

## OVERVIEW

We were established as a joint stock limited company on September 23, 1997 by way of injection of assets, liabilities and equity interests by Yimei Group and subscription of new B Shares by public investors. Immediately after our establishment, Yimei Group and public shareholders of B Shares, owned 54.64% and 45.36% of our company respectively. Yimei Group has undertaken a series of reorganization steps after our establishment, and in 2001, our controlling shareholder was renamed Yitai Group. As of the Latest Practicable Date, Yitai Group owned, directly and indirectly, approximately 54.64% and 6.69% of our total issued share capital, respectively, or beneficially owned an aggregate of approximately 61.33% of our total issued share capital. Immediately after the Global Offering, Yitai Group will own directly and indirectly, approximately 49.18% and 6.02% of the total issued share capital, respectively, or will beneficially own approximately 55.20% of our total issued share capital (or approximately 54.38% if the Over-allotment Option is exercised in full) and will continue to be one of our Controlling Shareholders.

## BACKGROUND OF YITAI GROUP AND YITAI INVESTMENT

As of the Latest Practicable Date, Yitai Group was 99.54% owned by Yitai Investment with the remaining 0.46% owned by other four independent third parties. As Yitai Investment will continue to own 99.54% of the interest of Yitai Group immediately after the Global Offering, Yitai Investment, together with Yitai Group, will continue to be our Controlling Shareholders.

Upon the establishment of Yitai Investment in December 2005, its equity interests were held by 31 individuals on behalf of a group of employees (the “**Employees Group**”) of Yitai Group, including themselves. As the PRC Company Law provides that companies with limited liability incorporated in the PRC cannot have more than 50 shareholders, and given that at the time of establishment of Yitai Investment the Employees Group was comprised of more than two thousand individuals, in order to comply with the limitations on the shareholders’ number under the PRC Company Law, the Employees Group entrusted a group of 31 individuals, comprising the senior management and key technicians of Yitai Group at that time, to hold the equity interest of Yitai Investment. The percentage of entrusted shareholding of each of the 31 individuals was determined based on a series of standards including the positions they held in Yitai Group, the time they had worked in Yitai Group and their contribution to the business of Yitai Group. Mr. Zhang Shuangwang’s entrusted shareholding was substantially higher than those of the other 30 individuals because he was the chairman of Yitai Group at the time of the establishment of Yitai Investment. The table below sets out the names, entrusted capital contribution and entrusted shareholding percentage of the 31 individuals as of the Latest Practicable Date:

	Shareholder	Entrusted Capital Contribution (RMB million)	Entrusted Shareholding Percentage	Position with our Group
1.	Zhang Shuangwang (張雙旺) <sup>(1)</sup> . . . . .	108.074272	15.00%	none
2.	Hao Jianzhong (郝建忠) . . . . .	20.428	2.84%	none
3.	Zhang Donghai (張東海) . . . . .	20.437872	2.84%	Chairman and executive Director; Director of Xinjiang Zhundong, Yitai Share (HK), Yitai Huzhun, Yitai Coal-to-oil and Avic Liming Jinhuaji Petrochemical Equipment (Inner Mongolia) Co., Ltd.
4.	Qi Wenbin (祁文彬)	20.428	2.84%	Director of Yitai Coal-to-oil, Yitai Suancigou and Yitai Huzhun
5.	Li Chengcai (李成才)	20.428	2.84%	Director of Yitai Zhundong and Yitai Huzhun
6.	Zhang Jianguo (張建國) . . . . .	20.428	2.84%	none

