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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 ON DISCLOSEABLE TRANSACTION AND  
CONNECTED TRANSACTION IN RELATION TO THE MERGER OF YITAI  
HUZHUN AND YITAI ZHUNDONG**

The Board is pleased to announce that on 30 December 2019, Yitai Huzhun entered into the Merger Agreement with Yitai Zhundong, pursuant to which, Yitai Huzhun will absorb and merge Yitai Zhundong. Yitai Huzhun will be the surviving company after the completion of the Merger, change its company name into Yitai Hudong, and inherit all the assets, liabilities, performance, personnel and all other rights and obligations of Yitai Zhundong. Yitai Zhundong will cancel its legal status. Upon completion of the Merger, Yitai Zhundong will no longer constitute a subsidiary of the Company, the Company will hold 72.66% equity interests in Yitai Hudong, and Yitai Hudong will constitute a subsidiary of the Company.

**MERGER AGREEMENT**

The main terms of the Merger Agreement are as follows:

Parties : Yitai Huzhun and Yitai Zhundong

Date : 30 December 2019

Merger : Yitai Huzhun will merge with Yitai Zhundong by way of absorption and merger.

Yitai Huzhun will be the surviving company after the completion of the Merger, change its company name into Yitai Hudong, and inherit all the assets, liabilities, performance, personnel and all other rights and obligations of Yitai Zhundong. Yitai Zhundong will cancel its legal status.

\* *For identification purpose only*

Shareholding Structure : As at the date of this announcement, the contribution to registered capital and shareholding of each shareholder of Yitai Huzhun are as follows:

	<b>Contribution to registered capital (RMB'0,000)</b>	<b>Shareholding ratio (%)</b>
The Company	159,726.86	76.99
Buliangou Company	34,587.78	16.67
Datang Electric Power Fuel	10,445.16	5.03
China Railway Hohhot Bureau	2,700	1.30
<b>Total</b>	<b>207,459.80</b>	<b>100.00</b>

As at the date of this announcement, the contribution to registered capital and shareholding of each shareholder of Yitai Zhundong are as follows:

	<b>Contribution to registered capital (RMB'0,000)</b>	<b>Shareholding ratio (%)</b>
The Company	110,750	71.27
Yanzhou Coal Neng Hua	38,850	25.00
Inner Mongolia State-owned Capital	5,800	3.73
<b>Total</b>	<b>155,400</b>	<b>100.00</b>

After the completion of the Merger, the registered capital of Yitai Hudong is the sum of the registered capital of Yitai Huzhun and Yitai Zhundong before the Merger, i.e. RMB3,628,598,000.

After the completion of the Merger, the shareholding ratio of each shareholder in Yitai Hudong is determined based on their shareholding ratio in Yitai Huzhun and Yitai Zhundong before the Merger, and the value of total shareholders' equity of Yitai Huzhun and Yitai Zhundong appraised by the Independent Valuer with 31 December 2018 as the valuation benchmark date. According to the Valuation Reports, the appraised value of the total shareholders' equity of Yitai Huzhun and Yitai Zhundong as at 31 December 2018 was RMB2,863,536,200 and RMB8,949,871,800 respectively. After the completion of the Merger, the contribution to registered capital and shareholding of each shareholder in Yitai Hudong are as follows:

	<b>Contribution to registered capital (RMB'0,000)</b>	<b>Shareholding ratio (%)</b>
The Company	263,642.77	72.66
Yanzhou Coal Neng Hua	68,725.91	18.94
Buliangou Company	14,664.05	4.04
Inner Mongolia State-owned Capital	10,253.91	2.83
Datang Electric Power Fuel	4,428.42	1.22
China Railway Hohhot Bureau	1,144.75	0.32
<b>Total</b>	<b>362,859.80</b>	<b>100.00</b>

Business Scope : Construction of and investment in Hudong Railway and its ancillary After the facilities; railway passenger and freight transport; railway dangerous freight Merger (gasoline, diesel) transport; raw coal washing and sales; railway operation, management and service and cargo extension service; motor vehicle and line maintenance; warehousing services; railway equipment, platforms, venues, housing and ancillary facilities rental services; sales of railway materials and waste materials; sales of building materials and chemical products (excluding dangerous goods, easy-to-manufacture drugs); technology development, technology transfer, technical services, technical consulting, technical training consulting; catering services, accommodation services and own house leasing.

