

12 October 2022

The Independent Board Committee and the Independent Shareholders
*Inner Mongolia Yitai Coal Co., Ltd.**

Dears Sirs,

REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 October 2022 issued to the Shareholders (the “**Circular**”). Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 October 2020, the Company and Yitai Group entered into the Yitai Group Framework Agreement on Purchase and Sale of Products and Services, pursuant to which Yitai Group and/or its subsidiaries shall provide coal products, chemical-related materials, technology and agricultural and sideline products to the Company and/or its subsidiaries from time to time. The Yitai Group Framework Agreement on Purchase and Sale of Products and Services shall be effective from 1 January 2021 and expired on 31 December 2023, and may be renewed for another three years upon mutual agreement of the parties.

The Board expected that the Original Annual Caps will not be sufficient for the development of the Company. Accordingly, the Board passed a resolution on 30 August 2022 to revise the Original Annual Caps.

As stated in the Letter from the Board, Yitai Group, directly and indirectly, holds 58.76% of the existing issued share capital of the Company and is a Controlling Shareholder of the Company. Thus, Yitai Group is a connected person of the Company. Therefore, the Yitai Group Framework Agreement on Purchase and Sale of Products and Services entered into between the Company and Yitai Group and the transactions contemplated thereunder constitute the continuing connected transactions of the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54(2) of the Listing Rules, if the Company intends to revise the annual caps for the continuing connected transaction, the Company will be required to re-comply with the relevant provisions under Chapter 14A of the Listing Rules in respect of the relevant continuing connected transaction.

TC Capital Group
天財資本集團

Suite 3508, 35/F, Tower 6, The Gateway, Harbour City,
9 Canton Road, Kowloon, Hong Kong
香港九龍廣東道9號海港城港威大廈第六座三十五樓3508室
www.tccapital.com.hk

The Independent Board Committee comprising Mr. Huang Sujian, Mr. Wong Hin Wing, Ms. Du Yingfen and Mr. E Erdun Tao Ketao (all being Independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Yitai Group Framework Agreement on Purchase and Sale of Products and Services and the Revised Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Revised Annual Caps at the EGM. We, TC Capital International Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to three occasions as detailed in the circulars of the Company dated 8 June 2022, 20 May 2021 and 1 December 2020 respectively. Given (i) our independent role in the abovementioned engagements; and (ii) our fees for the abovementioned engagements represented an insignificant percentage of our revenue, we consider that the abovementioned engagements would not affect our independence to form our opinion in respect of the Revised Annual Caps.

BASIS OF OPINION

In putting forth our recommendation, we have relied on the information, opinions, facts and representations supplied to us by the Directors and/or the representatives of the Company. We have reviewed, among other things, (i) the Yitai Group Framework Agreement on Purchase and Sale of Products and Services and the resolution passed by the Board on 30 August 2022; (ii) the annual reports of the Company for each of the two years ended 31 December 2021 (the “**2020 Annual Report**” and the “**2021 Annual Report**” respectively); (iii) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); (iv) the Circular; and (v) relevant market data and information available from public sources.

We have assumed that all such information, opinions, facts and representations provided to us by the Directors and/or the representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the representatives of the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld or is misleading.

We consider that we have sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and/or the representatives of the Company, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group, Yitai Group and any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Revised Annual Caps, we have taken into account the following principal factors and reasons:

1. Information on the Group and Yitai Group

1.1 Information on the Group

As stated in the Letter from the Board, the Company is a joint stock limited liability company incorporated in the PRC on 23 September 1997, which is the largest local coal enterprise in Inner Mongolia Autonomous Region and one of the large coal enterprises in the PRC. The businesses of the Company include coal operations, transportation operations, coal related chemical operations and other operations.