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Shareholder	Entrusted Capital Contribution (RMB million)	Entrusted Shareholding Percentage	Position with our Group
7.	Tang Rugang (唐如鋼) .....	20.428	2.84%	none
8.	Bai Guohua (白國華) .....	20.428	2.84%	none
9.	Liu Zhike (劉志科) .....	20.428	2.84%	none
10.	Tian Shangwan (田尚萬) .....	20.428	2.84%	none
11.	Su Zhongyou (蘇中友) .....	20.428	2.84%	none
12.	Zhu Aiguo (朱愛國) .....	20.428	2.84%	none
13.	Wang Zhipeng (王志鵬) .....	20.428	2.84%	none
14.	Ren Lixin (任立新) .....	20.428	2.84%	none
15.	Liu Chunlin (劉春林) .....	20.428	2.84%	Executive Director; Director of Yitai Share (HK), Yitai Suancigou Yitai Coal-to-oil none
16.	Cui Wenyi (崔文藝) .....	20.428	2.84%	Vice President
17.	Ji Yongqiang (姬永強) .....	20.428	2.84%	President and executive Director; Director of Yitai Coal-to-oil and Xinjiang Zhungdong none
19.	Zhang Zhenjin (張振金) .....	20.428	2.84%	none
20.	Bai Jingquan (白井泉) .....	20.428	2.84%	Chairman of the Supervisory Board; Chairman of the Supervisory Board of Yitai Coal-to-oil none
21.	Li Wenshan (李文山) .....	20.428	2.84%	none
22.	Zhang Ying (張英) .....	20.428	2.84%	none
23.	Zhao Shirong (趙世榮) .....	20.428	2.84%	Vice President and executive Director; Director of Huhhot Yitai Coal Sales; Chairman of Yitai Transport and Yitai Tiedong Director of Yitai Coal-to-oil; Director of Yitai Xinjiang and executive Director of Yitai Yili
24.	Kang Zhi (康治) .....	20.428	2.84%	none
25.	Hao Xizhu (郝喜柱) .....	20.428	2.84%	none

**RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

	Shareholder	Entrusted Capital Contribution (RMB million)	Entrusted Shareholding Percentage	Position with our Group
26.	Li Zengrun (李增潤) .....	20.428	2.84%	none
27.	Zhang Xinrong (張新榮) .....	20.428	2.84%	Executive Director and Vice President; Supervisor of Beijing Yitai Biotechnology Co., Ltd. and Director of Yitai Suancangou
28.	Bai Weixiang (白維祥) .....	20.428	2.84%	none
29.	Hao Rui (郝瑞) .....	20.428	2.84%	none
30.	Zhang Dongsheng (張東升) .....	20.428	2.84%	Executive Director; Chairman and President of Yitai Zhundong; Chairman of Zhundong Jintai and chairman and president of Yitai Huzhun
31.	Zhai Deyuan (翟德元) .....	19.999	2.78%	none
	Total .....	720.495144	100.00%	

(1) Mr. Zhang Shuangwang and his spouse are beneficially interested in 15.01% of the equity interests of Yitai Investment as members of the Employee Group. Although Mr. Zhang Shuangwang and his associates are the single largest group of shareholders of Yitai Investment, they are not able to exercise significant influence over Yitai Group. Yitai Group is operated by its shareholder meeting and the board of directors.

Pursuant to the trust agreement, the 31 individuals were entrusted, on a free basis, to hold the equity interests of Yitai Investment for the Employees Group (including the 31 individuals). As of the Latest Practicable Date, the Employees Group comprised approximately 2,300 individuals. The Employees Group represent all the employees of Yitai Group and its subsidiaries that meet the criteria determined by Yitai Group and Yitai Investment and as modified from time to time. These criteria mainly include educational backgrounds, professional qualifications, positions the employees then held and the time period they have worked in Yitai Group and its subsidiaries. Among the Employees Group, the equity interests of Yitai Investment were beneficially owned up to 15.01% by Mr. Zhang Shuangwang and his associates (among which Mr. Zhang Shuangwang himself is beneficially interested at 15.00% and his spouse, in aggregate, is beneficially interested at 0.01%), and 84.99% by the other members of the Employees Group. Under the PRC Law, the equity interest of Yitai Investment can be pledged as security in favour of any person. However, none of the equity interest of Yitai Investment is pledged as of the Latest Practicable Date. The members of the Employees Group may transfer their beneficial interest among the employees of our Company but not to any other third party in principle. Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, have advised that the trust arrangement is legal, valid and enforceable under PRC laws. Our Company confirms that other than the aforesaid trust agreement, there is no other agreement among the 31 individuals.