Corporate : After the completion of the Merger, the board of Yitai Hudong consists of Governance 11 directors. The number of directors appointed by the shareholders is calculated according to the shareholding ratio of the shareholders. One director can be appointed for every 9% equity interests that is, eight directors are appointed by the Company, two directors are appointed by Yanzhou Coal Neng Hua, and one director is appointed by each of Buliangou Company, Inner Mongolia State-owned Capital, Datang Electric Power Fuel and China Railway Hohhot Bureau in turn. The term of office of the director appointed by rotation is one session (one year for each session) and a director shall be appointed by the next shareholder upon expiration. The first session shall be appointed by Buliangou Company, the second shall be appointed by Inner Mongolia State-owned Capital, the third shall be appointed by Datang Electric Power Fuel, and the fourth shall be appointed by China Railway Hohhot Bureau, and so on. The board of directors shall have a chairman who is appointed by the Company. The term of office of directors of Yitai Hudong is one year, and the directors shall be eligible for re-election.

After the completion of the Merger, Yitai Hudong set up the board of supervisors, consisting of 9 supervisors, of which two are appointed by the Company, one is respectively appointed by each of Yanzhou Coal Neng Hua, Buliangou Company, Inner Mongolia State-owned Capital, Datang Electric Power Fuel and China Railway Hohhot Bureau, and two employee representative supervisors are elected by Yitai Hudong's employees through employee representative congress, staff meeting or other forms of democratic election. Yitai Hudong set up the board of supervisors, and the chairman of the board of supervisors is a supervisor appointed by Buliangou Company. The term of office of supervisors of Yitai Hudong is one year, and the supervisors shall be eligible for re-election.

After the completion of the Merger, Yitai Hudong will hold a board meeting to elect one chairman, and appoint one general manager, five deputy general managers, one financial controller and one secretary to the board of directors. Yitai Hudong will hold a meeting of the board of supervisors and elected one chairman of the board of supervisors. Among them: the Company has the right to recommend one chairman, one general manager, four deputy general managers, one financial controller, one secretary to the board of directors, etc.; Yanzhou Coal Neng Hua has the right to recommend one deputy general manager; Buliangou Company has the right to recommend one chairman of the board of supervisors (supervisor serves concurrently). The election of the chairman, general manager, deputy general managers, financial controllers, secretary to the board of directors, chairman of the board of supervisors and their duties shall be based on the articles of association adopted by Yitai Hudong upon the completion of the Merger.

- Conditions  
Precedent : The Merger Agreement shall be signed by both parties and stamped with their respective official seals, and will become effective after all the following conditions precedent have been fulfilled:
- (1) The Merger was approved by the shareholders' meeting of Yitai Huzhun and Yitai Zhudong respectively, that is, the Merger shall be approved by more than two-thirds of the voting rights held by all shareholders at the shareholders' meeting of Yitai Huzhun; and shall be approved by more than two-thirds of the voting rights held by all shareholders at the shareholders' meeting of Yitai Zhudong; and
  - (2) There are no laws, regulations, bans or orders from government agencies, or court decisions, judgements or rulings that restrict, prohibit or cancel the Merger.

Completion of the Merger : After the above conditions precedent have been fulfilled, Yitai Huzhun has completed the relevant industrial and commercial change registration procedure for the Merger and received the updated business license, and Yitai Zhundong has completed the industrial and commercial cancellation registration procedures, the Merger will be completed.