Set out below is certain financial information of the Group for the three years ended 31 December 2021 (“FY2019”, “FY2020” and “FY2021” respectively) and the six months ended 30 June 2021 and 2022 respectively (“1H2021” and “1H2022” respectively) as extracted from the 2020 Annual Report, the 2021 Annual Report and the 2022 Interim Report:

	For the year ended			For the six months ended	
	2021	2020	2019	2022	2021
	RMB million	RMB million	RMB million	RMB million	RMB million
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Total operating revenue	50,676	33,791	40,929	31,054	20,139
Profit from operations	12,929	352	6,130	10,152	4,047
Net profit/(loss)	9,874	(546)	4,807	7,962	3,248

As shown in the above table, the total operating revenue of the Group amounted to approximately RMB33,791 million for FY2020, representing a decrease of approximately 17% as compared with the corresponding figure for FY2019. The net loss of the Group was approximately RMB546 million for FY2020 as compared with a net profit of approximately RMB4,807 million for FY2019. As advised by the representatives of the Company, the decrease in net profit of the Group for FY2020 was mainly due to the impact brought by the COVID-19 pandemic and the provisions for impairment of assets by Yitai Xinjiang Energy Co., Ltd., a subsidiary of the Company. The coal segment is the largest segment of the Group. As affected by the COVID-19 pandemic in the first half of 2020, various industries generally delayed resumption of work and production, which led to an obvious decrease in the



production of major coal-consuming products and coal demands in the short term. Meanwhile, to guarantee the coal consumption needs of power plants during the pandemic, coal import continued to increase significantly on a year-on-year basis, which led to an overall decrease in coal prices, and caused significant impacts on the profit level of coal enterprises.

The total operating revenue of the Group increased to approximately RMB50,676 million for FY2021, representing a significant increase of approximately 50% as compared with the corresponding figure for FY2020. The Group turned around from the loss making position and recorded a net profit of approximately RMB9,874 million for FY2021. As advised by the representatives of the Company, the improvement in financial performance of the Group in FY2021 was mainly due to (i) the increase in coal price and the operating revenue from the coal operation and the transportation business; and (ii) various measures of cost reduction and improvement of production efficiency.

The total operating revenue of the Group amounted to approximately RMB31,054 million for 1H2022, representing an increase of approximately 54% as compared with the corresponding figure for 1H2021. Such increase was principally due to the increase in operating revenue from coal and chemical sectors during the same period. The net profit of the Group amounted to approximately RMB7,962 million for 1H2022, representing a substantial increase of approximately 1.5 times as compared with the corresponding figure for 1H2021. As advised by the representatives of the Company, such increase was mainly due to (i) the significant increase in selling price of coal products attributable to the increase in market demand; and (ii) the increase in production capacity of the coal mines operated by the Group.

1.2 Information on Yitai Group

As stated in the Letter from the Board, Yitai Group is one of the Company's Controlling Shareholders, which is a limited liability company duly incorporated in the PRC. Yitai Group is a large-scale clean energy enterprise integrating railway and coal-related chemical industry with coal production, transportation and sales as the basis and ecological restoration, organic agriculture and other non-coal industries as the complementation. The ultimate beneficial owner of Yitai Group is Yitai Investment.

2. Reasons for and benefits of the revision of annual caps

As advised by the representatives of the Company, (i) during the initial public offering of the H Shares in 2012, the Company and Yitai Group entered into a non-competition agreement, pursuant to which during the period from the listing date of the Company until the date when Hongqinghe Mine of Yitai Group is acquired by the Company, all coal products exploited from Hongqinghe Mine shall be exclusively supplied to the Company (as the purchaser) for resale; (ii) Yitai Group has provided products to the Group for several years. Therefore, Yitai Group is able to fully understand the business and operating needs of the Group. The Company's management believes that maintaining the acquisition of stable and high-quality products is of utmost importance to the current and future production and operations of the Group; (iii) due to the soaring coal prices since the second half of 2021, the portion for purchase of coal of the Original Annual Caps will not be sufficient for the development of the Company; (iv) the catalysts and other chemical materials produced by Synfuels



China Technology Co., Ltd. (“Synfuels China”), a subsidiary of Yitai Group, are necessary raw materials for the production of the Company’s coal chemical products; and (v) the consideration to be paid for the products provided by Yitai Group to the Company under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services are not less favourable than that for similar products provided by independent third parties to the Group, which is beneficial to the daily operations and management of the Company, the expansion of income source and further enhancement of profitability of the Company.

