

The Company's financial reports shall be made available for shareholders' inspection at the Company 20 days before the date of every shareholders' annual general meeting. Each shareholder of the Company shall be entitled to obtain a copy of the financial reports that are referred in the Articles of Association. The Company shall send the aforesaid financial reports to each of the overseas-listed foreign-invested shareholders by prepaid mail at least 21 days before the date of every shareholders' annual general meeting to their addresses as shown in the register of shareholders.

The financial reports shall be given in the form of an announcement (including through our Company website), provided that laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed have been conformed.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profit of a financial year, it is required to make distributions based on the lower of the Company's after-tax profits determined under the two accounting standards.

Any interim results or financial information published or disclosed by the Company shall also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either International Financial Reporting Standards or that of the overseas place where the Company's shares are listed.

Our Company shall submit the interim financial reports within two months of the ending date of the first six months of each accounting year, submit the annual accounting report within four months of the ending date of each accounting year and submit its quarterly financial reports within one month of the ending date of the first three months and the first nine months of each accounting year.

#### **Notice of Meetings and Business to be Conducted thereat**

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. Except where the Company is in extraordinary situations such as a crisis, the Company shall not, without the approval of shareholders' general meeting in the form of special resolutions, enter into any contract with any person other than a Director, Supervisor, Manager or other senior executive officer whereby the management of the whole or a substantial part of the business of the Company is to be handed over to such person to be in charge of. Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meeting shall be convened by the Board. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months:

- when the number of Directors is less than the number required by the PRC Company Law or less than two-thirds of the number of Directors specified in the Articles of Association;
- when the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- when shareholder(s) holding more than 10% (including 10%, proxy exclusive) of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- when deemed necessary by the Board or as requested by the supervisory committee;
- when more than half of independent Directors agree upon a request made by independent Directors to convene an extraordinary general meeting; or
- any other circumstances described in laws, administrative regulations, rules or the Articles of Associations that require to convene an extraordinary general meeting.

When the Company convenes a Shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all of the shareholders in the share register of the matters proposed to be considered and the date and the place of the meeting. When the Company calculates the period, it shall not include the day when the meeting is convened. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company 20 days before the date of the meeting.

When the Company convenes a Shareholders' annual general meeting, the Board, the supervisory committee or the shareholders who individually or collectively holds more than 3% of the total voting shares of the Company shall have the right to propose motions, and the Company shall place matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

Unless in the circumstance set out in the preceding paragraph, the convener, after sending out the public notice of shareholders' general meeting, shall not amend or add any new matter to those that have already been listed in the notice of meeting.

The Company shall, based on the written replies received 20 days before the date of the shareholders' general meeting, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches more than one half of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five days notify the shareholders again by public notice of the matters proposed to be considered, the place and the date for the meeting. The Company may hold the meeting after the publication of such notice.

A notice of meeting of shareholders shall comply with the following requirements:

- be made in writing;
- specify the place, the date and the hour of the meeting;
- state the matters to be discussed at the meeting;
- provide the shareholders with such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals before them. It principally includes (but is not limited to), where a proposal is made to amalgamate the Company, to repurchase shares, to reorganize the share capital or to restructure the Company in any other way, the conditions of the proposed transaction must be provided in detail together with the proposed contract (if any), and the cause and consequence of such proposal must be properly explained;
- contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, Manager or other senior executive officer in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, Manager or other senior executive officer in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- contain the full text of any special resolution proposed to be voted at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;
- specify the time and place for lodging proxy forms for the relevant meeting;
- list out the share registration date of shareholders who are entitled to attend the shareholders' general meeting;
- contain the names and phone numbers of the long-term contact persons for the meeting.

The aforesaid provisions are applicable to the notices for the Shareholders' general meeting held by the Supervisory Board or the Shareholders in accordance with the Articles of Association.

Notice of Shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of shareholders. The notice for the Shareholders' annual meeting shall be given in the form of an announcement, provided that laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed have been conformed.

The public notice shall be published in one or more newspapers designated by the China securities regulatory authority or in the form which is in conformity with laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed within an interval between 45 days and 50 days before the date of the meeting. After the publication of such notice, the shareholders shall be deemed to have received the notice of the relevant shareholders' general meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- work reports of the Board and the supervisory committee;
- plans formulated by the Board for the distribution of profits and for making up losses;
- appointment and removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;
- annual preliminary and final budgets of the Company;
- the annual financial reports of the Company; and
- matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- the increase or decrease of the registered capital;
- the issue of debentures of the Company;
- the division, merger, change of the corporate form, dissolution and liquidation of the Company;
- amendments to the Articles of Association;
- the repurchase of the Company's own shares;
- the external guarantees of our Company subject to deliberation and approval by the Shareholders' general meeting, except for the guarantees provided to the Shareholders, actual controlling persons and other related parties;
- the prices or amount of the transactions cumulated within 12 continuous months in relation to purchase or sale of the Company's assets that reach 30% of the total assets shown in the latest audit;
- the stock option incentive plans of the Company;
- any other matters set out in the Articles of Associations and considered by the shareholders' general meeting by way of an ordinary resolution that may have a material impact on the Company and should be adopted by a special resolution.

### Transfer of Shares

Subject to the approval of the China securities regulatory authority Shares of the Company held on the Domestic Share register may be transferred to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

All the fully paid-up overseas-listed foreign-invested shares traded on the Hong Kong Stock Exchange can be freely transferred in accordance with the Articles of Association; but unless the requirements stipulated in the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal.

The alteration or rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within 30 days before the date of a shareholders' general meeting or within five days before the record date for the Company's distribution of dividends.

### **Power of the Company to Purchase its Own Shares**

In accordance with the provisions of the Articles of Association, the Company may reduce its registered share capital. The Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- cancellation of shares for the reduction of the Company's capital;
- merging with another company that holds shares in the Company;
- providing shares as award to staff and workers of the Company;
- requests from the shareholders who demand the Company to buy back their shares due to dissents to the resolution of merger or dissolution of the Company passed by the shareholders' general meeting;
- other circumstances permitted by laws and administrative regulations.

The Company may, with the approval of the relevant State governing authority, repurchase its shares, conducting the repurchase in one of the following ways:

- making an offer of repurchase to all of its shareholders on pro rata basis;
- repurchase shares through public dealing on a stock exchange;
- repurchase by an off-market agreement; or
- other methods permitted by China securities regulatory authority.

Where the Company repurchases its shares by an off-market agreement, the prior approval by the shareholders' general meeting shall be obtained in accordance with the Articles of Association. The Company may, with the prior approval of the shareholders' general meeting obtained in the same manner, revoke or vary a contract so entered into by the Company in the aforesaid way, or waive its rights under such contract.

A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares. The Company shall not assign the contracts to repurchase shares and its rights under such contracts.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of the Company's registered shares capital shall be reduced by the par value of those cancelled shares.



Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company and proceeds of a fresh issue of Shares made for that purpose;
- where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceed of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the old Shares repurchased nor the amount of the Company's share premium account at the time of the repurchase (or of the capital reserve account) (including the premiums on the fresh issue);
- payment by the Company in consideration of the following shall be made out of the Company's distributable profits: (i) acquisition of rights to repurchase Shares of the Company; (ii) variation of any contract to repurchase Shares of the Company; and (iii) release of any of the Company's obligations under any contract to repurchase Shares of the Company; and
- after the Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value portion of the Shares repurchased shall be recorded to the Company's share premium account (or the capital reserve account).

#### **Power for any Subsidiary of the Company to Own Shares in the Company**

There are no provisions in the Articles of Association preventing ownership of Shares in the Company by a subsidiary.

#### **Dividends and Other Methods of Profits Distribution**

The Company may distribute dividends in the following manner:

- cash; or
- Stock.

Dividends declared by the Company to be payable to holders of domestic-invested shares shall be declared in Renminbi, and paid in Renminbi. Those payable to holders of domestic listed foreign-invested Shares shall be declared in Renminbi, and paid in U.S. Dollar. Those payable to holders of H shares shall be declared in Renminbi, and paid in HKD.

The Company shall appoint receiving agents on behalf of holders of overseas-listed foreign-invested Shares. The receiving agents shall receive on behalf of such shareholders dividends distributed and all other monies owing by the Company in respect of their overseas-listed foreign-invested Shares. The appointment of such receiving agents shall comply with laws or relevant rules required by the stock exchange on which the shares are listed. The receiving agents appointed by the Company on behalf of holders of the overseas-listed foreign-invested Shares traded on the Hong Kong stock exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

The Company may exercise the power to revert unclaimed dividends to the Company in accordance with relevant PRC laws and regulations and rules imposed by the Hong Kong Stock Exchange, but such power

should not be exercised until the relevant applicable period has expired. The Company may stop sending dividend cheques by mail to certain holders of the overseas-listed foreign-invested Shares who failed to withdraw two successive dividend cheques or to whom the initial dividend cheques could not be delivered and bounced.

The Company is entitled to sell the Shares held by holders of the overseas-listed foreign-invested Shares in a reasonable manner according to the opinions of the Board when such holders could not be reached, but subject to the following conditions: dividends have been distributed on such Shares at least three times within 12 years, provided that no one has ever claimed those dividends within that 12-year period; in addition to the above, the Company, after the expiration of 12 years, published a notice on one or more newspapers of the place where the Shares were listed, stating its intention to sell the Shares, and informed the stock exchange on which such Shares were listed.

### Proxies

Any shareholder entitled to attend and vote at a meeting of the shareholders shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall:

- have the right as the shareholder to speak at the meeting;
- have authority to demand or join in demanding a poll; and
- have the right to vote by hand or on a poll, but if a shareholder has appointed more than one proxies, those proxies may only vote on a poll.

If the Shareholder is a legal entity, its legal representative or such person as is authorized by resolution of its Board or other governing body to act as its representative may attend at the meetings of shareholders of the Company as a representative of the Shareholder. If it is the legal representative who attends the meeting, he should produce his own Identity Card, stock account card and any certificate that could prove his identity as a legal representative and the stock certificate; if it is the appointed proxy who attends the meeting, he should produce his own Identity Card, the instrument of proxy issued by the legal representative of the Shareholder entity in writing in accordance with law, stock account card and the stock certificate. The instrument appointing a voting proxy shall be deposited at the residence of the Company or at such other place as specified for that purpose in notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution. If the instrument appointing a voting proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting.

Any form issued to a shareholder by the Board of the Company for use by him for appointing a shareholder proxy shall be such as to enable the shareholder according to his intention, to instruct the proxy to vote in favor of or against each resolution at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the relevant shares, provided that no notice in writing of such affairs as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which proxy is used.

### Calls on Shares and Forfeiture of Shares

There are no provisions in the Articles of Association relating to the making of calls on Shares or for the forfeiture of Shares.