Profit Distribution : Before the completion of the Merger, dividends totaling RMB400 million will be distributed by Yitai Zhundong to its shareholders.

After the completion of the Merger, the historical undistributed profit and subsequent profit to be generated of Yitai Hudong will be distributed by all then shareholders of Yitai Hudong based on its operation condition, profitability and investment and subject to the Company Law of the PRC, the articles of association of Yitai Hudong in force as well as the agreement and arrangement to be reached by the shareholders of Yitai Hudong subsequently and the resolution of the general meeting.

## **PROFIT FORECAST IN RELATION TO VALUATION REPORTS**

Since the independent valuer applied the asset-based approach and income approach to conduct the valuation, and adopted the conclusion from the income approach as the final valuation conclusion. Therefore, the valuation constitutes the profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions for preparing the Valuation Reports are set out as below:

1. It is assumed that Yitai Huzhun/Yitai Zhundong operates as a going concern as at the valuation benchmark date.
2. It is assumed that the asset traded or to be traded in the market, the transaction parties are equal and have opportunity and time to access sufficient market information so as to make a rational judgment on the transaction price of the total shareholders' equity of Yitai Huzhun/Yitai Zhundong.
3. There are no material changes in the relevant prevailing laws, regulations and policies as well as the macro economic situation of China; there is no material change in the political, economic and social environments of the regions in which all parties to this transaction are located.
4. It is assumed that the operators of Yitai Huzhun/Yitai Zhundong are responsible and the management of Yitai Huzhun/Yitai Zhundong are capable of performing their duties.
5. It is assumed that Yitai Huzhun/Yitai Zhundong maintains the existing management style and level, business scope and mode.

6. Unless otherwise stated, it is assumed that Yitai Huzhun/Yitai Zhundong has fully complied with all relevant laws and regulations.
7. It is assumed that the accounting policies adopted by Yitai Huzhun/Yitai Zhundong in the future in all material aspects are generally consistent with the accounting policies adopted in compilation of this report.
8. It is assumed that interest rates, exchange rates, tax base and tax rates, policy fees and so on would not change significantly.
9. It is assumed that significant investment or investment plan can complete as scheduled and come into operation during the course of valuation.
10. It is assumed that Yitai Huzhun/Yitai Zhundong will keep its existing ways of generating income and credit policies unchanged and there will be no serious problem in collecting its receivables.
11. It is assumed that the future business strategy and cost control of Yitai Huzhun/Yitai Zhundong do not change significantly.
12. It is assumed that all the information provided by the Company and Yitai Huzhun/Yitai Zhundong, including general information about the business operation, property rights information, policy documents and other related materials, remain true and valid.
13. It is assumed that the acquisition and construction of the assets involved by Yitai Huzhun/Yitai Zhundong are in accordance with the relevant national laws and regulation.
14. During the foreseeable operating period, no consideration will be given to any non-recurrent gains or losses that may occur in the operation of Yitai Huzhun/Yitai Zhundong, including but not limited to disposal of long-term equity investments, fixed assets, projects under construction, intangible assets, gains and losses arising from other long-term assets, and other non-operating income and expenses.
15. No consideration will be given to the impact of capital increase by the shareholders or other parties on Yitai Huzhun/Yitai Zhundong.
16. There are no other force majeure and unforeseeable factors that will cause material adverse impact on Yitai Huzhun/Yitai Zhundong.

Da Hua Certified Public Accountants (Special General Partnership), the auditor of the Company, has reviewed the calculation of discounted future estimated cash flow on which the Valuation Reports are based. The letter from Da Hua Certified Public Accountants (Special General Partnership) is set out

in Appendix I to this announcement. The Directors confirm that the profit forecast is made by the Directors after careful and due enquiries. The letter from the Board is set out in Appendix II to this announcement.