## COMPETITION

### Overview

To expand our coal business and minimize any potential competition between Yitai Group and us, we intend to apply the proceeds raised from the Global Offering to acquire the Target Business Group, which includes substantially all of Yitai Group's coal production, sales and transportation businesses (except for the Retained Businesses). Please see "Future Plans and Use of Proceeds" for details and please refer to the paragraph headed "Proposed Acquisition" below in this section for more details of the Proposed Acquisition.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

After the Proposed Acquisition, we believe that our coal production, sales and transportation businesses will be expanded by acquiring the Target Business Group, and the potential competition between Yitai Group and us will also be minimized.

In relation to the Retained Businesses, we have taken certain measures to ensure that they do not constitute direct or indirect competition with our core businesses. Such measures include our entering into the Non-competition Agreement with our Controlling Shareholders, pursuant to which we are granted options and pre-emptive rights to acquire any interest in the Retained Businesses we consider appropriate. Further, it is also provided in the Non-competition Agreement that (i) we are appointed as the exclusive sales agent for all the coal products produced by Sujiahao Mine from our Listing Date until we acquire Sujiahao Mine and (ii) all the coal produced by Hongqinghe Mine will be exclusively supplied to us for re-sale from the Listing Date until we acquire Hongqinghe Mine, and (iii) all the coal products extracted from the Target Mines will be exclusively supplied to us as the purchaser for re-sale for the period from the Listing Date until the Closing Date. Please refer to the “Non-competition Agreement” below for details.

Upon completion of the Proposed Acquisition, save for the Retained Businesses, there will be no business of the Controlling Shareholders that will, or is likely to, compete, directly or indirectly with us.

In connection with the Global Offering and the Proposed Acquisition, we have entered into a number of transactions with Yitai Investment, Yitai Group and other connected persons (as defined under the Listing Rules). For details please refer to “Connected Transactions.”

### Our Businesses

Our core businesses include coal production, sales, transportation and coal-to-oil business. Apart from our core businesses, we also engage in the production and sale of traditional Chinese medicine through our subsidiary Yitai Pharmaceutical.

### Controlling Shareholders’ Businesses

Yitai Investment is an investment holding company and its core business is the holding of equity interests in Yitai Group. Apart from the equity interests in Yitai Group, Yitai Investment does not hold, engage or conduct activities in any other business which is, or is likely to, compete, directly or indirectly with our core businesses.

Yitai Group’s core businesses include coal production and sales, technology development in relation to coal-based chemical products, and real estate development.

To achieve our strategy of expanding our coal business and minimizing the potential competition between Yitai Group and us, we entered into the Assets Transfer Agreement with Yitai Group on May 29, 2012, pursuant to which we agreed to acquire, and Yitai Group agreed to transfer the Target Business Group, which includes substantially all of Yitai Group’s coal production, sales and transportation businesses. Please refer to the “Proposed Acquisition” below for details. Further, we have also entered into the Non-competition Agreement with our Controlling Shareholders, pursuant to which, among other things, Yitai Group has undertaken to us that after the Listing Date, it will not engage in the coal trading business, including the purchase of coal from third parties. Please refer to the “Non-competition Agreement” below for details.

Saved as disclosed below, there is no other business of our Controlling Shareholders that will, or is likely to, compete, directly or indirectly with us.

### Proposed Acquisition

The purpose of the Proposed Acquisition is to expand our coal reserves and outputs, while minimizing potential competition between Yitai Group and us in relation to our core business.