**Rights of Shareholders (including inspection of register)**

The ordinary shareholders of the Company shall enjoy the following rights:

- the right to dividends and other distributions in proportion to the number of Shares held;
- to request, convene, preside over, participate in, or appoint a shareholder proxy by law to participate in and exercise corresponding voting rights at the Shareholders' general meeting;
- the right of supervisory management over the Company's business operations, and the rights to present proposals or to raise enquiries;
- to transfer, gift or pledge the shares held according to the provisions of the laws, administrative rules and the Articles of Association;
- the right to obtain relevant information in accordance with the provisions of the Articles of Association, including: (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy; (ii) the right to inspect and copy, subject to payment of a reasonable charge: (a) all parts of the register of shareholders; (b) personal particulars of each of the Directors, Supervisors, Manager and other senior executive officers as follows: (1) present name and alias and any former name and alias; (2) principal address (residence); (3) nationality; (4) primary and all other part-time occupations; and (5) identification document and its number; (c) report on the state of the Company's share capital; (d) the latest audited financial reports of the Company, and the reports of the Board, auditor and Supervisor; (e) the Special Resolutions of the Company; (f) reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose; (g) a copy of the latest annual quality report that has been submitted to the State Administration for Industry and Commerce or has filed with other governing authorities; and (h) minutes of shareholders' general meetings;
- in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of Shares held;
- to request our Company to purchase Shares of Shareholders objecting to a resolution adopted at the Shareholders general meeting concerning the merger or separation of our Company; and
- other rights conferred by laws, administrative regulations and the Articles of Association.

**Quorum for Shareholders' General Meetings and Separate Class Meetings**

The Company may calculate the number of voting Shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting. The Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders who intend to attend the meeting reaches more than one half of the Company's voting Shares; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholders' general meeting.

Please refer to the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above for the requirements of convening of a shareholders' class meeting and the quorum.

**Rights of the Minorities in Relation to Fraud or Oppression**

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of the Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

- to release Director or Supervisor of his duty to act honestly in the best interests of the Company;

- to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company; or
- to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring in relation to the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association of the Company.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- he alone, or acting in concert with others, has the power to elect more than half of the Directors;
- he alone, or acting in concert with others, has the power to exercise or to control the exercise more than of 30% (including 30%) of the voting rights in the Company;
- he alone, or acting in concert with others, holds more than 30% (including 30%) of the issued and outstanding shares of the Company; or
- he alone, or acting in concert with others, in any other manner controls the Company in fact.

The phrase of "acting in concert " referred in the paragraphs above means the act or the fact that an investor collectively with other investors, through an agreement or other arrangements, extend the number of voting Shares they can control of a public Company.

See also the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above.

### Procedures on Liquidation

The Company shall be dissolved and liquidated in accordance with law upon the occurrence of any of the following events:

- the term of business of the Company has expired;
- a resolution for dissolution is passed by shareholders' general meeting;
- dissolution is necessary due to a merger or division of the Company;
- The business license is cancelled or it is ordered to close down or to be dissolved according to the laws; or
- Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the People's Court to dissolve our Company.

Where the Board decides to liquidate the Company (due to causes other than the declaration of insolvency), the Board shall, in its notice convening a shareholders' general meeting to consider the proposal to the effect, state that the Board has made full inquiry into the affairs of the Company and is of the opinion that the Company can pay its debts in full within 12 months after the commencement of the liquidation.

Upon the passing of the resolution by the shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board of the Company shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

## Other Provisions Material to the Company and the Shareholders

### *General Provisions*

The Company is a joint stock limited company in perpetual existence.

The Articles of Association constitute a legally binding document regulating the Company's organization and activities since the date it becomes effective, and the rights and obligations between the Company and each shareholder and among the shareholders interest.

The Company may invest in other limited liability or stock limited companies, and may assume a liability only to the extent limited by the amount of the capital contribution made into that company. Unless otherwise provided by law, the Company shall not become jointly liable for liabilities of the enterprise it invested in.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase in capital.

The Company may increase its capital in the following ways:

- offering new shares to non-specialty-designated investors for subscription;
- placing new shares to its existing shareholders;
- distributing new shares to its existing shareholders;
- transferring shares from the capital reserve; and
- any other way permitted by law and administrative regulations.

The Company's increase in capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant national laws and administrative regulations.

Unless otherwise provided by law or administrative regulation, shares in the Company are freely transferable in accordance with law and are not attached with any lien.

When the Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. The Company shall notify creditors within ten days of the date of the Company's resolution for reduction of share capital and shall publish a notice in a newspaper at least three times within 30 days of the date of such resolution. A creditor has the right within 30 days of receiving the notice or, in the case of a creditor who does not receive the notice, within 45 days of the date of the first public notice, to demand the Company to repay its debts or provide a corresponding guarantee for such debt. The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

- to abide by laws, administrative regulations and the Articles of Association;
- to pay subscription funds according to the number of shares subscribed and the method of subscription;
- not to withdraw shares, unless in the circumstances set out by laws, administrative regulations and the Articles of Association;
- not to damage the interests of the Company or the interests of other shareholders by abuse of shareholders' rights; not to damage the interests of the Company's creditors by abuse of the status of the Company as an independent legal person or the limited liability of the shareholders; the shareholder of the Company shall be liable for the losses caused by their abuse of rights to the Company or other shareholders in accordance with law. The shareholders of the Company shall be

jointly liable for the Company's debts if, due to their abuse of the Company's independent legal person status and limited shareholder liability, serious damages were caused to the creditors of the Company; and

- to assume any other obligation required by laws, administrative regulations and the Articles of Associations.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

### ***Board***

The Board is responsible to the shareholders' general meeting and exercises the following functions and powers:

1. to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;
2. to implement the resolutions of the shareholders' general meetings;
3. to decide on the Company's business plans and investment plans;
4. to formulate the Company's annual financial budget and final report;
5. to formulate the Company's profit distribution plan and loss recovery plan;
6. to formulate proposals for the increases or decrease of the Company's registered capital, for the issue of corporate debentures or other securities, and to formulate listing plans;
7. to formulate the plans for significant purchase and repurchase of the Company's shares;
8. to formulate plans for merger, division, change of form or dissolution of the Company;
9. to decide on the affairs in relation to investment, purchase or sale of assets, mortgaging assets, consignment of asset management, related party transactions and etc., but within the scope of authorization of the shareholders' general meeting set out in the Articles of Associations;
10. to decide on the establishment of the Company's internal management structure;
11. to appoint or remove the Company's manager and secretaries of the Board, to appoint or remove the Company's deputy managers, Chief Financial Officer, Chief Engineer and other senior executive officers based on the nomination provided by the Manager, and to decide on the matters of their remuneration and reward;
12. to formulate the proposal of standards of allowances for the independent Directors of the Company;
13. to formulate the Company's basic management system;
14. to formulate proposals for any amendment to the Articles of Association;
15. to formulate the stock option incentive plans of the Company;
16. to manage the affairs in relation to information disclosure of the Company;
17. to propose to the shareholders' general meetings the appointment or change of the accounting firm to conduct auditing of the Company;
18. to inspect and hear Managers reporting on their work;
19. to review and approve the external guarantees granted by the Company that are not required to be reviewed and approved by the shareholders' general meeting set out in the Articles of Associations;

20. other powers authorized by the Shareholders' general meeting and regulated by the laws, regulations, regulations of the relevant stock exchange or the Articles of Association.

The Board shall make the resolutions in respect of the matters above in accordance with the Section 10.25 of the Articles of Associations.

Meetings of the Board shall be held at least four times a year and convened by the chairman of the Board before the publication of the Company's quarter, interim, and annual financial reports. Notice of the meeting shall be served on all of the Directors ten working days before the date of the meeting.

Meetings of the Board shall be held only if more than half of the Directors (including the director who is appointed by the other director in writing as a proxy by the laws, regulations of the Shanghai Stock Exchange and the Article of Association) are present. Each Director shall have one vote. Where the numbers of votes cast for and against a resolution are equal, the chairman of the Board shall have an additional vote.

### *Supervisory Committee*

The Company shall have a supervisory committee. The Directors, senior executive officers and the Chief Financial Officer shall not act as Supervisors. The supervisory committee shall be composed of seven Supervisors. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment. The supervisory committee shall have one chairman. The election or removal of the chairman of the supervisory committee shall be made by the affirmative vote of more than two-thirds of the members of the supervisory committee. Resolutions of the supervisory committee shall be made by the affirmative vote of more than two-thirds of the members of the supervisory committee.

At least one-third of the Supervisors shall be the representatives of staff and workers of the Company. The representatives of shareholders as Supervisors and independent Supervisors shall be elected and replaced by shareholders' general meeting using cumulative voting; the representative of staff and workers of the Company as Supervisors shall be elected and replaced by the staff and workers of the Company democratically thereby.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following functions and powers in accordance with law:

- to examine the Company's financial situation;
- to supervise the performance of the Directors and senior executive officers of their duties, and propose to remove the Directors, Supervisors and senior executive officers for violation of the applicable laws, regulations, the Articles of Association or the resolutions of the shareholders' general meeting;
- to demand rectification from a Director and a senior executive officer when the acts of such persons is harmful to the Company's interest, and to report it to the shareholders' general meeting or governing authorities at the national level when necessary;
- to verify the reports formulated by the Board from time to time and to submit comments in writing;
- to make proposals to the shareholders' general meeting
- to initiate proceedings against a Director or a senior executive officer in accordance with Clause 152 of the PRC Company Law;
- to attend meetings of the Board, and to make inquiries or suggestions on matters proposed in resolutions of the Board;
- to check financial reports, operating results and profit distribution scheme, as well as other financial data to be submitted by the Board at the shareholders' general meeting and where anything doubtful is discovered, can on behalf of our Company appoint certified accountants and professional auditors to assist in reviewing these documents; and



- to exercise other functions and powers specified in the Articles of Association.

Members of the supervisory committee shall be present at meetings of the Board. The Supervisors will monitor the affairs in relation to legality of the procedures in which the Board meetings were convened, absence of interested Directors from voting at relevant meetings, and on whether the content of Board resolution complies with law, the Articles of Associations and with the actual need of the Company and etc.

### ***Manager of the Company***

The Company shall have one Manager, who shall be appointed and dismissed by the Board. The Manager shall be accountable to the Board and exercise the following functions and powers:

- to be in charge of the Company's production, operation and management, to organize the implementation of the resolutions of the Board and to report to the Board of Directors on work;
- to organize the implementation of the Company's annual business plan and investment plan;
- to draft plans for the establishment of the internal organizational structure of the Company;
- to draft the Company's basic management system;
- to formulate basic rules and regulations for the Company;
- to propose the appointment or dismissal of the deputy Manager, Chief Financial Officer and Chief Engineer;
- to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
- to draft the plans for remuneration, fringe benefits and reward to the Company's staff and workers and to decide the appointment or dismissal of the Company's staff and workers;
- to propose an interim Board meeting to be convened; and
- to exercise other functions and powers conferred by the Articles of Association and the Board.