The qualifications of the experts who have expressed their advice and recommendations in this announcement are as follows:

<b>Name</b>	<b>Qualification</b>
Beijing Zhuoxin Dahua Appraisal Co., Ltd. Da Hua Certified Public Accountants (Special General Partnership)	Qualified and independent valuer of the PRC Certified Public Accountants of the PRC

Each of the experts above has given and has not withdrawn its written consent as at the date of this announcement to the publication of this announcement with inclusion of its letter and/or references to its name (including its qualification) as well as its advice as set out in this announcement in the form and context in which it is included.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the experts above is a third party independent from the Group and its connected persons, and as at the date of this announcement:

- a) each of the experts above did not have any shareholding in the Company or any of its subsidiaries or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Company or any of its subsidiaries.
- b) each of the experts above did not have any direct or indirect interest in any assets which have been, since 31 December 2018 (the date to which the latest published audited annual financial statements of the Company were made up), acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries.

## **FINANCIAL IMPACT OF THE MERGER**

Prior to the Merger, Yitai Huzhun is a 76.9917% owned subsidiary of the Company, and Yitai Zhundong is a 71.27% owned subsidiary of the Company. After the completion of the Merger, Yitai Zhundong will be dissolved and cancelled. The assets and liabilities of Yitai Zhundong will be inherited by Yitai Huzhun, and the Company's equity interests in Yitai Huzhun will change from 76.9917% to 72.6569%. As Yitai Huzhun and Yitai Zhundong are both consolidated subsidiaries of the Group, the Company expects that the Merger will not affect the Group's assets and liabilities and will not affect the Group's earnings.

## **REASONS FOR AND BENEFITS OF THE MERGER**

(1) The Merger is a need for internal resource integration. The Merger will integrate the advantages of the two railways to a maximum, enable them to jointly exert the road network effect, revitalize the capacity of railways of the Company effectively, and solve the problems such as insufficient supply, single flow and shortage of funds of railway companies of Yitai to the maximum extent, which will in turn fundamentally solve the survival and sustainability issues that railway companies will face in the future; (2) The Merger will bring synergies and form complementary advantages. Yitai Zhundong and Yitai Huzhun are both holding subsidiaries of the Company and railway transportation enterprises, and their geographical location is relatively close. After the Merger, superior resources, high-quality assets and outstanding talents will be unified to the Company, and the resource advantages will be more obvious. At the same time, the industry layout of railway sector of the Company will be rationally optimized, transportation efficiency will be improved, investment and financing and risk resistance capabilities will be improved accordingly; (3) The Merger will reduce operating costs and enhance the ability to continue as a going concern. The Merger is an important strategic measure for adjusting the industrial structure, transforming the development pattern, breaking the bottleneck and strengthening the development potential in the development process of the Company, which is conducive to optimize the transportation environment, integrate high-quality assets and resources, optimize the management structure, reduce management level and accounting level, improve management efficiency and reduce management costs.

The Merger has no effect on the interests and overall results of the Company. Yitai Huzhun and Yitai Zhundong are both holding subsidiaries of the Company. The Merger will not affect the normal operation and is in line with the development ideas of the Company. The Merger will not harm the interests of the Company and its Shareholders.

## **OPINION OF THE DIRECTORS**

None of the Directors of the Company has a material interest in the transaction and is required to abstain from voting.

The Directors (including independent non-executive Directors) have considered and approved the proposal on the Merger. The Directors are of the view that: (i) the Merger is conducted on normal commercial terms or better terms, (ii) the terms of the Merger are fair and reasonable; and (iii) the Merger is in the interests of the Company and its Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the highest applicable percentage ratio under the Listing Rules in respect of the Merger is more than 5% but less than 25%, the Merger constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14 of the Listing Rules.



As at the date of this announcement, Yitai Zhundong is a 71.27% owned subsidiary of the Company. As Yanzhou Coal Neng Hua holds 25% equity interests in Yitai Zhundong, Yanzhou Coal Neng Hua constitutes a connected person at the subsidiary level of the Company. Therefore, the Merger contemplated under the Merger Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the Board has reviewed and approved the proposal on the Merger, and the independent non-executive Directors have confirmed that the terms of the Merger are fair and reasonable, the Merger is conducted on normal commercial terms or better terms and is in the interests of the Company and its Shareholders as a whole, the Merger is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and shareholders' approval requirements in accordance with Rule 14A.101 of the Listing Rules.

