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内蒙古伊泰煤炭股份有限公司

INNER MONGOLIA YITAI COAL CO., LTD.*

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

(Stock Code: 3948)

ANNOUNCEMENT

THE SUSPENSION OF THE CONSTRUCTION OF THE 1 MTPA COAL-TO-OIL PILOT PROJECT OF YILI ENERGY

This announcement is made by Inner Mongolia Yitai Coal Co., Ltd. (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The twenty-fourth meeting of the eighth session of the board of directors of the Company (the “**Board**”) was held by the Company on 8 February 2023, at which the Resolution Relating to the Suspension of the Construction of the 1 Mtpa Coal-to-oil Pilot Project of Yitai Yili Energy Co., Ltd. was considered and approved. The Board would like to make the following announcement regarding the suspension of the construction of the 1 Mtpa coal-to-oil pilot project of Yitai Yili Energy Co., Ltd. (“**Yili Energy**”) (the “**1 Mtpa Coal-to-oil Pilot Project of Yili Energy**”) under consideration.

Under the background of high cost of coal for coal chemical products, large fluctuations in international oil prices and significant uncertainty in taxes and fees, continuing to construct large-scale coal chemical projects based on the existing product structure exposes the Company to relatively high economic risks. Combined with the actual situation of the project, it is quite difficult to make decisions on the product plan and production process route of the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy for now, therefore, the Company decided to temporarily suspend the construction of the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy.

* For identification purpose only

I. BASIC INFORMATION OF YILI ENERGY AND THE 1 MTPA COAL-TO-OIL PILOT PROJECT OF YILI ENERGY

Yili Energy is a limited liability company established by the Company and Inner Mongolia Yitai Group Co., Ltd. (“**Yitai Group**”) in Ili Kazakh Autonomous Prefecture, Xinjiang Uygur Autonomous Region on 24 September 2009 with a registered capital of RMB1.570 billion. The Company holds 90.2% equity interest in Yili Energy, and Yitai Group holds 9.8% equity interest in Yili Energy.

The 1 Mtpa Coal-to-oil Pilot Project constructed by Yili Energy is located in the Yitai Yili Industrial Park in Chabuchar Xibo Autonomous County, Ili Kazakh Autonomous Prefecture, Xinjiang Uygur Autonomous Region. The construction scale is 1,058,200 tons of annual production capacity of alkylbenzene, high-carbon alcohols, high-quality light hydrocarbon, fischer-tropsch wax, normal C10-14, white oil, liquid paraffin, liquefied petroleum gas and other products, as well as the by-production of mixed alcohol, sulfur and other products. The total planned investment of the project is RMB16.068 billion, of which the capital is RMB4.850 billion, accounting for 30% of the total investment. By the end of 2022, the accumulated investment has reached RMB7.110 billion. The project has been considered and approved at the seventh meeting of the sixth session of the Board of the Company held on 18 March 2015 and the 2014 annual general meeting held on 9 June 2015.

For the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy, the Approval of the National Development and Reform Commission on the 1 Mtpa Coal-to-oil Pilot Project of Yitai Yili Energy Co., Ltd. (Fa Gai Neng Yuan [2017] No. 1393) was obtained on 26 July 2017; the Approval of the Environmental Impact Report on the 1 Mtpa Coal-to-oil Pilot Project of Yitai Yili Energy Co., Ltd. (Huan Shen [2017] No. 151) from the Ministry of Environmental Protection of the PRC was obtained on 27 September 2017; and the water resources demonstration report of the project has obtained the approval by the Yellow River Conservancy Commission of the Ministry of Water Resources (Huang Shui Diao [2015] No. 303).

As of 31 December 2022, the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy is still under construction and has not been put into operation.