The Manager shall be present at meetings of the Board; the Manager shall have no voting rights at the meetings unless he is also a director.

### ***Chairman of the Board***

The chairman of the Board shall exercise the following functions and powers:

- to preside the shareholders' meeting, convene and preside the meetings of the Board;
- to supervise and inspect the implementation of the resolutions of the Board;
- to sign the Stock, debentures and other valuable securities the Company;
- to sign important documents of the Board and other documents which shall be signed by the legal representative of the Company;
- to exercise the power of legal representative;
- to exercise the special power of execution in relation to the affairs of the Company for the benefit of the Company according to law in the emergency circumstances of occurrence of extraordinarily serious natural disaster or other events of force majeure, and report to the Board and the shareholder's meeting afterwards; and
- to exercise other functions and powers authorized by the Board.

In case where the chairman of the Board cannot perform the powers abovementioned, the chairman of the Board may designate such functions and powers to the vice chairman of the Board; in case where the vice chairman cannot or will not perform the powers, a director should be elected by more than half of all of the Directors to perform the powers.

### *Secretary of the Board*

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. The scope of responsibilities for the secretary of the Board include:

- to organize and arrange the Board meetings and shareholders' general meeting, to prepare materials for the meetings and arrange affairs of the meeting; to be responsible for the minutes of the meetings, to ensure the correctness of the minutes and to keep the minutes and documents of the meeting; to keep positively informed about the execution of resolutions of the meetings; to report to and advise the Board on substantial issues raised during the execution; in the meantime, to ensure that the Company's documents and records are complete;
- to ensure that the significant matters to be decided by the Board meetings will strictly follow the relevant procedures; to attend and organize the consultation and analysis of the matters to be decided by the Board meetings in accordance with the requirements of the meetings and to provide corresponding advices and suggestions; to undertake the daily works of the Board and of other relevant committees upon authorization;
- acting as a liaison among the Company, domestic and overseas regulatory bodies, to ensure the lawful preparation and submission by the Company of reports and documents as required by relevant authorities, and to arrange relevant departments within the Company to complete matters in respect to securities regulation;
- to be responsible for the coordination and organization of information disclosure; to establish and improve relevant system for information disclosure; to attend all of the relevant meetings of the Company involving information disclosure and to be promptly informed about the Company's significant business decisions and the relevant information;
- to be responsible for the confidentiality of information sensitive to share price and to formulate a feasible confidentiality system and confidentiality measures; to adopt necessary measures to remedy any disclosure of the sensitive information to share price due to any reason, to make explanations and clarification immediately after such disclosure and give notice to domestic and overseas regulatory bodies;
- to be responsible for the coordination and organization of market promotion, to coordinate the reception of visitors, to manage the relationships with investors, to maintain connections with investors, intermediary bodies and news media, to be responsible for the coordination of answering public enquiries, to ensure that the investors can promptly obtain information disclosed by the Company; to organize and arrange promotion and publicity of the Company in overseas markets, to produce summary reports in respect of the market promotion, important visitors and other activities, and to organize the reporting of relevant affairs to domestic regulatory bodies;
- to be responsible for the management and maintenance of the register of shareholders, the register of Directors, the number of shares held by the majority shareholders, the materials recording the information of Directors' shares, and a list of holders of the Company's issued and outstanding debentures, and to ensure that persons who are entitled to obtain the relevant records and documents of the Company can timely obtain such records and documents;
- to assist Directors and Managers exercising their functions and powers to actually fulfill domestic and overseas laws and regulations, the Articles of Associations and other relevant rules; to be responsible to remind the Company after having known that the resolution made or expected to be made by the Company would breach relevant rules, and is entitled to report such breach as it is to the domestic and overseas regulatory bodies of securities;

- to coordinate the supply of information and materials necessary for exercising the functions of supervision to the Company's supervisory committee and other bodies, to properly assist the investigation on the performance of duties in good faith owed by the Company's Chief Finance Officer, Directors and Managers; and
- to exercise other functions and powers imposed by the Board of Directors or required by the domestic and overseas relevant laws and regulations and stock exchange on which the Company is listing.

### *Accounts and Audit*

- Appointment of accounting firms

The Company shall appoint independent accounting firms that are qualified under the relevant regulations of the PRC to audit the Company's annual financial reports and review other financial reports of the Company.

The accounting firms appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders to the conclusion of the next annual meeting of shareholders.

If there is any vacancy in the position of the accounting firms, the Board may, before the convening of the shareholders' general meeting, appoint an accounting firm(s) to fill that casual vacancy. But while any such vacancy continues, the accounting firms that currently assume the office, if any, may act.

The shareholders' general meeting may, by ordinary resolution, remove any accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the relevant firm's right to claim, if any, for damages in respect of such removal.

The remuneration of accounting firms or the manner in which such firm is to be remunerated shall be determined by the shareholders' general meeting. For the accounting firm that is appointed by the Board, its remuneration shall be determined by the Board.

- Change and removal of accounting firm

The Company's appointment of, removal of or non-reappointment of an accounting firm shall be determined by shareholders' general meetings and such decision shall be filed with the China securities regulatory authority.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accounting firm, which is not an incumbent firm, to fill a casual vacancy in the office of the accounting firm, or reappointment of a retiring accounting firm which was appointed by the Board to fill a casual vacancy, or removal of the accounting firm before the expiration of its term of office, the following provisions shall be complied with:

- Before the notice of the shareholders' general meeting has been sent out, a copy of the proposal in relation to the appointment or removal shall be delivered to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post within the relevant accounting year; leaving includes leaving by removal, resignation and retirement.
- If the firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall adopt the following measures (unless the representations are received too late): (i) in any notice delivered for the purpose of making of the resolution, state the fact of the representations having been made by the firm leaving its post; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.
- If the accounting firm's representations were not sent in accordance with the preceding paragraph, the relevant firm may require that such representations be read out at the shareholders' general meeting and may lodge further complaints.

- An accounting firm which is leaving its post shall be entitled to attend the following meetings:  
(i) the shareholders' general meeting at which its term of office would otherwise have expired;  
(ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation. The accounting firm leaving its post is entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of the Company.
- Resignation of accounting firm

Where the Company removes or does not reappoint an accounting firm, it shall give prior notice 30 days before to the accounting firm and that accounting firm is entitled to make representations and comments to the shareholders' general meeting. Where the accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety.

- Any accounting firm may resign its office by depositing at the Company's legal residence a resignation notice. That notice shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following representations:
  - (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
  - (2) a statement of any such circumstances. The Company shall within 14 days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (2) of the preceding paragraph, a copy of such statement shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every shareholder of the overseas-listed foreign-invested Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the shareholders or creditors of the Company, the accounting firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

## Dispute Resolution

Whenever any dispute or claim arise between holders of the overseas-listed foreign-invested Shares and the Company, or between such shareholders and the Company's Directors, Supervisors, Managers or other senior executive officers, or between such shareholders and shareholders of non-overseas-listed foreign-invested shares, based on the rights and obligations set out in the Articles of Association, PRC Company Law and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration. Unless otherwise provided by laws or administrative regulations, the laws that apply to resolve the aforementioned disputes or claims shall be PRC laws.

Where the aforesaid dispute or claim is referred to arbitration, the entire claim or dispute shall be referred to arbitration, and all persons who have a cause of action based on the same facts or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company's shareholder, Director, Supervisor, Manager or other senior executive officer. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

The award of an arbitration body shall be final and binding on all parties.

**1. FURTHER INFORMATION ABOUT OUR COMPANY*****(A) Incorporation***

Our Company was established in the PRC as a joint stock limited liability company on September 23, 1997 with Yimei Group, being the sole promoter. Our Company has established a place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on December 10, 2009. Susan LO Yee Har and LEE Mei Yi of Tricor Services Limited have been appointed as our agents for the acceptance of service of process in Hong Kong. As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix IX. A summary of certain relevant aspects of the laws and regulations of the PRC and Hong Kong is set out in Appendix VIII.

***(B) Changes in the Registered capital of our Company***

At the time of our establishment as the joint stock limited liability company, our registered share capital was RMB366 million divided into 200 million Domestic Shares of nominal value of RMB1 each, all of which were fully paid up and were held by Yimei Group, and 166 million B Shares of nominal value of RMB1 each, all of which were fully paid up and listed and traded on SHSE.

Pursuant to a resolution of an extraordinary meeting of our Shareholders on September 16, 2007, (i) a bonus Share issue on the basis of two bonus Shares for every ten Shares held by the then existing shareholders was approved; and (ii) a further bonus Share issue was approved by the conversion of our capital reserve fund into the share capital on the basis of eight Shares for every ten Shares held by the then existing shareholders. Thereupon, our registered capital was increased to RMB732 million divided into 400 million Domestic Shares and 332 million B Shares.

Pursuant to a resolution of an annual meeting of our Shareholders on March 19, 2010, a bonus Share issue on the basis of ten bonus Shares for every ten Shares held by the then existing shareholders was approved. Thereupon, our registered capital was increased to RMB1,464 million divided into 800 million Domestic Shares and 664 million B Shares.

Upon completion of the Global Offering, but without taking into account any H Shares which may be issued pursuant to the Over-allotment Option, our registered share capital will be increased to RMB1,626,667,000, comprising 800,000,000 Domestic Shares, 664,000,000 B Shares and 162,667,000 H Shares fully paid up or credited as fully paid up, representing approximately 49.18%, 40.82% and 10.00% of the registered share capital, respectively.

Save as aforesaid, there has been no alteration in our share capital since our establishment.

***(C) Resolutions of the First Extraordinary General Meeting in 2010 and the Second Extraordinary General Meeting in 2011 in relation to the Global Offering***

At the First Extraordinary General Meeting in 2010 of our Company held on May 11, 2010, among others, the following resolutions, were passed by the shareholders of our Company:

- (a) the issue by the Company of the H Shares of nominal value of RMB1.00 each up to 15% of the total issued share capital after the issuing of H Shares and such H Shares be listed on the Stock Exchange;
- (b) the granting of the Over-allotment Option;
- (c) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall only become effective on the Listing Date and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the PRC government.

At the Second Extraordinary General Meeting in 2011 of our Company held on August 26, 2011, among others, the following resolutions were passed by the shareholders of our Company:

- (a) the valid period of the resolution passed in the First Extraordinary General Meeting in respect of the authorizations to the Board or its authorized persons to deal with the relevant matters regarding the Listing and the Global Offering is extended to 12 months from November 11, 2011.

## 2. SUBSIDIARIES

Our subsidiaries (for the purpose of the Listing Rules) include all entities that are set out in Appendix IA to this Prospectus.