We and Yitai Group entered into the Assets Transfer Agreement on May 29, 2012, pursuant to which we agreed to acquire, and Yitai Group agreed to transfer, the Target Business Group, which includes substantially all assets and businesses of Yitai Group that are related to coal production, sales and transportation, subject to the satisfaction of certain conditions precedent. As of the Latest Practicable Date, the only condition precedent that had not been satisfied was the listing of our H Shares on the Hong Kong Stock Exchange.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Brief details of the principal terms of the Assets Transfer Agreement are set out below:

### *Businesses to be acquired*

Equity interests, assets and businesses to be transferred under the Assets Transfer Agreement include:

- The 73% equity interest in Yitai Baoshan, which operates Baoshan Mine and the 73% equity interest in Yitai Tongda, which operates Dingjiaqu Mine.
- Each of Chengyi Mine, Dadijing Mine and Baijialiang Mine, including but not limited to the current assets, fixed assets, intangible assets and other assets.
- Other coal-related assets, including but not limited to the current assets, fixed assets, intangible assets and other assets of Dongxing collection and transportation center, Xiyingsi coal loading station, Baoshen line coal loading station, Jingtang Port transfer and transportation center, Baotou sales branch, Baotou payment center, Beijing payment center, Tanggongta payment center, Qinhuangdao office, Datong office, Tianjin office, Caofeidian office, storage and transportation assets and other assets related to coal trading, storage and transportation.

There will be transfer of management and employees of the Target Business Group to our Group pursuant to the Assets Transfer Agreement.

For details of the Target Business Group, please refer to “Business — The Proposed Acquisition and The Target Business Group — The Target Business Group.”

### *Consideration*

The consideration under the Assets Transfer Agreement will be RMB8,446.5 million, which was equal to the aggregate fair value of the Target Business Group as of December 31, 2009 (“**Valuation Date**”) as contained in the valuation report, dated April 23, 2010, by CEA, an independent valuer. CEA adopted the DCF method in preparing the valuation report dated April 23, 2010 and the valuation result was based on the estimated level of profit contribution from the Target Business Group in the future.

The total payment by the Company in connection with the Proposed Acquisition may be subject to a possible change depending on the net asset value of the Target Business Group after the Valuation Date as follows:

- If the net asset value of the Target Business Group increases during the period from the Valuation Date to the last day of the calendar month immediately prior to the Listing Date, the increased net asset value belongs to Yitai Group. The net asset value will be determined based on a special audit to be conducted within three months after the Listing, and our Company will pay the increment, if any, to Yitai Group in cash with our internal funds within 60 days after the special audit report is issued. If the net asset value of the Target Business decreases during the same period, Yitai Group shall make up the shortfall to our Company in cash within 60 days after the special audit report is issued; and
- If the net asset value of the Target Business Group increases during the period from the last day of the calendar month immediately prior to the Listing Date to the Closing Date, the increased net asset value belongs to our Company. If the net asset value of the Target Business Group decreases during the same period, Yitai Group shall make up the shortfall to our Company in cash. The changes of the net asset value, if any, of the Target Business Group shall be determined based on a special audit to be conducted within three months after the Closing Date. Yitai Group shall make up the shortfall, if any, in the net asset value of the Target Business Group to our Company in cash within 60 days after the special audit report is issued.

### *Payment and Closing Date*

The consideration shall be paid by the following methods:

- If the proceeds from the Global Offering have been settled and remitted into the onshore RMB account designated by our Company (the “**Settlement and Remittance Procedure**”) within the

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

calendar month immediately following the date that the Assets Transfer Agreement has come into effect and the transfer of intangible assets of the Target Mines has been approved by relevant authorities (the “**Approval Date**”), our Company shall pay the consideration in full on the last day of the calendar month immediately following the Approval Date; and

- If the Settlement and Remittance Procedure has not completed within the calendar month immediately following the Approval Date, our Company shall pay more than 50% of the consideration on the last day of the calendar month immediately following the Approval Date. The remaining consideration shall be paid by our Company no later than the last day of the calendar month during which the Settlement and Remittance Procedure is completed.

The payment obligation of our Company is deemed to be duly fulfilled when our Company has paid the consideration to the bank account designated by Yitai Group. The last day of the calendar month immediately following the Approval Date will be the Closing Date.