As of the end of 2022, the financial information of Yili Energy is as follows (unaudited):

	<i>Unit: RMB'0,000</i>				
Company name	Total assets	Total liabilities	Net assets	Revenue	Net loss
Yitai Yili Energy Co., Ltd.	668,846.86	580,547.13	88,299.74	70.12	17,826.40

II. DECISION BASIS FOR THE SUSPENSION OF THE CONSTRUCTION OF THE 1 MTPA COAL-TO-OIL PILOT PROJECT OF YILI ENERGY

In comprehensive consideration of current macroeconomic and industrial situation, and based on the actual operation of the project, the Company decided to suspend the construction of the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy, and continue to optimize the process design and demonstrate the product plan. The specific decision bases are as follows:

(I) High Cost of Coal

Since the second half of 2020, the price of raw coal has reached new highs. The percentage of raw coal cost in the total cost of the Company's existing coal chemical project has increased from 35% in 2018 to approximately 60% at present. Moreover, the chemical coal price is determined by both supply and demand sides through negotiation, and the guaranteed supply prices in medium and long-term contracts are not enforceable. The high cost of coal brings great pressure on the production and operation of the coal chemical projects of the Company.

At present, there are two main factors affecting the medium and long-term coal market: on the one hand, carbon neutrality has become a global consensus, the capital expenditure of fossil energy has decreased significantly, and more capital expenditure has been invested in renewable energy or non-fossil energy. As renewable energy is affected by weather, technology and other aspects, and has great uncertainty in energy supply capacity, traditional fossil energy is still needed to provide stable power for economic development. On the other hand, geopolitical conflicts have exacerbated the shortage of energy supply. The Russian-Ukrainian conflict that broke out in 2022 has had a huge impact on the global supply chain and trade globalization. It is expected that the situation of tight international coal resources and high prices will continue in 2023. According to comprehensive study and judgment, before the new energy reaches the dominant position, the factors affecting coal price will be more complex, the price fluctuation will be more intense, and the price center will remain high in the medium and long term.

(II) Greater Uncertainty in the Crude Oil Price

In recent years, the international crude oil price has fluctuated to a greater extent, which has a significant adverse impact on the Company's coal chemical projects. Since 2021, the international oil price has risen slowly from the historical low, and the overall oil price has risen from approximately USD40/barrel to approximately USD80/barrel at the end of 2021, which has further extended in 2022. However, it seems that the global economic data is still weak, and the demand outlook is difficult to improve rapidly in the short term. There is relatively uncertainty in the international crude oil price due to the negative effects arising from economic weakness and the positive effects of tight supply in the

market. Based on the expectation and judgment of the demand and price of crude oil, continuing to construct large-scale coal chemical projects exposes the Company to relatively high economic risks.

(III) Significant Uncertainty in Taxes and Fees

In 2022, the project rectification for the refined oil industry has been conducted by the State throughout the country, which also included the coal indirect liquefaction technology project in the scope of inspection. The liquid products of the 1.20 Mtpa of fine chemical project of the Company located in Hanggin Banner and the 0.16 Mtpa of coal indirect liquefaction demonstration project of the Company located in Jungar Banner are under inspection. According to the Announcement of the State Administration of Taxation on Issues concerning Consumption Tax Related Policies (SAT Announcement [2012] No. 47), the relevant coal-based liquid products (stable light hydrocarbons and liquid paraffins) produced by the Company are not listed in the consumption tax items, and the coal-based liquid paraffins and stable light hydrocarbons produced by the Company also meet the national or industrial standards, thus no consumption tax was charged against the Company for relevant products before.

In 2022, according to relevant requirements and the carbon number distribution, both stable light hydrocarbons and liquid paraffin can be used as the components of the corresponding refined oil. The Company's stable light hydrocarbon products are not classified as gasoline by component and uses due to their octane value is lower than 66, but they meet the national standard of coal-based Fischer-Tropsch synthetic naphtha. The coal-based stable light hydrocarbons and normal-structured stable light hydrocarbons will be temporarily regarded as naphtha and consumption tax shall be charged. The Company's liquid paraffin products meet the national standard of coal-based Fischer-Tropsch synthetic diesel component oil by component and uses, but it is unclear whether they are regarded as diesel component oil and whether consumption tax should be charged.

