

13 December 2022

*To: The independent board committee and the independent shareholders  
of Inner Mongolia Yitai Coal Co., Ltd.*

Dear Sir/Madam,

## **CONTINUING CONNECTED TRANSACTION AND MAJOR 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 deposit services contemplated under the Revised Financial Services Framework Agreement (the “**Deposit Services**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 13 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As the coal prices have increased significantly since the second half of 2021 and maintained at a high level in 2022, and the monetary funds of the Group increased as compared to previous years, the original annual caps under the Financial Services Framework Agreement for the year ending 31 December 2023 will not be sufficient for the development needs of the Company. Accordingly, with the resolution passed by the Board on 11 November 2022, the Company entered into the Revised Financial Services Framework Agreement with Yitai Finance on 11 November 2022 to reflect the newly proposed annual caps and other new terms in the agreement. Upon consideration and approval by the Shareholders at the EGM, the Revised Financial Services Framework Agreement will come into effect and replace the Financial Services Framework Agreement from 1 January 2023.

With reference to the Board Letter, the Deposit Services constitute a major and continuing connected transaction of the Company and are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements for continuing connected transactions under Chapters 14 and 14A of the Listing Rules.

The Independent Board Committee comprising 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 Deposit Services are on normal commercial terms and are fair

and reasonable; (ii) whether the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Company; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Deposit Services at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

#### INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee.

#### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Deposit Services. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Yitai Finance and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Company or the Shareholders as a result of the Deposit Services. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in

market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

#### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Deposit Services, we have taken into consideration the following principal factors and reasons:

##### **Information on the Company**

With reference to the Board Letter, the Company is a joint stock limited liability company incorporated in the PRC on 23 September 1997, which is the largest local coal enterprises in Inner Mongolia Autonomous Region and one of the large-scale coal enterprises in the PRC. The principal businesses of the Company include coal operations, transportation operations, coal related chemical operations and other operations. The ultimate beneficial owner of the Company is Yitai Investment.

##### **Information on Yitai Finance**

With reference to the Board Letter, Yitai Finance obtained approval for establishment from the CBIRC on 1 July 2015 and obtained approval for incorporation. The operations of Yitai Finance include: providing financial and financing advisory, credit appraisal and related consulting; agency service for its members; assisting its members in collecting and making transaction payments; approved insurance agency business; providing security and guarantee for its members; handling entrusted loan among its members; handling bill acceptance and discounting affairs for its members; conducting internal financial transfers between members and the corresponding settlement, clearing design; absorbing deposits from its members; providing loans and finance lease to its members; engaging in inter-bank borrowings.

As at the Latest Practicable Date, Yitai Finance was directly held as to (i) 40% by the Company; and (ii) 60% by Yitai Group. The ultimate beneficial owner of Yitai Group is Yitai Investment.

We understood that Yitai Finance is subject to Measures for the Administration of Finance Companies of Enterprise Groups\* 《企業集團財務公司管理辦法》(the “**Administrative Measures**”), the latest version of which was promulgated by CBIRC with effect from 13 November 2022 and regulates the operation of non-bank financial institutions which provide financial management services to the enterprise group member entities. The Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times.

The table below sets out the key financial ratio requirements of 《企業集團財務公司管理辦法》(中國銀行業監督管理委員會令2006年第8號) (Administration of Finance Companies of Enterprise Groups (Order of China Banking Regulatory Commission No. 8, 2006))\* and 《企業集團財務公司風險監管指標考核暫行辦法》(the Provisional Measures for Risk Regulation Indicators Assessment of Finance Companies of Business Group\*) (collectively, the “Previous Measures”) (Note: the aforesaid documents were superseded/voided on 13 November 2022) and the respective financial ratios of Yitai Finance for the two years ended 31 December 2021 as provided by the Company.