The following alterations in the registered capital of our subsidiaries took place during two year period preceding the date of this Prospectus:

In July 2010, Yitai Zhundong's registered capital was increased from RMB1,037.7 million to RMB1,310 million. In March 2011, the registered capital of Yitai Zhundong was increased to RMB1,496 million.

In September 2010, the registered capital of Yitai Coal-to-oil was increased from RMB873 million to RMB1,200 million. In September 2011, Yitai Coal-to-oil's registered capital was further increased to RMB1,500 million.

In February 2012, Yitai Huzhun's registered capital was further increased to RMB1,360 million.

In November 2011, the registered capital of Yitai Pharmaceutical was increased from RMB265.4 million to RMB358.4 million.

Save as disclosed in this Prospectus, there has been no alteration in the share capital of any of our subsidiaries during the two year period immediately preceding the date of this Prospectus.

## 3. PARTICULARS OF SUBSIDIARIES

Our principal subsidiaries are listed in the Accountants' Report set out in Appendix IA to this Prospectus.

Information regarding our subsidiaries is set out below:

### 1. Inner Mongolia Yitai Zhundong Railway Co., Ltd.

|                                 |                                                                                                      |      |
|---------------------------------|------------------------------------------------------------------------------------------------------|------|
| Equity holder and its interest: | The Company                                                                                          | 100% |
| Date of establishment:          | October 5, 1998                                                                                      |      |
| Term of Operation:              | October 5, 1998 to October 4, 2023                                                                   |      |
| Principal scope of business:    | Construction of Zhundong Railway, railway transportation and auxiliary services, and repair services |      |
| Nature:                         | Limited liability company                                                                            |      |
| Registered capital              | RMB1,496,000,000                                                                                     |      |
| Paid-up capital                 | RMB1,496,000,000                                                                                     |      |



**2. Inner Mongolia Yitai Pharmaceutical Co., Ltd.**

|                                 |                                                                                                         |      |
|---------------------------------|---------------------------------------------------------------------------------------------------------|------|
| Equity holder and its interest: | The Company                                                                                             | 100% |
| Date of establishment:          | May 20, 1998                                                                                            |      |
| Term of Operation:              | May 20, 1998 to May 19, 2038                                                                            |      |
| Principal scope of business:    | Research and development of molecule compound, technology transfer, sales of chemical industry products |      |
| Nature:                         | Limited liability company                                                                               |      |
| Registered capital              | RMB358,400,000                                                                                          |      |
| Paid-up capital                 | RMB358,400,000                                                                                          |      |

**3. Inner Mongolia Yitai Coal-to-oil Co., Ltd.**

|                                 |                                                                                                                                                  |     |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Equity holder and its interest: | The Company                                                                                                                                      | 80% |
|                                 | Yitai Group                                                                                                                                      | 20% |
| Date of establishment:          | March 17, 2006                                                                                                                                   |     |
| Term of Operation:              | March 17, 2006 to March 16, 2056                                                                                                                 |     |
| Principal scope of business:    | Production and sale of coal chemical products (including liquefied gas, gasoline, naphtha, kerosene, diesel and tar) and the subsidiary products |     |
| Nature:                         | Limited liability company                                                                                                                        |     |
| Registered capital              | RMB1,500,000,000                                                                                                                                 |     |
| Paid-up capital                 | RMB1,500,000,000                                                                                                                                 |     |

**4. Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd.**

|                                 |                                          |     |
|---------------------------------|------------------------------------------|-----|
| Equity holder and its interest: | The Company                              | 52% |
|                                 | Jingneng Power                           | 24% |
|                                 | Shanxi Yudean                            | 24% |
| Date of establishment:          | September 18, 2007                       |     |
| Term of Operation:              | September 18, 2007 to April 29, 2013     |     |
| Principal scope of business:    | Processing and sale of coal and minerals |     |
| Nature:                         | Limited liability company                |     |
| Registered capital              | RMB1,080,000,000                         |     |
| Paid-up capital                 | RMB1,080,000,000                         |     |

**5. Inner Mongolia Yitai Huzhun Railway Co., Ltd.**

|                                 |                                                                                                                                                               |        |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Equity holder and its interest: | The Company                                                                                                                                                   | 76.46% |
|                                 | Inner Mongolia Mengtai Buliangou Coal Co., Ltd.                                                                                                               | 21.56% |
|                                 | Huhhot Railway Bureau                                                                                                                                         | 1.98%  |
| Date of establishment:          | February 26, 2003                                                                                                                                             |        |
| Principal scope of business:    | Construction and investment of railway and ancillary facilities, railway cargo transportation, sales of construction materials and chemical industry products |        |
| Nature:                         | Limited liability company                                                                                                                                     |        |
| Registered capital              | RMB1,360,000,000                                                                                                                                              |        |
| Paid-up capital                 | RMB1,360,000,000                                                                                                                                              |        |

**6. Inner Mongolia Yitai Motor Transport Co., Ltd.**

|                                 |                                  |      |
|---------------------------------|----------------------------------|------|
| Equity holder and its interest: | The Company                      | 100% |
| Date of establishment:          | March 20, 2007                   |      |
| Term of operation:              | March 20, 2007 to March 19, 2027 |      |
| Principal scope of business:    | Roadway cargo transportation     |      |
| Nature:                         | Limited liability company        |      |
| Registered capital              | RMB5,000,000                     |      |
| Paid-up capital                 | RMB5,000,000                     |      |

**7. Ordos Yitai Motor Transport Co., Ltd.**

|                                 |                              |      |
|---------------------------------|------------------------------|------|
| Equity holder and its interest: | The Company                  | 100% |
| Date of establishment:          | December 1, 2004             |      |
| Principal scope of business:    | Roadway cargo transportation |      |
| Nature:                         | Limited liability company    |      |
| Registered capital              | RMB38,560,000                |      |
| Paid-up capital                 | RMB38,560,000                |      |

**8. Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd.**

|                                 |                                                                                     |     |
|---------------------------------|-------------------------------------------------------------------------------------|-----|
| Equity holder and its interest: | The Company                                                                         | 51% |
|                                 | Ordos Dongchen Coal Co., Ltd.<br>(鄂爾多斯市東辰煤炭有限責任公司)                                  | 30% |
|                                 | Ordos Dinghua Resources<br>Development Co., Ltd.<br>(鄂爾多斯市鼎華資源開發<br>有限責任公司)         | 19% |
| Date of establishment:          | September 3, 2008                                                                   |     |
| Term of operation:              | September 3, 2008 to September 2,<br>2028                                           |     |
| Principal scope of business:    | Storage, transportation and sales of<br>coal; Lease of railway station<br>platforms |     |
| Nature:                         | Limited liability company                                                           |     |
| Registered capital              | RMB123,000,000                                                                      |     |
| Paid-up capital                 | RMB123,000,000                                                                      |     |

**9. Huhhot Yitai Coal Sales Co., Ltd.**

|                                 |                                           |      |
|---------------------------------|-------------------------------------------|------|
| Equity holder and its interest: | The Company                               | 100% |
| Date of establishment:          | September 3, 2009                         |      |
| Term of operation:              | September 3, 2009 to September 2,<br>2039 |      |
| Principal scope of business:    | Wholesale of coal                         |      |
| Nature:                         | Limited liability company                 |      |
| Registered capital              | RMB50,000,000                             |      |
| Paid-up capital                 | RMB50,000,000                             |      |

**10. Yitai Yili Energy Co., Ltd.**

|                                 |                                                                                                                   |      |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------|------|
| Equity holder and its interest: | The Company                                                                                                       | 100% |
| Date of establishment:          | September 24, 2009                                                                                                |      |
| Term of operation:              | September 24, 2009 to September 24, 2019                                                                          |      |
| Principal scope of business:    | Production and sales of coal chemical products, development and consultation of coal and coal chemical technology |      |
| Nature:                         | Limited liability company                                                                                         |      |
| Registered capital              | RMB100,000,000                                                                                                    |      |
| Paid-up capital                 | RMB100,000,000                                                                                                    |      |

**11. Inner Mongolia Yitai Chemical Co., Ltd.**

|                                 |                                                                                                                                                                                                                                                             |      |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Equity holder and its interest: | The Company                                                                                                                                                                                                                                                 | 100% |
| Date of establishment:          | October 29, 2009                                                                                                                                                                                                                                            |      |
| Term of operation:              | October 29, 2009 to October 28, 2029                                                                                                                                                                                                                        |      |
| Principal scope of business:    | Production, storage, operation, transportation and sales of synthesized ammonia, urea, nitrogen fertilizer, nitrogen-contained compound fertilizer, nitrogen-contained inorganic salt, cryogen and other chemical products (excluding hazardous substances) |      |
| Nature:                         | Limited liability company                                                                                                                                                                                                                                   |      |
| Registered capital              | RMB100,000,000                                                                                                                                                                                                                                              |      |
| Paid-up capital                 | RMB100,000,000                                                                                                                                                                                                                                              |      |

**12. Yitai Xinjiang Zhundong Energy Co., Ltd.**

|                                 |                                                              |      |
|---------------------------------|--------------------------------------------------------------|------|
| Equity holder and its interest: | The Company                                                  | 100% |
| Date of establishment:          | August 9, 2010                                               |      |
| Term of operation:              | August 9, 2010 to August 8, 2030                             |      |
| Principal scope of business:    | Coal and coal chemical technology development and consulting |      |
| Nature:                         | Limited liability company                                    |      |
| Registered capital              | RMB100,000,000                                               |      |
| Paid-up capital                 | RMB100,000,000                                               |      |

**13. Zhungeer Huzhun Ruyi Logistics Co., Ltd.**

|                                 |                                                                               |            |
|---------------------------------|-------------------------------------------------------------------------------|------------|
| Equity holder and its interest: | Yitai Huzhun<br>Zhungeer Guanniuju Cargo Transportation and Trading Co., Ltd. | 51%<br>49% |
| Date of establishment:          | July 10, 2009                                                                 |            |
| Term of Operation:              | July 10, 2009 to July 9, 2029                                                 |            |
| Principal scope of business:    | Cargo storage and loading, rail transport agency service                      |            |
| Nature:                         | Limited liability company                                                     |            |
| Registered capital              | RMB1,000,000                                                                  |            |
| Paid-up capital                 | RMB1,000,000                                                                  |            |

**14. Inner Mongolia Yitai Zhundong Jintai Storage and Transportation Co., Ltd.**

|                                 |                                                           |     |
|---------------------------------|-----------------------------------------------------------|-----|
| Equity holder and its interest: | Inner Mongolia Yitai Zhundong Railway Co., Ltd.           | 51% |
|                                 | Inner Mongolia Jintai Coal Group Co., Ltd.                | 49% |
| Date of establishment:          | April 15, 2011                                            |     |
| Term of operation:              | April 15, 2011 to April 14, 2061                          |     |
| Principal scope of business:    | Operation, lease and consultation of coal loading station |     |
| Nature:                         | Limited liability company                                 |     |
| Registered capital              | RMB 12,800,000                                            |     |
| Paid-up capital                 | RMB 12,800,000                                            |     |