Having considered (i) the principal business engaged by the Group; (ii) the Yitai Group Framework Agreement on Purchase and Sale of Products and Services provides a stable and reliable supply of the products to the Group due to the long-established relationship; and (iii) the Yitai Group Framework Agreement on Purchase and Sale of Products and Services does not restrict the Group to procure the products and services from the corresponding contractual parties only and therefore offer an additional option to the Group. Thus, the Group may, but is not obliged to, continue to procure the products and services from the corresponding contractual parties if the price is competitive, we concur with the Directors that the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Yitai Group Framework Agreement on Purchase and Sale of Products and Services

As stated in the Letter from the Board, the Company entered into the Yitai Group Framework Agreement on Purchase and Sale of Products and Services with Yitai Group on 29 October 2020, pursuant to which Yitai Group and/or its subsidiaries shall provide coal products, chemical-related materials, technology and agricultural and sideline products to the Company and/or its subsidiaries from time to time. The Yitai Group Framework Agreement on Purchase and Sale of Products and Services shall be effective from 1 January 2021 and expired on 31 December 2023, and may be renewed for another three years upon mutual agreement of the parties.

For details of the pricing policies in relation to different products purchased from Yitai Group, please refer to the paragraph headed “Summary of Provision of Products by Yitai Group to the Company under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services – Pricing policies” under the section headed “Yitai Group Framework Agreement on Purchase and Sale of Products and Services” in the Letter from the Board.

For the purchase of coal products, we have discussed the pricing of coal products between the Company and Yitai Group with the representatives of the Company and noted that (i) Yitai Group supplied the coal products exploited from its Hongqinghe Mine exclusively so far; (ii) all coal products exploited from Hongqinghe Mine were exclusively supplied to the Group for resale during the year ended 31 December 2021 and the seven months ended 31 July 2022 and thus the prices of coal products of comparable nature and quality offered by Yitai Group to independent third parties during the same period were not available; and (iii) the coal products supplied by Yitai Group from its Hongqinghe Mine were of different nature and quality as compared with the coal products purchased by the Group from independent third parties and therefore the prices of coal products of comparable nature and quality as compared with those from Hongqinghe Mine were not available. As further advised by the representatives of the Company, the major sales channels of coal products



purchased from Yitai Group were (i) local sales at mines; and (ii) sales at ports (together with other coal products exploited from the Company's mines and/or sourced from independent third parties). We have obtained and reviewed 19 purchase invoices which were the largest invoices (the "**Selected Coal Invoices**") in relation to the purchase of coal products from Yitai Group for each individual month of the year ended 31 December 2021 and the seven months ended 31 July 2022. We then compared the purchase prices of all or the three largest items (the "**Selected Coal Products**") if there are more than three items in each of the Selected Coal Invoices with the relevant selling prices of coal products sold by the Group to independent third parties for the corresponding period. We noted that the selling prices of coal products offered by the Company to independent third parties were not less than the relevant purchase prices of the Selected Coal Products offered by Yitai Group to the Company for the corresponding period.

For the purchase of chemical-related materials, the representatives of the Company advised us that the Company purchased the chemical-related materials exclusively from Yitai Group as Yitai Group holds the patent of the chemical-related materials. Therefore, we have obtained and reviewed the largest invoices in relation to the purchase of chemical-related materials from Yitai Group for each individual month of the year ended 31 December 2021 and the seven months ended 31 July 2022, where applicable, and compared them with the selling prices of similar products sold by Yitai Group to independent third parties for the corresponding period. We have reviewed 24 invoices for the sales of similar products by Yitai Group to independent third parties and noted that the prices of chemical-related materials offered by Yitai Group to the Group were not less favourable than the prices offered by Yitai Group to independent third parties for the year ended 31 December 2021 and the two months ended 28 February 2022. However, the prices of chemical-related materials offered by Yitai Group to the Group were less favourable than the prices offered by Yitai Group to an independent third party for the period from 1 March 2022 to 31 July 2022. As advised by the representatives of the Company, Yitai Group has offered discounts on the chemical-related materials sold and to be sold to an independent third party for the year ending 31 December 2022 since the independent third party contributed over 60% of the revenue generated from the sales of chemical-related materials of Yitai Group for the year ended 31 December 2021. In light of the above, we have discussed with the representatives of the Company regarding the corresponding remedial measures and understood that two subsidiaries of the Company involving in the purchase of chemical-related materials from Yitai Group under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services for the year ending 31 December 2022 have entered into a supplemental agreement with Synfuels China, a subsidiary of Yitai Group which provides chemical-related materials to the Group, on 13 September 2022 and 19 September 2022 respectively to adjust the prices of chemical-related materials sold and to be sold under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services for the year ending 31 December 2022. Hence, we have obtained and reviewed (i) the executed supplemental agreements dated 13 September 2022 and 19 September 2022 (the "**Executed Supplemental Agreements**"); and (ii) the executed meeting minutes (the "**Meeting Minutes**") of the relevant subsidiaries of the Company in relation to the adjustment of the prices of chemical-related materials sold and to be sold under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services for the year ending 31 December 2022. We noted from the Executed Supplemental Agreements and the Meeting Minutes that the prices of chemical-related materials sold and to be sold by Yitai Group to the Group for the year ending 31 December 2022