Per relevant requirements, the Company has regarded the stable light hydrocarbons and normal stable light hydrocarbons as naphtha and declared and paid consumption tax on refined oil from August 2022. In August 2022, the Company paid a total of RMB57.74 million of consumption tax and surcharges. Whether consumption tax should be paid for other liquid products pending further discussion, and there is significant uncertainty. Provided that all liquid products are charged consumption tax as naphtha, it is expected that approximately RMB2.144 billion of consumption tax will be paid for the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy annually, and the consumption tax alone will account for 42% of the sales price per ton of products. As a result, the Company's coal chemical products will be no longer competitive. Considering the economic benefits of the project construction, the new project will have relatively great investment risks.

To sum up, under the background of high cost of coal for coal chemical products, large fluctuations in international oil prices, and significant uncertainty in taxations costs, continuing to construct large-scale coal chemical projects based on the existing product structure exposes the Company to relatively high economic risks. Combined with the actual situation of the project, it is quite difficult to make decisions on the product plan and production process route of the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy for now. Therefore the Company decided to temporarily suspend the construction of the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy.

III. IMPACT ON THE COMPANY

Various factors including the high cost of coal for coal chemical products, the increased taxes and fees, and the suspension of the construction of the project will result in signs of impairment of certain assets of Yili Energy. According to the Appraisal Report (as defined below), it is estimated that an amount of RMB2.804 billion will be required for asset impairment provision. The total profit in the consolidated statements of the Company from January to December 2022 will be decreased by RMB2.804 billion, and the net profit will be decreased by RMB2.804 billion.

The above data is unaudited, and subject to the 2022 annual financial report of the Company audited by the auditor and officially published.

(I) Relevant Basis for Impairment Provision

According to the Asset Appraisal Report of Inner Mongolia Yitai Coal Co., Ltd.* Involving the Recoverable Value of Relevant Asset Groups of Yitai Yili Energy Co., Ltd. (伊泰伊犁能源有限公司) for the Purpose of Financial Reporting (Rongyu Ping Bao Zi [2023] No. 005) (the “**Appraisal Report**”) issued by Sichuan Rongyu Assets Appraisal Co., Ltd. (四川蓉域資產評估有限公司) on 2 February 2023, the relevant appraisal results are as follows:

1. Appraisal method

In the course of the appraisal, it was found that, there is no existing sales agreement price for the asset group, nor is there an active market for similar assets, and the appraisers were unable to obtain recent transaction prices for similar assets in the industry. However, the appraisers obtained information on future projections approved by the management of the Company. After conducting necessary verification of the reliability of the projections, the appraisers chose the method of present value of estimated future cash flows to calculate the recoverable value of the asset group.

2. *Targets and scope of the appraisal*

The appraisal targets are the recoverable value of the asset group. The scope of the appraisal includes long-term assets such as fixed assets, constructions in progress, intangible assets and other non-current assets attributable to the asset group with a total carrying amount of RMB6,643,634,662.46.

Item	<i>Amount unit: RMB</i>
	Carrying amount as of 31 December 2022
Net fixed assets	83,474,429.20
Constructions in progress	6,204,009,428.95
Intangible assets	355,604,650.16
Other non-current assets	546,154.15
Total carrying amount of asset group	6,643,634,662.46

3. *Valuation base date*

The asset valuation base date is 31 December 2022, which is determined by the entrusting party in accordance with the relevant impairment testing requirements of Accounting Standards for Business Enterprises.

4. *Valuation results*

Provided that the future business plans of the asset group approved by the entrusting party and the management of the appraisal targets can be implemented, and that the valuation assumptions set out in the valuation report are valid, the recoverable value of the asset group appraised is RMB3,840,000,000.

Based on the estimations in the Appraisal Report, the impairment of the relevant assets of Yili Energy is RMB2,803,634,700.