**15. Yitai Share (Hong Kong) Co., Limited**

|                                 |                                      |      |
|---------------------------------|--------------------------------------|------|
| Equity holder and its interest: | The Company                          | 100% |
| Date of establishment:          | June 27, 2011                        |      |
| Principal scope of business:    | Coal imports and international trade |      |
| Nature:                         | Limited Liability Company            |      |
| Registered share capital        | US\$99,000,000                       |      |
| Share capital to be taken       | US\$3,000,000                        |      |

**16. Yitai Pharmatech Co., Ltd.**

|                                 |                                                                                                              |     |
|---------------------------------|--------------------------------------------------------------------------------------------------------------|-----|
| Equity holder and its interest: | Yitai Pharmaceutical                                                                                         | 51% |
|                                 | Mr. Liu Zhike                                                                                                | 39% |
|                                 | Mr. Feng Wenhua                                                                                              | 10% |
| Date of establishment:          | December 22, 2006                                                                                            |     |
| Term of operation:              | December 22, 2006 to December 21, 2056                                                                       |     |
| Principal scope of business:    | Research and development of new small molecule compounds for medical use, technology transfer and consulting |     |
| Nature:                         | Limited Liability Company                                                                                    |     |
| Registered capital              | RMB 10,000,000                                                                                               |     |
| Paid-up capital                 | RMB 10,000,000                                                                                               |     |

**17. Beijing Yitai Biotechnology Co., Ltd.**

|                                 |                                  |      |
|---------------------------------|----------------------------------|------|
| Equity holder and its interest: | Yitai Pharmaceutical             | 100% |
| Date of establishment:          | March 15, 2004                   |      |
| Term of operation:              | March 15, 2004 to March 14, 2034 |      |
| Principal scope of business:    | general business                 |      |
| Nature:                         | Limited Liability Company        |      |
| Registered capital              | RMB 10,000,000                   |      |
| Paid-up capital                 | RMB 10,000,000                   |      |

**18. Inner Mongolia Yitai Oil Product Sales Co., Ltd.**

|                                 |                                    |      |
|---------------------------------|------------------------------------|------|
| Equity holder and its interest: | Yitai Coal-to-oil                  | 100% |
| Date of establishment:          | January 8, 2010                    |      |
| Term of operation:              | January 8, 2010 to January 6, 2030 |      |
| Principal scope of business:    | Sales of lubricating oil           |      |
| Nature:                         | Limited Liability Company          |      |
| Registered capital              | RMB 30,000,000                     |      |
| Paid-up capital                 | RMB 30,000,000                     |      |

**19. Yitai Hami Energy Co., Ltd.**

|                                 |                                                                               |      |
|---------------------------------|-------------------------------------------------------------------------------|------|
| Equity holder and its interest: | The Company                                                                   | 100% |
| Date of establishment:          | January 13, 2012                                                              |      |
| Term of Operation:              | January 13, 2012 to January 12, 2032                                          |      |
| Principal scope of business:    | The processing and sales of minerals, and the sales of coal chemical products |      |
| Nature:                         | Limited Liability Company                                                     |      |
| Registered capital:             | RMB 10,000,000                                                                |      |
| Paid-up capital:                | RMB 10,000,000                                                                |      |

**20. Yitai Xinjiang Energy Co., Ltd.**

|                                 |                                                                    |     |
|---------------------------------|--------------------------------------------------------------------|-----|
| Equity holder and its interest: | The Company                                                        | 90% |
|                                 | Yitai Group                                                        | 10% |
| Date of establishment:          | February 16, 2012                                                  |     |
| Term of Operation:              | from February 16, 2012                                             |     |
| Principal scope of business:    | Consulting Service of coal chemical technology and coal technology |     |
| Nature:                         | Limited Liability Company                                          |     |
| Registered capital:             | RMB 100,000,000                                                    |     |
| Paid-up capital:                | RMB 100,000,000                                                    |     |

**21. Yitai Yili Mining Co., Ltd.**

|                                 |                                        |     |
|---------------------------------|----------------------------------------|-----|
| Equity holder and its interest: | The Company                            | 90% |
|                                 | Yitai Group                            | 10% |
| Date of establishment:          | March 13, 2012                         |     |
| Term of Operation:              | March 13, 2012 to March 12, 2062       |     |
| Principal scope of business:    | Investment in the coal mining industry |     |
| Nature:                         | Limited Liability Company              |     |
| Registered capital:             | RMB 50,000,000                         |     |
| Paid-up capital:                | RMB 50,000,000                         |     |

**4. FURTHER INFORMATION ABOUT OUR BUSINESS****(A) Summary of our material contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this Prospectus which are or may be material:

- (a) the Assets Transfer Agreement;
- (b) a trademarks license agreement dated May 29, 2012 entered into between our Company as licensee and Yitai Group as licensor in respect of the licensing of certain trademarks of Yitai Group at a nominal consideration of RMB1.0 per year, further details of which are set out in "Connected Transactions — Continuing Connected Transaction — Exempt continuing connected transaction — 1 Trademarks License Agreement" in this prospectus;
- (c) an equity transfer agreement dated April 20, 2011 entered into between our Company and SDIC Asset Management Co., Ltd. (國投資產管理公司) pursuant to which SDIC Asset Management Co., Ltd. agreed to sell to our company 4.14% equity interests in Yitai Pharmaceutical for a consideration of RMB500,000;
- (d) an equity transfer agreement dated June 23, 2010 entered into between our Company and Inner Mongolia Ruyi Co., Ltd. (內蒙古如意實業股份有限公司) pursuant to which Inner Mongolia Ruyi Co., Ltd. agreed to sell to our Company 4% equity interests in Yitai Zhundong for a consideration of RMB108,750,153;

- (e) the Non-competition Agreement;
- (f) the Hong Kong Underwriting Agreement;
- (g) an underwriting agreement dated June 22, 2012 entered into between our Company and CMS HK, pursuant to which CMS HK has agreed with a hard underwriting commitment of up to US\$100 million;
- (h) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, Baosteel Resources International Co., Ltd., pursuant to which Baosteel Resources International Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$29.7 million at the Offer Price;
- (i) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, Datang International (Hong Kong) Limited, pursuant to which Datang International (Hong Kong) Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$100 million at the Offer Price;
- (j) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, Inner Mongolia Man Shi Investment Group Limited (內蒙古滿世投資集團有限公司), pursuant to which Inner Mongolia Man Shi Investment Group Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of RMB500 million at the Offer Price;
- (k) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, King Link Holding Limited, pursuant to which King Link Holding Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$30 million at the Offer Price;
- (l) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, Lion Fund Rainbow No.1 Investment Mandate, pursuant to which Lion Fund Rainbow No.1 Investment Mandate has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$20 million (including relevant brokerage and levies) at the Offer Price;
- (m) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, Ordos Vanzip Project Construction Company Limited (鄂爾多斯市萬正建設工程有限責任公司), pursuant to which Ordos Vanzip Project Construction Company Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of RMB500 million at the Offer Price; and
- (n) a cornerstone investment agreement dated June 26, 2012 entered into between our Company, the Joint Bookrunners, Reignwood International Investment (Group) Co., Ltd., pursuant to which Reignwood International Investment (Group) Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$50 million at the Offer Price.

*(B) Our intellectual property rights*

Pursuant to a trademarks license agreement as set out in “Connected Transaction — Continuing Connected Transaction — 1 Trademarks License Agreement,” our Group has been granted the license to use certain trademarks including but not limited to the following material trademarks:

| Trademark                                                                           | Registered Owner | Class | Place of Registration/<br>Applicant | Registration Number | Expiry            |
|-------------------------------------------------------------------------------------|------------------|-------|-------------------------------------|---------------------|-------------------|
|    | Yitai Group      | 39    | PRC                                 | 3183773             | September 6, 2013 |
|    | Yitai Group      | 4     | PRC                                 | 3183774             | August 27, 2013   |
|    | Yitai Group      | 5     | PRC                                 | 3183775             | August 27, 2013   |
|    | Yitai Group      | 39    | PRC                                 | 3845848             | July 20, 2016     |
|   | Yitai Group      | 39    | PRC                                 | 3845868             | May 13, 2016      |
|  | Yitai Group      | 39    | PRC                                 | 3845869             | May 13, 2016      |
|  | Yitai Group      | 4     | PRC                                 | 3845876             | August 6, 2015    |
|  | Yitai Group      | 4     | PRC                                 | 3845877             | August 6, 2015    |
|  | Yitai Group      | 4     | PRC                                 | 3845878             | August 6, 2015    |
|  | Yitai Group      | 4     | PRC                                 | 3845879             | August 6, 2015    |
|  | Yitai Group      | 4     | PRC                                 | 3845880             | August 6, 2015    |
|  | Yitai Group      | 4     | PRC                                 | 3845914             | August 6, 2015    |
|  | Yitai Group      | 4     | PRC                                 | 3845915             | August 6, 2015    |
|  | Yitai Group      | 39    | PRC                                 | 3846008             | July 20, 2016     |
|  | Yitai Group      | 4     | PRC                                 | 3846010             | August 6, 2015    |



| Trademark                                                                           | Registered Owner | Class              | Place of Registration/<br>Applicant | Registration Number | Expiry           |
|-------------------------------------------------------------------------------------|------------------|--------------------|-------------------------------------|---------------------|------------------|
|    | Yitai Group      | 4                  | PRC                                 | 3846011             | August 6, 2015   |
|    | Yitai Group      | 39                 | PRC                                 | 3846041             | May 13, 2016     |
|    | Yitai Group      | 39                 | PRC                                 | 3846042             | May 13, 2016     |
|    | Yitai Group      | 4                  | PRC                                 | 5558253             | October 13, 2019 |
|    | Yitai Group      | 3, 4, 5,<br>25, 43 | Hong Kong                           | 300563698AA         | January 11, 2016 |
|    | Yitai Group      | 4                  | Taiwan                              | 01225212            | August 31, 2016  |
|    | Yitai Group      | 4                  | Macau                               | N/020711            | June 9, 2013     |
|  | Yitai Group      | 4, 5               | India                               | 1412786             | January 9, 2016  |
|  | Yitai Group      | 4                  | Malaysia                            | 06000924            | January 19, 2016 |
|  | Yitai Group      | 4                  | Korea                               | Kipo601585          | December 2, 2014 |
|  | Yitai Group      | 4                  | Japan                               | 4734673             | April 23, 2013   |
|  | Yitai Group      | 4                  | Japan                               | 4734672             | April 23, 2013   |
|  | Yitai Group      | 4                  | Indonesia                           | IDM000135162        | January 16, 2016 |
|  | Yitai Group      | 4                  | Philippines                         | 4-2006-001736       | March 26, 2017   |
|  | Yitai Group      | 4                  | Thailand                            | TM262033            | March 6, 2016    |

As of the Latest Practicable Date, we have registered the following domain names:

| <u>Domain Name</u> | <u>Place of Registration</u> | <u>Owner</u> | <u>Registration Date</u> | <u>Expiration Date</u> |
|--------------------|------------------------------|--------------|--------------------------|------------------------|
| www.yitai coal.com | China                        | The Company  | March 23, 2010           | March 23, 2016         |

Save as disclosed herein, there are no patents, trademarks or other intellectual or industrial property rights which are material in relation to our business.