## **GENERAL INFORMATION**

### **Information on the Company**

The Company is a joint stock company incorporated in the PRC with limited liability on 23 September 1997, which is one of the largest coal enterprises in the PRC. The principal businesses of the Company include coal operations, transportation operations, coal related chemical operations and other operations.

### **Information on Yitai Huzhun**

Yitai Huzhun is a company incorporated in the PRC with limited liability on 26 February 2003. The principal businesses of Yitai Huzhun include the construction and investment of railways and ancillary facilities; railway freight transportation; railway hazardous goods transportation (gasoline, diesel); raw coal sales; leasing services of railway platform, site, housing and ancillary facilities; parts and components and line maintenance; railway operation management and services; sale of building materials, chemical products (excluding hazardous goods and easily-produced drugs), etc. As at the date of this announcement, Yitai Huzhun is a non wholly-owned subsidiary of the Company which is held as to approximately 76.99% by the Company.

The financial information of Yitai Huzhun for the two years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, which was prepared in accordance with the China Accounting Standards for Business Enterprises, is set out below:

	<b>For the year ended 31 December</b>		<b>As of</b>
	<b>2017</b>	<b>2018</b>	<b>30 September</b>
	(Audited)	(Audited)	(Unaudited)
Profit (loss) before taxation and non-recurring items	-254,203,354.79	-100,669,614.55	-46,017,220.39
Profit (loss) after taxation and non-recurring items	-254,188,998.36	-100,382,919.91	-43,465,129.63
Net assets	2,256,078,790.90	2,155,409,176.35	2,113,027,126.69

### **Information on Yitai Zhundong**

Yitai Zhundong is a company incorporated in the PRC with limited liability on 5 October 1998. The main businesses of Yitai Zhundong include Zhundong railway construction, railway passenger and freight transportation, raw coal washing and sales; railway operation and management services and goods extension services; motor vehicle and line maintenance; warehousing service; equipment leasing; sales of railway materials and waste materials, etc. As at the date of this announcement, Yitai Zhundong is a non wholly-owned subsidiary of the Company which is held as to 71.27% by the Company.

The financial information of Yitai Zhundong for the two years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, which was prepared in accordance with the China Accounting Standards for Business Enterprises, is set out below:

	<b>For the year ended 31 December</b>		<b>As of</b>
	<b>2017</b>	<b>2018</b>	<b>30 September</b>
	(Audited)	(Audited)	(Unaudited)
Profit (loss) before taxation and non-recurring items	687,773,163.94	781,705,615.39	480,440,535.47
Profit (loss) after taxation and non-recurring items	688,362,303.37	784,680,408.09	478,196,109.88
Net assets	5,394,170,110.04	5,747,723,320.13	6,235,479,862.95

### **Information on Yanzhou Coal Neng Hua**

Yanzhou Coal Neng Hua is a company incorporated in the PRC with limited liability on 18 December 2009. The main businesses of Yanzhou Coal Neng Hua include sales of coal, coke and iron ore; investment in coal and chemical enterprises; sales of coal mining machinery equipment and accessories, mining materials, metal materials, electromechanical products and construction materials; maintenance and leasing of mining machinery equipment; coal mining (operated by branch only), etc. As at the date of this announcement, Yanzhou Coal Neng Hua is a wholly-owned subsidiary of Yanzhou Coal.

Reference is made to the announcement of the Company dated 1 December 2017, the consideration of acquisition of 25% equity interests in Yitai Zhundong paid by Yanzhou Coal Neng Hua was RMB1,942.5 million .