would be adjusted to a lower level, such that the prices of chemical-related materials offered and to be offered by Yitai Group to the Group would be not less favourable than the prices offered and to be offered by Yitai Group to independent third parties for the year ending 31 December 2022.

As advised by the representatives of the Company, the Company and Yitai Group will enter into a business contract (the “**Business Contract(s)**”) in relation to the provision of chemical-related materials from Yitai Group to the Group under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services annually. In order to ensure the effective implementation of the pricing policies for the provision of chemical-related materials by Yitai Group to the Group under each of the Business Contracts, the Company shall, prior to the execution of the respective Business Contract, review and ensure that the agreed prices of chemical-related materials stipulated under such Business Contract are not higher than the prices offered or to be offered by Yitai Group to independent third parties during the corresponding period. The business department of the Company shall conduct price fairness check on the chemical-related materials with Yitai Group on a regular basis. In case Yitai Group offered discounts on the chemical-related materials sold or to be sold to other independent third party(ies) due to the large amount of purchase contributed by such independent third party(ies), the business department of the Company will be notified promptly, and such issue will be reported to the finance management department, capital operation and compliance management department and the management of the Company accordingly. The relevant responsible personnel of the Company will then organise a negotiation meeting with Yitai Group to deliberate the compensation agreement and to adjust the prices of chemical-related materials sold and to be sold under the Business Contract, so as to ensure that the prices of chemical-related materials offered and to be offered by Yitai Group to the Group will be not less favourable than the prices offered and to be offered by Yitai Group to independent third parties during the same period.

For the purchase of coal chemical new technology, the representatives of the Company advised us that the Group did not procure coal chemical new technology from Yitai Group during the year ended 31 December 2021 and the seven months ended 31 July 2022 since the technology developed by Yitai Group could not meet the expected requirements of the Company. It is expected that the Group will not procure coal chemical new technology from Yitai Group for the two years ending 31 December 2023.

For the purchase of agricultural and sideline products, the representatives of the Company advised us that although the Group had purchased the same type of agricultural and sideline products from independent third parties during the year ended 31 December 2021 and the seven months ended 31 July 2022, the variety, origin and quality of such agricultural and sideline products are different from those supplied by Yitai Group to the Group during the corresponding period. Thus, it is considered that the prices of agricultural and sideline products offered by independent third parties to the Group are not comparable to the prices of agricultural and sideline products offered by Yitai Group to the Group. We have accordingly obtained and reviewed the five largest invoices in relation to the purchase of agricultural and sideline products from Yitai Group for the year ended 31 December 2021 and the largest invoice in relation to the purchase of agricultural and sideline products from Yitai Group for the seven months ended 31 July 2022, which represented approximately 85.7% of the total purchase of the relevant products for the corresponding period, and compared them with the invoices for similar agricultural and sideline products sold by Yitai Group to independent third parties for the corresponding month or period, where applicable. We have reviewed 24 invoices issued by Yitai



Group to the independent third parties and noted that the prices of agricultural and sideline products offered by Yitai Group to the Group were not less favourable than the prices offered by Yitai Group to independent third parties for similar agricultural and sideline products for the corresponding period.

As (i) the selling prices of coal products offered by the Company to independent third parties were not less than the relevant purchase prices of the Selected Coal Products offered by Yitai Group to the Company; (ii) the prices of chemical-related materials offered by Yitai Group to the Group were not less favourable than the prices of similar products offered by Yitai Group to independent third parties for the year ended 31 December 2021 and the two months ended 28 February 2022, and the prices of chemical-related materials offered and to be offered by Yitai Group to the Group would be not less favourable than the prices offered and to be offered by Yitai Group to independent third parties for the year ending 31 December 2022; and (iii) the prices of agricultural and sideline products offered by Yitai Group to the Group were not less favourable than the prices of similar products offered by Yitai Group to independent third parties, we are of the view that the pricing policies for the provision of products by Yitai Group to the Group under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services are fair and reasonable so far as the Independent Shareholders are concerned.