## 5. DISCLOSURE OF INTERESTS

### A. Substantial shareholders

So far as the Directors, the Supervisors and our chief executive are aware, immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the following persons will have an interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

|                                 | <u>Class of Shares<sup>(4)</sup></u> | <u>Number of Shares directly and indirectly held</u> | <u>Approximate percentage of share capital (%)<sup>(1)</sup></u> |                           |                                                |
|---------------------------------|--------------------------------------|------------------------------------------------------|------------------------------------------------------------------|---------------------------|------------------------------------------------|
|                                 |                                      |                                                      | <u>Direct interests</u>                                          | <u>Indirect interests</u> | <u>Aggregate direct and indirect interests</u> |
| Yitai Group <sup>(2)</sup>      | Domestic Shares and B Shares         | 897,843,064                                          | 800,000,000                                                      | 97,843,064                | 61.33%                                         |
| Yitai Investment <sup>(3)</sup> | Domestic Shares and B Shares         | 897,843,064                                          | 0                                                                | 897,843,064               | 61.33%                                         |
| Yitai HK                        | B Shares                             | 97,843,064                                           | 97,843,064                                                       | 0                         | 6.69%                                          |

Notes:

- (1) The percentage shareholdings are rounded to the nearest two decimal place.
- (2) Yitai Group holds the entire registered capital of Yitai HK, which holds 97,843,064 B Shares, and is thus deemed to be interested in all of the 97,843,064 B Shares held by Yitai HK.
- (3) Yitai Investment holds 99.54% of the registered capital of Yitai Group and is thus deemed to be interested in all of the 897,843,064 Shares directly or indirectly held by Yitai Group. The equity interests of Yitai Investment are held by 31 individuals on behalf of the Employee Group. Mr. Zhang Shuangwang and his spouse beneficially own 15.01% equity interest in Yitai Investment.
- (4) According to the Articles of Association, we have two classes of shares, consisting of: (i) "non-overseas-listed-foreign shares" which include Domestic Shares and B Shares; and (ii) H Shares.

As of the Latest Practicable Date, each of the following persons or entities was directly and/or indirectly interested in 10% or more of equity interest carrying rights to vote for all matters at the general meetings of any subsidiaries of our Company:

| <u>Member of our Group</u>          | <u>Equity with 10% or more interest (other than us)</u>       | <u>Percentage of that entity's equity interest</u> |
|-------------------------------------|---------------------------------------------------------------|----------------------------------------------------|
| Yitai Coal-to-oil                   | Yitai Group                                                   | 20%                                                |
| Yitai Suancangou                    | Jingneng Power                                                | 24%                                                |
| Yitai Suancangou                    | Shanxi Yudean                                                 | 24%                                                |
| Yitai Huzhun                        | Inner Mongolia Mengtai Buliangou Coal Co., Ltd.               | 21.56%                                             |
| Yitai Tiedong                       | Ordos Dongchen Coal Co., Ltd.                                 | 30%                                                |
| Yitai Tiedong                       | Ordos Dinghua Resources Development Co., Ltd.                 | 19%                                                |
| Yitai Pharmatech Co., Ltd.          | Liu Zhike                                                     | 39%                                                |
| Yitai Pharmatech Co., Ltd.          | Feng Wenhua                                                   | 10%                                                |
| Zhungeer Huzhun Logistics Co., Ltd. | Zhungeer Guanniuju Cargo Transportation and Trading Co., Ltd. | 49%                                                |
| Zhundong Jintai                     | Inner Mongolia Jintai Coal Group Co., Ltd.                    | 49%                                                |
| Yitai Xinjiang                      | Yitai Group                                                   | 10%                                                |
| Yitai Yili Mining                   | Yitai Group                                                   | 10%                                                |

**B. Disclosure of the Directors' and Supervisors' interests in the registered capital of associated corporations of the Company**

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, the interests and short positions of each Director, Supervisor and chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Issuers to be notified to us and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors) will be as follows:

| Director/Supervisor/Chief Executive | Associated corporation | Type of Interest                      | Approximate percentage in the registered capital of the associated corporation |
|-------------------------------------|------------------------|---------------------------------------|--------------------------------------------------------------------------------|
| Mr. Zhang Donghai . . .             | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(1)</sup>                                               |
| Mr. Liu Chunlin . . . . .           | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(2)</sup>                                               |
| Mr. Ge Yaoyong . . . . .            | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(3)</sup>                                               |
| Mr. Zhang Dongsheng                 | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(4)</sup>                                               |
| Mr. Li Wenshan . . . . .            | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(5)</sup>                                               |
| Mr. Kang Zhi . . . . .              | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(6)</sup>                                               |
| Mr. Zhang Xinrong . . .             | Yitai Investment       | Interest in an associated corporation | 2.84% (entrusted) <sup>(7)</sup>                                               |
| Mr. Lv Guiliang . . . . .           | Yitai Investment       | Interest in an associated corporation | 0.31%                                                                          |
| Mr. Zhang Mingliang .               | Yitai Investment       | Interest in an associated corporation | 0.12%                                                                          |
| Mr. Wang Sanmin . . . .             | Yitai Investment       | Interest in an associated corporation | 0.07%                                                                          |
| Mr. Ji Zhifu . . . . .              | Yitai Investment       | Interest in an associated corporation | 0.03%                                                                          |
| Mr. Han Zhanchun . . .              | Yitai Investment       | Interest in an associated corporation | 0.03%                                                                          |

(1) Mr. Zhang Donghai and his spouse are beneficially interested in 1.58% of the registered capital of Yitai Investment.

(2) Mr. Liu Chunlin is beneficially interested in 0.83% of the registered capital of Yitai Investment.

(3) Mr. Ge Yaoyong and his spouse are beneficially interested in 0.70% of the registered capital of Yitai Investment.

(4) Mr. Zhang Dongsheng and his spouse are beneficially interested in 0.71% of the registered capital of Yitai Investment.

(5) Mr. Li Wenshan is beneficially interested in 0.56% of the registered capital of Yitai Investment.

(6) Mr. Kang Zhi is beneficially interested in 0.36% of the registered capital of Yitai Investment.

(7) Mr. Zhang Xinrong and his spouse are beneficially interested in 0.41% of the registered capital of Yitai Investment.

Pursuant to a trust agreement entered into by 31 individuals and a group of employees of Yitai Group, the Directors, Supervisors and chief executives listed above together with other members of the 31 individuals hold the entire registered capital of Yitai Investment on behalf of a group of employees comprised of 2,300 individuals. Our PRC legal advisors opined that the trust arrangement is valid and binding under the PRC laws. For details about the trust agreement, please refer to "Relationship with Controlling Shareholders — Overview" and "Our History and Corporate Structure — Our History and Development — The Restructuring of Our Controlling Shareholders."

**C. Particulars of service contracts**

Each of the Directors has entered into a service contract with our Company on May 29, 2012. The principal particulars of these service agreement are (a) for a term commencing from the date of the respective service agreement and ending upon the expiry of the term of the board of Directors and (b) are subject to termination in accordance with their respective terms. The service agreements may be renewed upon expiry.

Each of the Supervisors has entered into a service contract with our Company on May 29, 2012. The principal particulars of these service agreements are (a) for a term of three years commencing from the appointment date and ending upon the expiry of the term of the Supervisory Board and (b) are subject to termination in accordance with their respective terms. The service agreements may be renewed upon expiry.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with us other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

***D. Directors' and Supervisors' remuneration***

The aggregate amounts of remuneration paid and benefits in kind granted to our Directors and our Supervisors in respect of each of 2009, 2010 and 2011 were approximately RMB10.6 million, RMB10.9 million, and RMB11.7 million, respectively. Save as disclosed under Note 10 to the financial statements in the Accountants' Report set out in Appendix IA to this Prospectus, no Director or Supervisor received other remuneration or benefits in kind from our Company in respect of the same periods.

Under the current arrangements in force as of the date of this Prospectus, the Directors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2012 which is expected to be approximately RMB9.0 million in aggregate.

Under the current arrangements in force as of the date of this Prospectus, the Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2012 which is expected to be approximately RMB2.7 million in aggregate.

***E. Personal guarantees***

The Directors and Supervisors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

***F. Agency fees or commissions received***

Save as disclosed in the section headed "Underwriting" in this Prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this Prospectus.

***G. Connected transactions and related party transactions***

Details of the connected transactions and related party transactions of the Company are set out in the section entitled "Connected Transactions" of this Prospectus and in the Accountants' Report, the text of which is set out in Appendix IA to this Prospectus, respectively.

***H. Disclaimers***

Save as disclosed in this Prospectus:

- (a) none of the Directors, Supervisors or chief executive of our Company had, as of the Latest Practicable Date, any interests and short positions in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once our H Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) save in connection with the Underwriting Agreements, none of the Directors or Supervisors nor any of the parties listed in the paragraph headed "Qualification of experts" in this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this Prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

- (c) none of the Directors or Supervisors is a director or employee of Yitai Group or Yitai Investment, being companies which are expected to have an interest in the Shares falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange;
- (d) save in connection with the Underwriting Agreements, none of the Directors or Supervisors nor any of the parties listed in paragraph headed "Qualification of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "Qualification of experts" in this Appendix:
  - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities;
- (f) no cash, securities or other benefits have been paid, allotted or given within the two years preceding the date of this Prospectus to our promoters in connection with the Global Offering nor are any such cash, securities or benefits intended to be paid, allotted or given; and
- (g) none of the Directors or Supervisors or their respective associates or any shareholders of our Company (who to the knowledge of the Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

## 6. OTHER INFORMATION

### A. *Estate Duty*

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

### B. *Litigation*

As of the Latest Practicable Date, save as disclosed in this Prospectus, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

### C. *Joint Sponsors*

Each of the Joint Sponsors has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our H Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

### D. *Preliminary expenses*

Our estimated preliminary expenses are approximately HK\$2.6 million. All preliminary expenses and all expenses relating to the Global Offering will be borne by the Company.