## DEFINITIONS

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

“Board”	board of the directors of the Company
“Buliangou Company”	Inner Mongolia Mengtai Buliangou Coal Co., Ltd.* (內蒙古蒙泰不連溝煤業有限責任公司), a company incorporated in the PRC with limited liability on 24 May 2006
“China Railway Hohhot Bureau”	China Railway Hohhot Railway Bureau Group Co., Ltd.* (中國鐵路呼和浩特鐵路局集團有限公司), a company incorporated in the PRC with limited liability on 28 June 1995
“Company”	Inner Mongolia Yitai Coal Co., Ltd.* (內蒙古伊泰煤炭股份有限公司)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	has the meaning ascribed to it under the Listing Rules
“Datang Electric Power Fuel”	Datang Electric Power Fuel Co., Ltd.* (大唐電力燃料有限公司), a company incorporated in the PRC with limited liability on 31 December 2003
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Valuer”	Beijing Zhuoxin Dahua Appraisal Co., Ltd.* (北京卓信大華資產評估有限公司)
“Inner Mongolia State-owned Capital”	Inner Mongolia State-owned Capital Management Co., Ltd.* (內蒙古國有資本運營有限公司), a wholly state-owned limited liability company incorporated in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Merger”	Yitai Huzhun will merger with Yitai Zhundong by way of absorption and merger and Yitai Zhundong will cancel its legal status pursuant to the Merger Agreement
“Merger Agreement”	the relevant agreements in relation to the merger of Yitai Huzhun and Yitai Zhundong entered into between Yitai Huzhun and Yitai Zhundong on 30 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“PRC”	People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Valuation Reports”	the asset valuation reports (Zhuo Xin Da Hua Ping Bao Zi [2019] No. 3004 and Zhuo Xin Da Hua Ping Bao Zi [2019] No. 3005) issued respectively by the Independent Valuer in relation to the value of total shareholders’ equity of Yitai Huzhun and Yitai Zhundong with 31 December 2018 as the valuation benchmark date, for the purpose of the Merger
“Yanzhou Coal”	Yanzhou Coal Mining Company Limited, a joint stock limited company incorporated in the PRC on 25 September 1997, the H Shares of which are listed on The Stock Exchange of Hong Kong Limited (Stock Code: 1171) and the A Shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600188)
“Yanzhou Coal Neng Hua”	Yanzhou Coal Ordos Neng Hua Company Limited* (兗州煤業鄂爾多斯能化有限公司), a company incorporated in the PRC with limited liability on 18 December 2009
“Yitai Hudong”	Inner Mongolia Yitai Hudong Railway Co., Ltd.* (內蒙古伊泰呼東鐵路有限責任公司) (the final name is subject to the approval of the industrial and commercial department), being Yitai Huzhun (as the surviving company after completion of the Merger)
“Yitai Huzhun”	Inner Mongolia Yitai Huzhun Railway Co., Ltd.* (內蒙古伊泰呼准鐵路有限公司), a company incorporated in the PRC with limited liability on 26 February 2003, and a non wholly-owned subsidiary of the Company

“Yitai Zhundong”

Inner Mongolia Yitai Zhundong Railway Co., Ltd.\* (內蒙古伊泰准東鐵路有限責任公司), a company incorporated in the PRC with limited liability on 5 October 1998, and a non wholly-owned subsidiary of the Company

“%”

per cent.

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

Inner Mongolia, the PRC, 30 December 2019

*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, Mr. Lv Guiliang and Mr. Lv Junjie; and the independent non-executive directors of the Company are Mr. Zhang Zhiming, Mr. Huang Sujian, Mr. Wong Hin Wing and Ms. Du Yingfen.*

\* *For identification purpose only*

## **APPENDIX I LETTER FROM DA HUA CERTIFIED PUBLIC ACCOUNTANTS (SPECIAL GENERAL PARTNERSHIP)**

### **ASSURANCE REPORT ON DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY IN INNER MONGOLIA YITAI HUZHUN RAILWAY CO., LTD. AND INNER MONGOLIA YITAI ZHUNDONG RAILWAY CO., LTD.**