### *Effective Date*

The Assets Transfer Agreement will become effective on the date (the “Effective Date”) when all the following conditions precedent are fulfilled:

1. The board of directors and the shareholders’ meeting of Yitai Group have reached resolutions and approved the Proposed Acquisition.
2. The employee union of Yitai Group has reached a resolution and approved the Proposed Acquisition.
3. Yitai Group has obtained the consents from relevant third parties in respect of the Proposed Acquisition.
4. The board of Directors and the shareholders’ meeting of our Company have reached resolutions and approved the Proposed Acquisition.
5. The shareholders’ meeting of each of the target companies (Yitai Tongda and Yitai Baoshan) have reached resolutions and approved the Proposed Acquisition.
6. Other shareholders of each of the target companies have issued written confirmation, giving up the right of first refusal regarding the shareholding to be transferred.
7. The CSRC has approved the Global Offering and the Listing.
8. The Hong Kong Stock Exchange has approved our Company’s application for the Global Offering and the Listing.
9. The H Shares of our Company have been successfully listed and traded on the Hong Kong Stock Exchange.
10. Other conditions agreed by our Company and Yitai Group in writing.

As of the Latest Practicable Date, conditions to 1 to 8 above have already been satisfied and given that there are no other additional conditions agreed by our Company and Yitai Group in writing, the only condition precedent to the effectiveness of the Assets Transfer Agreement that had not been satisfied is the listing of our H Shares on the Hong Kong Stock Exchange. In addition, the completion of the Proposed Acquisition requires the approval of the transfer of the mining rights by the IDLR. The Directors confirm that other than the approval by the IDLR, there is no other approval required for the Proposed Acquisition. Based on the best estimate of our Directors, our Company expects to obtain the aforementioned approval of the IDLR within two months from the Listing Date. Our PRC legal advisors, Jingtian & Gongcheng Attorneys at Law, have advised that there is no material legal impediment to our obtaining the approval from the IDLR provided that we submit application documents that are deemed necessary by the IDLR. However, there is no assurance that the approval by the IDLR will be obtained in a timely manner, and the IDLR has discretion on whether or not to grant such an approval. Please refer to “Risk Factors — Risks Relating to Our Businesses — There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be

completed at all.” Assuming that the necessary approval were to be received within two months from the Listing Date, our Directors are of the view that the Proposed Acquisition could be completed within eight months from the Listing Date on the following basis:

- (a) Under the Assets Transfer Agreement, the Closing Date will be the last day of the calendar month immediately following the date when the necessary approval, i.e. the approval of the IDLR, is obtained.
- (b) Under the Assets Transfer Agreement, within five months after the Closing Date or other time frame required by applicable laws, Yitai Group shall assist us in completing registration or recording procedures for the transfer of legal ownership of the assets and equity interests in the Target Business Group in accordance with PRC laws and regulations (e.g. transfer of mining rights, land use right and ownership of buildings) before the Proposed Acquisition can be completed and our Company can obtain the legal ownership of the Target Business Group.

Therefore, the Directors estimate that the Proposed Acquisition could be completed no more than approximately eight months after the Listing Date. Please refer to “Risk Factors — Risks Relating to Our Business — There is no assurance that the Proposed Acquisition will be completed within the time frame currently expected or will be completed at all.” We will publish an announcement after the completion of the Proposed Acquisition and comply with relevant requirements under the Listing Rules.

## **The Retained Businesses**

### *Yitai Group’s interests in coal production*

Yitai Group will, after the Global Offering and the Proposed Acquisition, continue to own and have the right to operate the Retained Mines, namely, Sujiahao Mine, Taifeng Mine, Anjiapo Mine and Hongqinghe Mine. Our Directors believe that, although the Retained Businesses include coal production business, the Retained Mines as of the Latest Practicable Date either are under preliminary preparation work before construction, or currently have ceased their operations due to resource exhaustion, or have legal compliance defects. Therefore, it may be not in our best interest and those of our Shareholders as a whole to include the Retained Mines in our Group. In addition, we have entered into the Non-competition Agreement with the Controlling Shareholders to minimize competition between the Controlling Shareholders and us, pursuant to which we are granted options and pre-emptive rights to acquire any interests in the Retained Businesses. It is further provided in the Non-competition Agreement that for the period from the Listing Date until the relevant Retained Businesses being acquired by us, we will be appointed as the exclusive sales agent for all coal produced by the Sujiahao Mine and all the coal products extracted from the Hongqinghe Mine (if any) will be exclusively supplied to us as the purchaser for re-sale. Please refer to the “Non-competition Agreement” below for details.