**E. Compliance Advisers**

The Company has agreed to appoint China International Capital Corporation Hong Kong Securities Limited to be the compliance advisers upon listing in compliance with Rules 3A.19 and 19A.05 of the Listing Rules. The Company expects to enter into a compliance advisers' agreement with the compliance advisers prior to the Listing Date, the material terms of which are as follows:

- (i) the Company will appoint China International Capital Corporation Hong Kong Securities Limited, as the compliance advisers for the purpose of Rule 3A.19 and 19A.05 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the financial results of the Company for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is the earlier;
- (ii) the compliance advisers will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and provide advice to the Company on the continuing requirements under the Listing Rules and applicable laws and regulations;
- (iii) the compliance advisers will, as soon as reasonably practicable inform us of any amendment or supplement to the Listing Rules announced by the Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines;
- (iv) the Company will agree to indemnify the compliance advisers for certain actions against the losses incurred by the compliance advisers arising out of or in connection with the performance by the compliance advisers of their duties under the agreement, or any material breach by the Company of the provisions of the agreement, provided that the indemnity will not apply to an action or loss which is finally judicially determined to have been caused by the wilful default, fraud or gross negligence on the part of the compliance advisers;
- (v) the Company may terminate the appointment of the compliance adviser if its work is of an unacceptable standard or if there is a material dispute over fees payable to the compliance adviser (which cannot be resolved within 30 days); and
- (vi) the compliance adviser will have the right to terminate their appointment by service of a notice to the Company.

**F. Qualification of experts**

The qualifications of the experts who have given opinions in this Prospectus are as follows:

| <u>Name</u>                                                          | <u>Qualification</u>                                                                                                                                                                                                     |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| China International Capital Corporation Hong Kong Securities Limited | Licensed under the Securities and Futures Ordinance for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) as defined under the Securities and Futures Ordinance |
| BOCI Asia Limited                                                    | Licensed under the Securities and Futures Ordinance for type 1 (dealing in securities) and type 6 (advising on corporate finance) as defined under the Securities and Futures Ordinance                                  |
| Ernst & Young                                                        | Certified public accountants                                                                                                                                                                                             |
| CBRE HK Limited                                                      | Property Valuer                                                                                                                                                                                                          |
| Jingtian & Gongcheng Attorneys at Law                                | PRC Legal Advisers                                                                                                                                                                                                       |
| John T. Boyd Company                                                 | Competent person and competent evaluator                                                                                                                                                                                 |

**G. Sole Promoter**

Our sole promoter is Yimei Group.

**H. No material adverse change**

The Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2011 and that no material changes have occurred since the date of the Competent Person's Report up to the date of this Prospectus.

**I. Binding effect**

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**J. Bilingual Prospectus**

The English language and Chinese language versions of this Prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**K. Miscellaneous**

- (a) save as disclosed in this Prospectus, within the two years preceding the date of this Prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) save as disclosed in this Prospectus, no share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this Prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of the Company;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months; and
- (h) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

**L. Consents**

Each of the experts as referred to in the paragraph headed "Qualification of experts" in this Appendix, has given and has not withdrawn their respective written consents to the issue of this Prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

**M. Sufficiency of foreign exchange**

For holders of our H Shares, cash dividends payments, if any, will be proposed by our Board in Renminbi and paid in Hong Kong dollars. Our Directors are of the view that we will have sufficient Hong Kong dollars to pay any cash dividends payments as they become due. For holders of our B Shares, cash dividends payments, if any, will be declared by our Board in Renminbi and paid in U.S. Dollars. For holders of our Domestic Shares, cash dividends payments, if any, will be declared by our Board and paid in Renminbi.



## 7. MATERIAL PROPERTIES

## An Overview of Property Interests of the Group's Non-Property Activities

## The material properties held by the Group in PRC as at 31 March 2012

| Description and Location                                                                                                                                          | Holding Entity                      | Use & Occupancy                                                                                              | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use | Restrictions on use | Material encumbrances                                                                                                                                                           | Material environmental issues | Material litigation, breaches, the next 12 months | Plans for construction, improvement in the next 12 months                                                             | Interests attributable to the Group |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------|--------------------------|-----------------------------------------------------------------|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 47 buildings and 66 structures which are erected on 3 parcels of land located in Nalinmiao Village, Narisong Town, Zhunge'er Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Nalinmiao No.1 Mine  | 265,984.80        | 16,386.34                | Granted land with the latest expiry date on 3 June 2059         | Industrial          | For 2 buildings with a total gross floor area of 560.95sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates.    | None                          | None                                              | 2 structures for ancillary facilities is in the progress. The cost of RMB 293,796 had been incurred at 31 Mar 2012.   | 100%                                |
| 45 buildings 56 structures which are erected on 7 parcels of land located in Chuanzhang Village, Narisong Town, Zhunge'er Banner, Ordos, Inner Mongolia, China    | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Nalinmiao No.2 Mine  | 351,677.80        | 26,570.21                | Granted land with the latest expiry date on 30 August 2052      | Industrial          | For 11 buildings with a total gross floor area of 7,328.82sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates. | None                          | None                                              | 3 structures for ancillary facilities is in the progress. The cost of RMB 3,815,100 had been incurred at 31 Mar 2012. | 100%                                |
| 41 buildings 52 structures which are erected on 3 parcels of land located in Hutugou Village, Narisong Town, Zhunge'er Banner, Ordos, Inner Mongolia, China       | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Hongjingta No.1 Mine | 266,155.50        | 18,429.24                | Granted land with the latest expiry date on 3 June 2059         | Industrial          | For 2 buildings with a total gross floor area of 79.3sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates.      | None                          | None                                              | 4 structures for ancillary facilities is in the progress. The cost of RMB 5,458,342 had been incurred at 31 Mar 2012. | 100%                                |

| Description and Location                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Holding Entity                      | Use & Occupancy                                                                                    | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use         | Restrictions on use | Material encumbrances                                                                                                                                                           | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months                                                                                                                          | Interests attributable to the Group |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------|-------------------|--------------------------|-------------------------------------------------------------------------|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 29 buildings and 49 structures which are erected on 3 parcels of land located in Nalinmiao Village, Narisong Town, Zhunge'er Banner, Ordos, Inner Mongolia, China                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Kaida Mine | 82,366.35         | 9,123.41                 | 2 parcels of granted land with the expiry date both on 13 October 2059. | Industrial          | For 12 buildings with a total gross floor area of 5,955.83sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates. | None                          | None                                   | 4 buildings and several structures for industrial production facilities and ancillary facilities is in the progress. The cost of RMB 194,253,531 had been incurred at 31 Mar 2012. | 100%                                |
| <p>The Group have obtained the letter from the IDLR dated 19 March 2012, confirming that (i) the Group will not be penalized again for using such construction land without approval or ordered to return such land or restore such land to its original status, and buildings and other facilities on such land will not be subject to confiscation or compulsory removal; (ii) as of the date of this letter, the IDLR has not received any claim in relation to the land use right of such land from any third party, and nor will it accept any application filed by any third party other than the Company with respect to such land.</p> |                                     |                                                                                                    |                   |                          |                                                                         |                     |                                                                                                                                                                                 |                               |                                        |                                                                                                                                                                                    |                                     |

| Description and Location                                                                                                                                           | Holding Entity                      | Use & Occupancy                                                                                         | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use                                        | Restrictions on use              | Material encumbrances                                                                                                                                                           | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months                                                             | Interests attributable to the Group |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------|--------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 22 buildings and 16 structures which are erected on 2 parcels of land located in Nalintaogai Town, Yijinhuoluo Banner, Ordos, Inner Mongolia, China                | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Fuhua Mine      | 32,595.86         | 4,091.98                 | 2 parcels of granted land with the expiry date on 27 September 2059 and 28 December 2059 respectively. | Industrial                       | For 7 buildings with a total gross floor area of 1,275.97 sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates. | None                          | None                                   | 3 buildings for ancillary facilities is in the progress. The cost of RMB 5,398,108 had been incurred at 31 Mar 2012.  | 100%                                |
| 37 buildings and 24 structures which are erected on 2 parcels of land located in Tanggongta Village, Xuejawan Town, Zhunge'er Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Yangwangou Mine | 71,344.60         | 8,146.60                 | 2 parcels of granted land with the expiry date on 3 June 2059 and 9 October 2059 respectively.         | Industrial                       | For 4 buildings with a total gross floor area of 317.97sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates.    | None                          | None                                   | 2 structures for ancillary facilities is in the progress. The cost of RMB 2,567,185 had been incurred at 31 Mar 2012. | 100%                                |
| 15 buildings and 53 structures which are erected on 2 parcels of land located in Zhunge'er Banner, Ordos, Inner Mongolia, China                                    | Inner Mongolia Yitai Coal Co., Ltd. | The staff quarters, office ancillary facilities for Caoyang Road.                                       | 2,340,146.66      | 4,308.87                 | 2 parcels of allocated land                                                                            | Traffic                          | For 4 buildings with a total gross floor area of 262.44sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates.    | None                          | None                                   | None                                                                                                                  | 100%                                |
| 12 buildings and 57 structures which are erected on 3 parcels of land located in Dalumao Village, Narisong Town, Zhunge'er Banner, Ordos, Inner Mongolia, China    | Inner Mongolia Yitai Coal Co., Ltd. | The staff quarters, office ancillary facilities for Xiyngzi Gas Station                                 | 51,296.60         | 4,067.37                 | Granted land with the latest expiry date on June 2053                                                  | Gas station/ Office/ Residential | For 2 buildings with a total gross floor area of 290.00sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates.    | None                          | None                                   | None                                                                                                                  | 100%                                |

| Description and Location                                                                                                                                              | Holding Entity                      | Use & Occupancy                                                  | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use | Restrictions on use | Material encumbrances                                                                                                                                                                                                                                                                    | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months | Interests attributable to the Group |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------------|-------------------|--------------------------|-----------------------------------------------------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|-----------------------------------------------------------|-------------------------------------|
| 5 buildings and 19 structures which are erected on 1 parcel of land located in Kangbashi New District, Ordos, Inner Mongolia, China                                   | Inner Mongolia Yitai Coal Co., Ltd. | The ancillary facilities for Kangbashi Solar Power Demonstration | 89,333.78         | 870.64                   | N.A.                                                            | N.A.                | The Group have not obtained the Land Ownership Certificate and the Building Ownership Certificate of the project. The Group have obtained approvals from the relevant government authorities. The Group intend to apply for ownership certificates after they obtain the land use right. | None                          | None                                   | None                                                      | 100%                                |
| 9 buildings and 3 structures which are erected on 1 parcel of land located in Shashagetai Village, Nalintaohai Town, Yijinhuoluo Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Coal Co., Ltd. | The office & ancillary facilities for Baoshen Station            | 4,982.37          | 1,656.89                 | Granted land with the expiry date on 27 September 2059          | Industrial          | None                                                                                                                                                                                                                                                                                     | None                          | None                                   | None                                                      | 100%                                |
| 5 structures which are erected on 1 parcel of land located in Xinniao Town, Yijinhuoluo Banner, Ordos, Inner Mongolia, China                                          | Inner Mongolia Yitai Coal Co., Ltd. | The ancillary facilities for Shenshan Mine                       | 4,463.00          | N.A.                     | Granted land with the expiry date on 27 September 2059          | Industrial          | None                                                                                                                                                                                                                                                                                     | None                          | None                                   | None                                                      | 100%                                |