**To the Board of Directors of Inner Mongolia Yitai Coal Co., Ltd.**

We have been engaged to review and report on the arithmetical accuracy of the calculations of the discounted cash flow forecast on which the valuation reports prepared by Beijing Zhuoxin Dahua Appraisal Co., Ltd. in respect of market value of the equity interests of Inner Mongolia Yitai Huzhun Railway Co., Ltd. (“Yitai Huzhun”) and Inner Mongolia Yitai Zhundong Railway Co., Ltd. (“Yitai Zhundong”), both subsidiaries of the Company, as at 31 December 2018 are based. The valuation reports are set out in the announcement of Inner Mongolia Yitai Coal Co., Ltd. dated 30 December 2019 in connection with the merger of Yitai Huzhun with Yitai Zhundong by way of absorption and merger. The valuation is based on the forecast which is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

#### **I. THE DIRECTORS’ RESPONSIBILITY**

The directors of the Company are responsible for the forecast. The forecast has been prepared using a series of assumptions, the completeness, reasonableness and validity of which are the sole responsibility of the directors of the Company. This responsibility includes carrying out appropriate procedures relevant to the preparation of the forecast for the valuation, applying an appropriate basis of preparation and making estimates that are reasonable in the circumstances.

#### **II. OUR INDEPENDENCE AND QUALITY CONTROL**

We have complied with the Code of Professional Ethics for China Certified Public Accountants as well as the relevant professional ethics. Meanwhile, we strictly abide by the principles of independence, objectivity and fairness, and maintain professional competence and due care.

Our firm applies the Quality Control Standards No.5101 – “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### **III. CERTIFIED ACCOUNTANTS’ RESPONSIBILITIES**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the forecast. The forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Other Standards for Assurance Engagements of China Certified Public Accountants No.3101 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the directors of the Company have properly compiled the forecast in accordance with the assumptions adopted by the directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the forecast prepared based on the assumptions made by the directors of the Company. Our work is substantially less in scope than an audit conducted in accordance with the Auditing Standards for China Certified Public Accountants. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the assumptions on which the forecast is based and thus express no opinion whatsoever thereon. The assumptions used for preparation of the forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose.

#### **IV. OPINION**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculation of the forecast is concerned, the forecast has been properly compiled in all material respects in accordance with the assumptions adopted by the directors of the Company.

Da Hua Certified Public Accountants  
(Special General Partnership)

Certified Accountant of the PRC: Gong Xinping  
(Project Partner)

Certified Accountant of the PRC: Zhao Xi

Beijing, the PRC

30 December 2019

## APPENDIX II LETTER FROM THE DIRECTORS

30 December 2019

Dear Sirs,

### **DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE MERGER OF TWO NON WHOLLY-OWNED SUBSIDIARIES**

We refer to the valuation reports dated 12 July 2019 prepared by Beijing Zhuoxin Dahua Appraisal Co., Ltd. (the “**Independent Valuer**”) in relation to the valuation of the total equity of Inner Mongolia Yitai Huzhun Railway Co., Ltd. and Inner Mongolia Yitai Zhundong Railway Co., Ltd. as at 31 December 2018 (the “**Valuation**”). As the income approach was adopted in the Valuation, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules and accordingly, Rules 14.60A and 14.62 of the Listing Rules are applicable.

We have discussed with the Independent Valuer about different aspects including the bases and assumptions upon which the Valuation has been prepared, and reviewed the Valuation for which the Independent Valuer is responsible. We have also considered the report from our accountants, Da Hua Certified Public Accountants (Special General Partnership), regarding whether the discounted future estimated cash flows, so far as the calculations are concerned, were properly compiled, in all material respects, in accordance with the assumptions as set out in the Valuation.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board confirmed that the profit forecast has been made after due and careful enquiry by the Directors.

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