Financial ratio	Requirements	Financial ratios of Yitai Finance	
		For the year ended 31 December 2021 (approximate %) <i>Lowest during the respective period</i>	For the year ended 31 December 2020 (approximate %) <i>Highest during the respective period</i>
Capital adequacy ratio	Not less than 10%	17.74	22.48
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	Nil	Nil
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	Nil	0.02
Long-term and short-term investment to total capital ratio	Not more than 70%	Nil	Nil
Self-owned fixed assets to total capital ratio	Not more than 20%	0.06	0.09
Non-performing loan ratio	Not more than 5%	Nil	Nil

*Note:* Yitai Finance is required to comply with relevant financial ratios requirements as set out in the Administrative Measures, which may be different from the existing financial ratios requirements under the Previous Measures.

As shown in the table above, Yitai Finance complied with the relevant financial ratio requirements as set out in the Previous Measures during 2020 and 2021.

The key indicators of credit risk are the non-performing loan ratio and the allowance of non-performing loans to total loans ratio. According to the above table, the highest non-performing loan ratios were nil for each of the two years ended 31 December 2021, which indicated that Yitai Finance did not have non-performing loans for the two years ended 31 December 2021. As Yitai Finance did not have non-performing loans, the allowance of non-performing loans to total loans ratio were not applicable.

As also confirmed by the Directors, they are not aware of any record of non-compliance with the relevant laws and regulations of the PRC in respect of the operations of Yitai Finance for the two years ended 31 December 2021.

With reference to the Board Letter, the registered capital of Yitai Finance is RMB1 billion, of which RMB400 million is contributed by the Company in cash, representing a shareholding of 40%, and RMB600 million by Yitai Group in cash, representing a shareholding of 60%. The board of directors of Yitai Finance comprises of three directors, the Company being interested in 40% of Yitai Finance is entitled to appoint one director of Yitai Finance to oversee the operation and corporate finance of Yitai Finance.

We also noted that there are certain risk control measures as set out in the Revised Financial Services Framework Agreement. Please refer to the section headed “Risk control measures” for details.

#### **Reasons for benefit of entering into the Deposit Services**

With reference to the Board Letter, the benefits of the Deposit Services include: (i) the Company will regard Yitai Finance as a platform for fund management to help the members of the Company to deploy their capital more efficiently; and (ii) the interest rate on the deposit services offered to the Company shall be no less favorable (as the case may be) than those offered by any independent third parties to the Company.

With reference to the Board Letter, the Company is neither obliged nor committed to engage Yitai Finance to provide the deposit services under the Revised Financial Services Framework Agreement, and Yitai Finance is merely one of the financial institutions which provides deposit services to the Company. This arrangement allows the Company to have the flexibility and discretion to select the appropriate provider for deposit services. It is expected that Yitai Finance, as an inter-group service provider, is more familiar with the Company’s operation and will have better and more efficient communication with the Company compared with other commercial banks and financial institutions in the PRC for the deposit services under the Revised Financial Services Framework Agreement.

Pursuant to the Revised Financial Services Framework Agreement, the interest rate for the Group’s deposit with Yitai Finance shall be no less than the benchmark interest rate published by the People’s Bank of China from time to time for deposits of same type and term, and determined with reference to the prevailing market interest rate for deposits of same type and term.

With reference to the Board Letter, as the coal prices have increased significantly since the second half of 2021 and maintained at a high level in 2022, and the monetary funds of the Group increased as compared to previous years, the original annual caps under the Financial Services Framework Agreement for the year ending 31 December 2023 will not be sufficient for the development needs of the Company.

Having considered above factors, in particular, (i) the Company is neither obliged nor committed to engage Yitai Finance to provide the deposit services under the Revised Financial Services Framework Agreement, and Yitai Finance is merely one of the financial institutions which provides deposit services to the Company; (ii) the pricing policies for the Deposit Services as mentioned above; and (iii) the revision of the annual cap of the Deposit Services for the year ending 31 December 2023 is necessary as the original annual cap of deposit services under the Financial Services Framework Agreement for the year ending 31 December 2023 will not be sufficient, we are of the view that the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

## 1. Principal terms of the Deposit Services

Set out below are the principal terms of the Deposit Services, details of which are set out under the section headed “1. Overview of the Revised Financial Services Framework Agreement” of the Board Letter.