4. The Revised Annual Caps and basis of determination

The following table sets out (i) the historical actual amounts of provision of products to the Company by Yitai Group for the year ended 31 December 2021 and the seven months ended 31 July 2022 (the “**Historical Actual Amount(s)**”); (ii) the Original Annual Caps for the two years ending 31 December 2023; and (iii) the Revised Annual Caps for the two years ending 31 December 2023.

	Historical Actual Amounts		Original Annual Caps		Revised Annual Caps	
	For the year ended 31 December 2021 RMB'0,000	For the seven months ended 31 July 2022 RMB'0,000	2022 RMB'0,000	For the year ending 31 December 2023 RMB'0,000	2022 RMB'0,000	2023 RMB'0,000
Provision of products to the Company by Yitai Group	441,202	405,733	562,700	562,700	781,298	782,705

We have obtained the breakdown of the Historical Actual Amounts from the Company and noted that the products provided by Yitai Group to the Company under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services were mainly coal products and chemical-related materials, which accounted for approximately 93.6% and 6.2% of the total Historical Actual Amount for the year ended 31 December 2021 and approximately 95.7% and 4.3% of the total Historical Actual Amount for the seven months ended 31 July 2022 respectively.

We have further discussed the basis of determination for the Revised Annual Caps with the representatives of the Company and noted that such revisions were mainly determined with reference to (i) the adjustment of expected unit purchase price of coal products from approximately RMB340/



ton (under the Original Annual Caps) to RMB750/ton (under the Revised Annual Caps) due to the shortage of market supply and market price increase and the reduction of expected purchase volume of coal products from Yitai Group from 15 million tons (under the Original Annual Caps) to 10 million tons (under the Revised Annual Caps) with reference to the annualised actual purchase volume from Yitai Group for the seven months ended 31 July 2022 and the PRC government policy on local coal supply in 2022; and (ii) the adjustment of expected purchase volume of chemical-related materials from Yitai Group with reference to (1) the historical purchase volume of catalysts from two coal-related chemical projects of the Group from January 2021 to July 2022; and (2) the annualised purchase volume of other chemical materials (including filter rods and filter elements) for the seven months ended 31 July 2022.

4.1 Adjustment on expected unit purchase price and expected purchase volume of coal products to keep up with the soaring coal prices and the government policy

As stated in the Letter from the Board, since the second half of 2021, the coal price increased significantly. Although it dropped down in the first half of 2022, it maintained at a high level as affected by factors such as the continuing tight supply of coal resources at home and abroad. Due to the relatively high quality of the coal currently produced by Yitai Group, the expected unit purchase price of coal will reach approximately RMB750/ton based on the average price of coal purchased by the Company from Yitai Group from January to July 2022 and the forecast of future market prices of coal. We have obtained and reviewed a summary list of the monthly purchase of coal products from Yitai Group from January 2021 to July 2022 (the “Coal Purchase Summary”), and noted that the unit purchase price of coal products from Yitai Group increased from approximately RMB485/ton in January 2021 to approximately RMB788/ton in July 2022 and the average unit price of coal products for the seven months ended 31 July 2022 was approximately RMB750/ton. We have also reviewed two reference market indexes used in the PRC coal industry, including (i) the Bohai-rim Steam Coal Price Index (5,500 kcal) (the “BSPI”); and (ii) the average of Qinhuangdao Composite Transaction (5,500 kcal) (the “QHD”) quoted from the website of China Coal Transportation and Distribution Association (CCTD) China Coal Market (<http://www.cctdcoal.com>), on 31 August 2022 and noted that the BSPI was approximately RMB733/ton and the QHD was approximately RMB735/ton as of the same date.