| Description and Location                                                                                                                                                     | Holding Entity                      | Use & Occupancy                                                                                                           | Site area (sq.m.) | Gross floor area (sq.m.) | Acquisition of Land Use Right/Expiry Date of Land Use | Restrictions on use | Material encumbrances                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months                                                                                                                         | Interests attributable to the Group |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------|-------------------------------------------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 11 buildings and 14 structures which are erected on 1 parcel of land located in Huangtian Miantu Village, Zhunge'erzhao Town, Zhunge'er Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Coal Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Zhunge'erzhao CCP and gas station | 1,201,683         | 9,425.06                 | N.A.                                                  | N.A.                | The Group have not obtained the Land Ownership Certificate and the Building Ownership Certificate of the project.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | None                          | None                                   | 4 buildings and several structures for industrial production facilities and ancillary facilities is in the progress. The cost of RMB 24,236,574 had been incurred at 31 Mar 2012. | 100%                                |
|                                                                                                                                                                              |                                     |                                                                                                                           |                   |                          |                                                       |                     | The Group have obtained the letter from the IDLR dated 19 March 2012, confirming that (i) the Group will not be penalized again for using such construction land without approval or ordered to return such land or restore such land to its original status, and buildings and other facilities on such land will not be subject to confiscation or compulsory removal; (ii) as of the date of this letter, the IDLR has not received any claim in relation to the land use right of such land from any third party, and nor will it accept any application filed by any third party other than the Company with respect to such land. |                               |                                        |                                                                                                                                                                                   |                                     |

| Description and Location                                                                                                                     | Holding Entity                                  | Use & Occupancy                                                                        | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use       | Restrictions on use | Material encumbrances                                                                                                                                                                                                                                                                   | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months                                                            | Interests attributable to the Group |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------|-------------------|--------------------------|-----------------------------------------------------------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 4 buildings and 12 structures which are erected on 1 parcel of land located in Dalu New Town, Zhunge'er Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Coal-to-oil Co.,Ltd.       | Industrial production facilities, Office & Ancillary facilities                        | 519,350.00        | 6,432.13                 | Granted land with the expiry date on 20 September 2056                | Industrial          | None                                                                                                                                                                                                                                                                                    | None                          | None                                   | 1 building for ancillary facilities is in the progress. The cost of RMB 81,087,700 had been incurred at 31 Mar 2012. | 80%                                 |
| 87 buildings and 571 structures which are erected on 1 parcel of land located in Huhhot & Ordos, Inner Mongolia, China                       | Inner Mongolia Yitai Huzhun Railway Co., Ltd.   | The office, staff quarters & ancillary facilities for Huzhun Railway Line              | 4,914,264.00      | 22,349.34                | Allocated                                                             | N.A.                | The Group has not obtained the Land Ownership Certificate and the Building Ownership Certificate of the property.                                                                                                                                                                       | None                          | None                                   | None                                                                                                                 | 76.46%                              |
|                                                                                                                                              |                                                 |                                                                                        |                   |                          |                                                                       |                     | According to a reply issued by the MLR on December 27, 2011, the State Council had approved for the parcel of land used by Huzhun Railway Line to convert into land for construction, and there are no material legal impediments in obtaining the relevant land use right certificate. |                               |                                        |                                                                                                                      |                                     |
| 111 buildings and 459 structures which are erected on 13 parcels of land located in Zhunge'er Banner, Ordos, Inner Mongolia, China           | Inner Mongolia Yitai Zhundong Railway Co., Ltd. | The office, staff quarters & ancillary facilities for Phase I of Zhundong Railway Line | 6,295,933.45      | 54,439.39                | 8 parcels of allocated land                                           | Traffic/ Office     | None                                                                                                                                                                                                                                                                                    | None                          | None                                   | 1 office building is in the progress. The cost of RMB 49,778,396 had been incurred at 31 Mar 2012.                   | 100%                                |
|                                                                                                                                              |                                                 |                                                                                        |                   |                          | 5 parcels of granted land with the latest expiry date on 7 March 2053 |                     |                                                                                                                                                                                                                                                                                         |                               |                                        |                                                                                                                      |                                     |

| Description and Location                                                                                                        | Holding Entity                                          | Use & Occupancy                                                                                        | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use | Restrictions on use | Material encumbrances                                                                                                                                                                                                                                                                          | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months | Interests attributable to the Group |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-------------------|--------------------------|-----------------------------------------------------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|-----------------------------------------------------------|-------------------------------------|
| 10 buildings and 1 railway line which are erected on 1 parcel of land located in Zhunge'er Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Zhundong Railway Co., Ltd.         | The office, staff quarters & ancillary facilities for Phase II of Zhundong Railway Line                | 4,873,743.00      | 6,868.60                 | Allocated                                                       | N.A.                | The Group has not obtained the Land Ownership Certificate and the Building Ownership Certificate of the property.                                                                                                                                                                              | None                          | None                                   | None                                                      | 100%                                |
|                                                                                                                                 |                                                         |                                                                                                        |                   |                          |                                                                 |                     | According to a reply issued by the MLR on January 17, 2011, the State Council had approved for the parcel of land used by Yitai Zhundong Railway Line to convert into land for construction, and there are no material legal impediments in obtaining the relevant land use right certificate. |                               |                                        |                                                           |                                     |
| 47 buildings and 35 structures which are erected on 2 parcel of land located in Zhunge'er Banner, Ordos, Inner Mongolia, China  | Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities for Suancigou Mine | 751,488.00        | 92,690.64                | Granted land with the expiry date on 22 July 2060               | Industrial          | For 2 buildings with a total gross floor area of 5,546.20sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates.                                                                                                                 | None                          | None                                   | None                                                      | 52%                                 |
| 6 buildings and 55 structures which are erected on 2 parcel of land located in Zhunge'er Banner, Ordos, Inner Mongolia, China   | Inner Mongolia Yitai Jingyue Suancigou Mining Co., Ltd. | The Suanzhou Railway Line                                                                              | 729,931.74        | 3,620.64                 | One parcel of allocated land                                    | Railway             | None                                                                                                                                                                                                                                                                                           | None                          | None                                   | None                                                      | 52%                                 |
|                                                                                                                                 |                                                         |                                                                                                        |                   |                          |                                                                 |                     | One parcel of granted land with the expiry date on 22 July 2060                                                                                                                                                                                                                                |                               |                                        |                                                           |                                     |



| Description and Location                                                                                                      | Holding Entity                                                    | Use & Occupancy                                                                     | Site area (sq.m.) | Gross floor area (sq.m.) | Method of Acquisition of Land Use Right/Expiry Date of Land Use | Restrictions on use | Material encumbrances                                                                                                                                                          | Material environmental issues | Material litigation, breaches, defects | Plans for construction, improvement in the next 12 months | Interests attributable to the Group |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------|--------------------------|-----------------------------------------------------------------|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|-----------------------------------------------------------|-------------------------------------|
| 14 buildings and 27 structures which are erected on 1 parcel of land located in Hangjin Banner, Ordos, Inner Mongolia, China  | Inner Mongolia Yitai Pharmaceutical Co.,Ltd.                      | The industrial production facilities, staff quarters, office & ancillary facilities | 530,165.60        | 10,552.85                | Granted land with the expiry date on 5 November 2050            | Industrial          | None                                                                                                                                                                           | None                          | None                                   | None                                                      | 100%                                |
| 19 buildings and 34 structures which are erected on 2 parcels of land located in Hangjin Banner, Ordos, Inner Mongolia, China | Inner Mongolia Yitai Tiedong Storage and Transportation Co., Ltd. | The industrial production facilities, staff quarters, office & ancillary facilities | 227,258.00        | 7,503.92                 | Granted land with the expiry date both on 9 October 2059        | Industrial          | For 3 buildings with a total gross floor area of 3,467.66sq.m. without Building Ownership Certificate, the Group is applying for the relevant Building Ownership Certificates. | None                          | None                                   | None                                                      | 51%                                 |

## Note:

- (1) The above material properties refer to the properties used for the Group's coal & industrial production and railway line.
- (2) For the encumbrances of the property, we have relied on the legal opinion provided by the Group's PRC legal advisors Jingtian & Gongcheng Attorneys at Law.
- (3) None of the above material properties is related to property activities (as defined in the Chapter 5 of the Hong Kong Listing Rules). To the best of our knowledge and belief, except as otherwise disclosed in the above table and/or notes, none of our material properties have:
  - a) third party rights such as encumbrances, liens, pledges or mortgages;
  - b) restrictions on its use or conflicts with its actual use;
  - c) environmental violation issues;
  - d) investigations, notices, pending litigations, breaches of law or title defects;
  - e) plans for construction, renovation, improvement or development;
  - f) plans to dispose of or change the use; or
  - g) any other information considered material for investors to enable them to make a property informed assessment on the properties of our Group.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section entitled “*Statutory and General Information — Other Information — Consents*” in Appendix X; and
- (c) a copy of each of the material contracts referred to in the section entitled “*Statutory and General Information — Further Information About Our Business — Summary of our material contracts*” in Appendix X.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 28/F, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (a) the Articles of Association in Chinese;
- (b) the accountants’ report of the Company prepared by Ernst & Young, the text of which is set out in Appendix IA together with the statement of adjustments;
- (c) the accountants’ report of the Target Business Group, the text of which is set out in Appendix IB together with the statement of adjustments;
- (d) the letter relating to the unaudited combined pro forma financial information of the enlarged group, the text of which is set out in Appendix IIA;
- (e) the letter relating to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IIB;
- (f) the report prepared by Ernst & Young on the unaudited interim financial information of our Company, the text of which is set out in Appendix III;
- (g) the letters relating to the Profit Forecast, the text of which are set out in Appendix IV;
- (h) the competent person’s report prepared by John T. Boyd Company as set out in Appendix V;
- (i) the valuation report prepared by John T. Boyd Company as set out in Appendix VI;
- (j) the material contracts referred to in the section entitled “*Statutory and General Information — Further Information About Our Business — Summary of our material contracts*” in Appendix X;
- (k) the written consents referred to in the section entitled “*Statutory and General Information — Other Information — Consents*” in Appendix X;
- (l) the service agreements referred to in the section entitled “*Statutory and General Information — Disclosure of Interests — Particulars of service contracts*” in Appendix X;
- (m) the PRC Company Law, the Special Regulations, the Mandatory Provisions together with unofficial English translations thereof; and
- (n) the PRC legal opinion issued by Jingtian & Gongcheng Attorneys at Law, the legal advisers to the Company on PRC law, dated June 29, 2012.



**内蒙古伊泰煤炭股份有限公司**  
INNER MONGOLIA YITAI COAL CO., LTD.\*

\*For identification purposes only