<b>Date:</b>	11 November 2022
<b>Parties:</b>	(a) The Company (as the Service Recipient); and (b) Yitai Finance (as the Service Provider).
<b>Type of transaction:</b>	The Deposit Services

### Pricing policies:

Pursuant to the Revised Financial Services Framework Agreement, the interest rate for the Group’s deposit with Yitai Finance shall be no less than the benchmark interest rate published by the People’s Bank of China from time to time for deposits of same type and term, and determined with reference to the prevailing market interest rate for deposits of same type and term. The deposit interest rate ranges from 0.25% to 1.90%.

With reference to the Board Letter, to ensure the Company’s conformity with the above pricing policies from time to time, the Company will adopt a series of internal control policies for 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. Details of which are set out under the section headed “II. MEASURES OF INTERNAL CONTROL” of the Board Letter. As there will be information gathering on and monitoring of connected transactions and evaluation procedures for the fairness of the transaction terms and the pricing terms, we consider that the implementation of the aforesaid measures would help to ensure fair determination of interest rates of the Deposit Services according to the pricing policies.

As also stated in the Company’s internal control measures, if the actual amount reaches the cap soon, the finance management department will notify the capital operation and compliance management department in time, and the capital operation and compliance management department shall perform the corresponding review and disclosure procedures according to relevant rules. We consider that there are sufficient internal control measures to monitor the actual transactions amounts being not exceeded the annual caps.

For our due diligence purpose, we obtained over 20 copies of deposit records of (i) the Company’s deposits in Yitai Finance and in an independent commercial bank; and (ii) the Company’s connected person’s deposits in Yitai Finance, for the period from 2020 to 2022. The deposit rates as shown in the deposit records are in compliance with the existing pricing policy.

Having also considered our findings above, we do not doubt the effectiveness of the implementation of the internal control measures for the Deposit Services.

## 2. The proposed annual cap

Set out below are (i) the historical maximum daily balance of deposits placed by the Company with Yitai Finance for the two years ending 31 December 2022 with original annual caps; and (ii) the original and revised daily maximum deposit balance (inclusive of accrued interests occurred) for the Deposit Services for the year ending 31 December 2023 (the “Revised Cap”):

Historical transaction amounts	For the year ended 31 December 2021 (FY2021) (RMB'000)	For the year ending 31 December 2022 (FY2022) (RMB'000)	For the year ending 31 December 2023 (FY2023) (RMB'000)
Daily maximum deposit balance	11,699,740	11,699,960 (Note 1)	N/A
Original annual caps	11,700,000	11,700,000	11,700,000
Utilisation rate	Approximately 100.00%	Approximately 100.00% (Note 1)	N/A
			For the year ending 31 December 2023 (RMB'000)
Daily maximum deposit balance (inclusive of accrued interests occurred)			18,000,000

*Notes:*

- the figure was for the ten months ended 31 October 2022.
- the original annual caps for interest incomes for the three years ending 31 December 2023 (i.e. RMB188.4 million) were separate to the original annual caps for deposit services.

With reference to the Board Letter, the Revised Cap has been determined after taking into account of various factors, details of which are set out under the sub-section headed “Historical amounts, Approved Annual Caps under the Financial Services Framework Agreement and New Annual Caps under the Revised Financial Services Framework Agreement” under the section headed “REVISED FINANCIAL SERVICES FRAMEWORK AGREEMENT” of the Board Letter.