### *Sujiahao Mine*

Yitai Group holds 60% of the equity interests in Shenmu County Sujiahao Mine, which operates Sujiahao Mine. Sujiahao Mine was established in April 2002 and engages in coal production business. The designed annual production volume of coal by Sujiahao Mine is about 0.45 million tonnes.

The senior management of Sujiahao Mine currently comprises of Mr. Su Hongxin and Mr. Zi Wenxiang, all of whom were appointed by Yitai Group. None of the other senior management of Sujiahao Mine holds any of our management positions and there is no overlap of senior management between Sujiahao Mine and us.

For 2009, 2010 and 2011, Sujiahao Mine recorded a revenue of approximately RMB252.0 million, RMB354.2 million and RMB354.4 million, respectively, and net profit of RMB120.9 million, RMB113.6 million and RMB127.6 million, respectively.

Sujiahao Mine is located in Yulin City, Shaanxi Province and currently undergoing an upgrading project. The construction of the upgrading project requires the approval from the NDRC or Shaanxi Provincial Development and Reform Commission (if authorized by the NDRC). The upgrading project of Sujiahao Mine has not obtained the aforementioned approval. As such, the construction of the upgrading project of Sujiahao

Mine is at risk of being suspended by relevant authorities. As such, our Directors are of the view that it would not be in the best interest of us and our Shareholders as a whole to include Sujiahao Mine in our Group at this stage.

Pursuant to the Non-competition Agreement, Yitai Group has granted us the option to acquire Sujiahao Mine in accordance with the terms of the Non-competition Agreement at our discretion. We intend to acquire Sujiahao Mine when all compliance defects have been resolved. Our Board, including the independent non-executive Directors, will consider, from time to time, whether we should acquire Sujiahao Mine and the terms of such acquisition. The decision to acquire Sujiahao Mine and the terms of the acquisition shall be made and determined by our independent non-executive Directors. Please refer to "Non-competition Agreement" for details of the options. We will comply with all applicable requirements under the Listing Rules when we acquire Sujiahao Mine.

In the meantime, as a transitional arrangement to reduce any possible competition resulting from Yitai Group's operation of Sujiahao Mine before it is acquired by us, Yitai Group has agreed that we will be the exclusive sales agent for all the coal products extracted from Sujiahao Mine. For further details please see "Non-competition Agreement" below and the "Connected Transactions — Continuing Connected Transaction — Non-exempt Continuing Connected Transactions — 7 Mutual provision of materials, equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group."

#### *Taifeng Mine*

Yitai Group holds 100% of the assets in Taifeng Mine. As of the Latest Practicable Date, Taifeng Mine was depleted and had ceased its operation. However, as of the Latest Practicable Date, Taifeng Mine was undergoing an extinguishment project, which was aimed at removing the remaining flammable coal. Taifeng Mine will cancel its registration after the extinguishment project.

#### *Anjiapo Mine*

Yitai Group holds 51% of the interests in Yitai West Coal, which operated Anjiapo Mine. Anjiapo Mine was established and engaged in coal production business in August 2006. It was depleted and had ceased operation as of the Latest Practicable Date. However, as of the Latest Practicable Date, Anjiapo Mine was undergoing an extinguishment project, which was aimed at remove the remaining flammable coal. Anjiapo Mine will cancel its registration after the extinguishment project.