As advised by the representatives of the Company, the original expected purchase volume of coal products from Yitai Group was approximately 15 million tons for each of the three years ending 31 December 2023, representing the full production capacity of Hongqinghe Mine, which is held and operated by Yitai Group. However, based on the commercial decision of the Company, the actual purchase volume of coal products from Yitai Group was less than the original expected purchase volume of 15 million tons for the year ended 31 December 2021. According to the Coal Purchase Summary, the actual purchase volume of coal products from Yitai Group were approximately 6 million tons and 5 million tons for the year ended 31 December 2021 and the seven months ended 31 July 2022 respectively. We are also given to understand that the Group, being the largest local coal enterprise in Inner Mongolia Autonomous Region and one of the large coal enterprises in the PRC, also expects to thoroughly grasp the General Secretary Xi Jinping’s important indications and instructions on the requirements for increasing production and ensuring supply (增產保供) in the coal



industry. In May 2022, the executive meeting of the State Council of the People's Republic of China (中華人民共和國國務院) announced that it is the top priority for local coal industry to ensure energy security, fulfil coal production responsibilities, adjust the policies for coal mines to increase production capacity, and speed up the procedures for ensuring coal supply. Therefore, after taking into account (i) the annualised actual purchase volume of coal products from Yitai Group for the seven months ended 31 July 2022, being approximately 9 million tons; and (ii) the governmental emphasis on stability in coal supply in the PRC which may lead to the increment in production, the Company revised the expected purchase volume of coal products from Yitai Group from 15 million tons to 10 million tons for each of the two years ending 31 December 2023.

4.2 Reduction on expected purchase volume of chemical-related materials

As advised by the representatives of the Company, the expected purchase volume of chemical-related materials from Yitai Group is the aggregate of (i) the estimated purchase volume of catalysts from Yitai Group of approximately RMB280 million and RMB294 million for the two years ending 31 December 2022 and 2023 respectively; and (ii) the estimated purchase volume of other chemical materials (including filter rods and filter elements) from Yitai Group of approximately RMB27 million for each of the two years ending 31 December 2022 and 2023.

The estimated purchase volume of catalysts of approximately 2,183 tons and 2,290 tons for the two years ending 31 December 2022 and 2023 respectively were determined after taking into consideration of, among others, (i) the actual purchase volume of catalysts from Yitai Group for the year ended 31 December 2021 and the annualised actual purchase volume of catalysts from Yitai Group for the seven months ended 31 July 2022; (ii) the assumption that the two existing coal-related chemical projects of the Group will continue to use the catalysts purchased by the Group from Yitai Group for the two years ending 31 December 2023; and (iii) the uncertainty of the completion of construction of a new coal-related chemical project of the Group before 31 December 2023. The estimated purchase prices of catalysts for each of the two years ending 31 December 2023 were determined based on the average purchase price of catalysts from Yitai Group for the seven months ended 31 July 2022.

We have obtained the breakdown of purchase of chemical-related materials from Yitai Group for the year ended 31 December 2021 and the seven months ended 31 July 2022 (the "**Chemical-related Materials Breakdown**"). We noted that the purchase volumes of catalysts were approximately 2,130 tons and 1,250 tons (i.e. the annualised purchase volume being approximately 2,143 tons) for the year ended 31 December 2021 and the seven months ended 31 July 2022 respectively, which were arisen from the two existing coal-related chemical projects of the Group. As stated in the 2021 Annual Report, such projects are mainly for the manufacturing of products, such as Fischer-Tropsch crude liquid wax, Fischer-Tropsch refined wax, normal stable light hydrocarbons, Fischer-Tropsch soft wax, liquefied gas, etc. As advised by the representatives of the Company, both of the two existing coal-related chemical projects have been consuming the catalysts purchased from Yitai Group since 2010 and 2017 respectively and such practices are expected to be continued in 2022 and 2023. Moreover, the construction of a new coal-related chemical project of the Group, being the 1 million tonnes



coal-to-oil project under Yitai Yili Energy Co., Ltd.* (伊泰伊犁能源有限公司), has not yet completed and the exact completion date cannot be accurately estimated. Therefore, the expected purchase volume of catalysts from Yitai Group was adjusted from 3,600 tons (under the Original Annual Caps) to 2,183 tons and 2,290 tons (under the Revised Annual Caps) for the two years ending 31 December 2023 respectively, mainly based on the prevailing consumption level of the two existing coal-related chemical projects of the Group during the period from January 2021 to July 2022.