(II) **Appraisals of Other Coal Chemical Projects of the Company**

In January 2021, Shanghai Orient Appraisal Co., Ltd. (上海東洲資產評估有限公司) was appointed by the Company to conduct impairment test on four coal chemical subsidiaries of the Company (namely Inner Mongolia Yitai Coal-to-oil Co., Ltd. (內蒙古伊泰煤製油有限責任公司), Yitai Yili Energy Co., Ltd. (伊泰伊犁能源有限公司), Inner Mongolia Yitai Chemical Co., Ltd. (內蒙古伊泰化工有限責任公司), and Inner Mongolia Yitai Ningneng Fine Chemicals Co., Ltd. (內蒙古伊泰寧能精細化工有限公司)), using 31

December 2020 as the valuation base date. Based on the prevailing economic environment and the enterprises' expectations of the market, none of the four coal chemical enterprises showed signs of impairment.

In January 2022, Sichuan Rongyu Assets Appraisal Co., Ltd. (四川蓉域資產評估有限公司) was appointed by the Company to conduct another impairment test on the four coal chemical subsidiaries of the Company, using 31 December 2021 as the valuation base date. The significant changes in the second appraisal from the first appraisal are as follows: oil prices continued to rise significantly, while at the same time, raw coal prices began to rise significantly in the second half of 2021, resulted in a sharp increase in production costs for coal chemical enterprises. The price of crude oil is the core of the pricing system of the energy chemical industry, the impact of its price increase on the sales price of coal chemical products will not be reflected immediately. Therefore, based on the appraisal in the second impairment test, the impairment of Inner Mongolia Yitai Coal-to-oil Co., Ltd. was approximately RMB48.00 million. The remaining three coal chemical enterprises were not impaired due to the increase in coal prices resulting from different product structure differences.

At the end of 2022, based on the situation that the Company has started to pay consumption tax on certain coal chemical products, and combined with the objective fact that coal prices remained at a high level, the Company engaged Sichuan Rongyu Assets Appraisal Co., Ltd. (四川蓉域資產評估有限公司) to conduct an overall asset impairment test on the coal chemical projects in production and under construction of the Company's subsidiaries. Various factors including the high cost of coal for coal chemical products, the increased taxes and fees, and the suspension of the construction of the project will result in signs of impairment of certain assets of Yili Energy. According to the Appraisal Report, it is estimated that an amount of RMB2.804 billion will be required for asset impairment provision. Up to now, the appraisals of other coal chemical projects are still in progress.

IV. SUBSEQUENT ARRANGEMENTS

Coal chemical is the strategic pillar industry of the Company. The Company will conduct in-depth investigations and appraisals of the development direction of coal chemical products. At present, various product proposals for 1 Mtpa Coal-to-oil Pilot Project of Yili Energy have been formed and are under continuous demonstration. Later, relying on the advanced technical achievements and management experience of the 0.16 Mtpa of coal-to-oil project and 1.20 Mtpa of coal-based fine chemicals project, the Company will further optimize the chemical process technology, develop clean coal technology, improve the added value of products and actively promote industrial upgrading.

V. RISK WARNING

- (I) Various factors including the high cost of coal for coal chemical products, the increased taxes and fees, and the suspension of the construction of the project will result in impairment of certain assets of Yili Energy, which will require an asset impairment provision. According to the Appraisal Report, it is estimated that an amount of RMB2.804 billion will be required for asset impairment provision. The total profit in the consolidated statements of the Company from January to December 2022 will be decreased by RMB2.804 billion, and the net profit will be decreased by RMB2.804 billion. The above data is unaudited, and subject to the 2022 annual financial report of the Company audited by the auditor and officially published.
- (II) The amount to be provided for asset impairment is expected to be relatively significant and may result in a decline or greater volatility in the price of the Company's shares.

The suspension of the construction of the 1 Mtpa Coal-to-oil Pilot Project of Yili Energy is still subject to the consideration and approval by the general meeting of the Company.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Inner Mongolia Yitai Coal Co., Ltd.*
Zhang Jingquan
Chairman

Inner Mongolia, the PRC, 8 February 2023

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Jingquan, Mr. Liu Chunlin, Mr. Ge Yaoyong, Mr. Zhang Dongsheng, Mr. Liu Jian and Mr. Zhao Like; and the independent non-executive directors of the Company are Mr. Wong Hin Wing, Ms. Du Yingfen and Mr. E Erdun Tao Ketao.

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