According to the above table, the original annual caps for the two years ending 31 December 2022 were almost fully utilised. Despite the foregoing, the Revised Cap for the year ending 31 December 2023 represented a substantial increase of RMB6.3 billion (or approximately 53.8%)(the “Increase”) as compared to that for the original annual caps for the three years ending 31 December 2023. To assess the fairness and the reasonableness of the Increase, we conducted the following analyses:

- With reference to the quarterly report for the nine months ended 30 September 2022, the Group recorded balance of cash and cash equivalents of approximately RMB17.84 billion as at 30 September 2022. The Revised Cap is close to the Group’s balance of cash and cash equivalents as at 30 September 2022.
- We summarised the relevant financial information (i) for the year ended 31 December 2021, being the latest available public full-year financial information immediately prior to the date of the Revised Financial Services Framework Agreement; and (ii) for the year ended 31 December 2019, being the latest available public full-year financial information immediately prior to the date of the Financial Services Framework Agreement. We also listed out the Group’s (a) balance of cash and cash equivalents; and (b) accounts receivable as at 30 September 2022 and 30 September 2020 respectively, being the latest available public financial information immediately prior to the date of the Revised Financial Services Framework Agreement and the date of Financial Services Framework Agreement respectively, as follows:

	For the year ended 31 December 2021 (RMB'million)	For the year ended 31 December 2019 (RMB'million)	Amount Change (RMB'million)	Change
Total operating revenue	50,676	40,929	9,747	24%
	As at 30 September 2022 (RMB'million)	As at 30 September 2020 (RMB'million)	Amount Change (RMB'million)	Change
Balance of cash and cash equivalents	17,840	11,252	6,588	59%

Based on the above table, we noted that there was a substantial increase in revenue for FY2021 (being the latest available public full-year financial information immediately prior to the Revised Financial Services Framework Agreement) as compared to that for 2019 (being the latest available public full-year financial information immediately prior to the date of Financial Services Framework Agreement). There was also a substantial increase in balance of cash and cash equivalents as at 30 September 2022 (being the latest available financial information



immediately prior to the date of Revised Financial Services Framework Agreement) as compared to those as at 30 September 2020 (being the latest available financial information immediately prior to the date of Financial Services Framework Agreement).

- As stated in the Board Letter, the coal prices have increased significantly since the second half of 2021. The operating revenue of the Company for 2021 increased by 49.97% as compared with that for 2020. In 2022, coal prices have been running high.

We also noted from the Company's third quarterly report for the nine months ended 30 September 2022 the following:

- 1) the Group's operating revenue increased by approximately 36.60% for the nine months ended 30 September 2022 as compared to that for the corresponding period in 2021; and
  - 2) net cash flows from operating activities also increased by approximately 59.52% for the nine months ended 30 September 2022 as compared to that for corresponding period in 2021.
- As advised by the Directors, it is difficult to forecast the total cash level for whole period of the year ending 31 December 2023. Nevertheless, should there be any substantial increase in total cash of the Company, the Company may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Listing Rules governing continuing connected transaction to revise the Revised Cap.

Based on the above, we are of the view that the Increase is justifiable. Accordingly, we are of the view that the Revised Cap is fair and reasonable.

Having reviewed and considered the terms of the Deposit Services in particular the key terms as listed above (including the pricing policy and Revised Cap; and no abnormal term observed), we are of the view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable.

#### **LISTING RULES IMPLICATION**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the maximum values of the Deposit Services must be restricted by the Revised Cap; (ii) the terms of the Deposit Services must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Deposit Services must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Deposit Services (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual caps.

In the event that the maximum amounts of the Deposit Services are anticipated to exceed the Revised Cap, or that there is any proposed material amendment to the terms of the Revised Financial Service Framework Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Deposit Services and thus the interest of the Independent Shareholders would be safeguarded.

#### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Deposit Services are on normal commercial terms and are fair and reasonable; and (ii) the Deposit Services are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Deposit Services and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**



**Graham Lam**  
*Managing Director*

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

\* *for identification purposes only*