As stated in the Letter from the Board, the Company is expected to purchase other chemical materials (including filter rods and filter elements) from Yitai Group in the amount of RMB27 million for each of the two years ending 31 December 2023. According to the Chemical-related Materials Breakdown, the Group did not purchase other chemical materials (including filter rods and filter elements) from Yitai Group during the year ended 31 December 2021 and the actual purchase amount of other chemical materials (including filter rods and filter elements) from Yitai Group was approximately RMB15.8 million for the seven months ended 31 July 2022. As advised by the representatives of the Company, the other chemical materials (including filter rods and filter elements) are used for filtering the catalysts before the production of liquid paraffin, which is one of the major coal-related chemical products of the Company, and will continue to be used by the Group in 2022 and 2023. As such, the Company estimated the purchase amount of other chemical materials (including filter rods and filter elements) from Yitai Group for the two years ending 31 December 2023 with reference to the annualised purchase amount of other chemical materials (including filter rods and filter elements) for the seven months ended 31 July 2022 (i.e. approximately RMB27 million).

Having taken into consideration of the above, we are of the view that the Revised Annual Caps were determined based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

5. Internal control measures

As stated in the Letter from the Board, to ensure the Company's conformity with the pricing policies stipulated under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services from time to time, the Company adopts a series of internal control policies during its daily operation. Such internal control policies shall be implemented and supervised by the capital operation and compliance management department and finance management department of the Company. For details, please refer to the section headed "Measures of internal control" in the Letter from the Board.

For our due diligence purpose, we have obtained the Connected Transaction Management and Implementation Guidelines*(關聯交易管理實施細則) of the Company which set out the guidelines for conducting connected transactions and the responsibilities of the responsible departments of the Group. The finance management department of the Group is responsible for monitoring the implementation of the continuing connected transactions and collecting the amount of continuing connected transactions to make sure that the caps will not be exceeded. The finance management department should also report the information on the continuing connected transactions to the secretary to the Board monthly. The internal audit department of the Group should periodically review the decision making process and the implementation of the connected transactions.



We have further reviewed and discussed with the representatives of the Company in respect of the internal control measures and remedial actions regarding the pricing policies stipulated under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services. We are given to understand that (i) the business department of the Company reviews and compares the prices of products offered by Yitai Group to the Group under each of the Business Contracts with the market prices or the prices of similar products offered by Yitai Group to independent third parties during the same period on a quarterly basis to ensure that the prices of products sold and to be sold by Yitai Group to the Group are not less favourable than the prices of similar products offered by Yitai Group to independent third parties; (ii) if the prices of products offered by Yitai Group to the Group under any of the Business Contracts are found to be less favourable than the prices of similar products offered by Yitai Group to independent third parties, the Board will be informed promptly and the relevant responsible personnel of the Company will communicate with Yitai Group to reach an agreement on the adjustment of prices of products sold and to be sold under the relevant Business Contract, such that the prices of products offered and to be offered by Yitai Group to the Group will be not less favourable than the prices offered and to be offered by Yitai Group to independent third parties during the same period; and (iii) the business department, finance management department, capital operation and compliance management department as well as the management of the Company will act as the gatekeepers to ensure that the prices of products sold and to be sold by Yitai Group to the Group under each of the Business Contracts are not higher than the market prices or the prices of similar products offered by Yitai Group to independent third parties.

As stated in the 2021 Annual Report, the Independent non-executive Directors reviewed the continuing connected transactions and were of the view that (i) each continuing connected transaction was conducted pursuant to relevant agreement, terms of which were fair and reasonable and in the interests of the shareholders of the Company as a whole; (ii) such continuing connected transactions were entered into in the ordinary and usual course of business of the Group; and (iii) such continuing connected transactions were conducted on normal or better commercial terms. In addition, pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules.

Taking into account of the internal control measures as stated above, we concur with the Directors that there are adequate measures in place to monitor the transactions contemplated under the Yitai Group Framework Agreement on Purchase and Sale of Products and Services and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Yitai Group Framework Agreement on Purchase and Sale of Products and Services and the Revised Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned,



TC CAPITAL
天財資本

and the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
For and on behalf of
TC Capital International Limited

Edith Lee
Director

Note: Ms. Edith Lee has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the SFO since 2015. She has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

* *For identification purposes only*