#### *Hongqinghe Mine*

Yitai Group holds 90% of the equity interests in Yitai Guanglian, which operates Hongqinghe Mine. As of the Latest Practicable Date, Hongqinghe Mine is in its preliminary preparation stage. The NDRC has approved the overall planning of Hongqinghe Mine with an annual output by design of 15 million tonnes.

The board of directors of Yitai Guanglian is currently comprised of Mr. Cao Jun, Mr. Zhang Donghai, Mr. Liu Chunlin, Mr. Ge Yaoyong, Mr. Zhai Deyuan, Mr. Zhang Zhicheng and Mr. Mo Ruoping, all of whom were appointed by Yitai Group and other shareholders. Among the directors of Yitai Guanglian, Mr. Zhang Donghai simultaneously serves as the chairman of our Company. Mr. Ge Yaoyong serves as the executive Director and president of our Company. And Mr. Liu Chunlin simultaneously serves as the executive Director of our Company. Apart from that, none of the directors of Hongqinghe Mine holds any of our management positions and there is no overlap of directors and senior management between Yitai Guanglian and us.

Given that Hongqinghe Mine is undergoing the preliminary preparation work and has not obtained the project approval from the NDRC as of the Latest Practicable Date, though the preliminary preparation work has been approved by the NDRC, our Directors are of the view that it would not be in the best interest of us and our Shareholders as a whole to include Yitai Guanglian in our Group.

Pursuant to the Non-competition Agreement, Yitai Group has granted us the option to acquire Yitai Guanglian in accordance with the terms of the Non-competition Agreement at our discretion. We intend to acquire Yitai Guanglian when the mining certificate of Hongqinghe Mine has been obtained and Hongqinghe



Mine is ready for operation. Our Board, including the independent non-executive Directors, will consider, from time to time, whether we should acquire the equity interest and the terms of such acquisition. The decision to acquire the equity interest and the terms of the acquisition shall be made and determined by our independent non-executive Directors. Please refer to “Non-competition Agreement” for details of the options. We will comply with all applicable requirements under the Listing Rules when we acquire Yitai Guanglian.

In the meantime, as a transitional arrangement to reduce any possible competition resulting from Yitai Group’s operation of Yitai Guanglian, Yitai Group has undertaken to us that all products extracted from Hongqinghe Mine after it becomes operational in the future will be supplied exclusively to us as the purchaser for our re-sale. For details of the arrangements please see the “Non-competition Agreement” below and the “Connected Transactions — Continuing Connected Transaction — Non-exempt Continuing Connected Transactions — 7 Mutual provision of materials equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group.”

### **Directors’ Competing Interests**

Other than certain directorships and/or positions held by some of our Directors in our Controlling Shareholders set out below, the Directors have confirmed that they do not have any interests in any business which directly or indirectly competes or is likely to compete, directly or indirectly, with our core businesses as of the date of this Prospectus.

### **Non-competition Agreement**

We entered into a non-competition agreement (the “**Non-competition Agreement**”) with the Controlling Shareholders, on May 29, 2012, pursuant to which the Controlling Shareholders have undertaken not to compete with us in our core businesses and granted us options and pre-emptive rights to acquire the Retained Businesses and any new business opportunities.

The Controlling Shareholders have undertaken in the Non-competition Agreement that:

1. All the coal products extracted from Hongqinghe Mine from the Listing Date until Hongqinghe Mine is acquired by our Company, will be exclusively supplied to us as the purchaser for re-sale.
2. Our Company will be the exclusive sales agent for all the coal products extracted from Sujiahao Mine from the Listing Date until Sujiahao Mine is acquired by our Company.
3. All the coal products extracted from the Target Mines for the period commencing from the Listing Date to the Closing Date, will be exclusively supplied to us as the purchaser for re-sale.
4. Save for the Retained Businesses and the Target Business Group, (1) as of the date of the Non-competition Agreement the Controlling Shareholders themselves and their subsidiaries (excluding our Group), are not engaged in, and the Controlling Shareholders will procure their associates themselves, and their subsidiaries to not engage in our core businesses; (2) during the term of the Non-competition Agreement, the Controlling Shareholders and their subsidiaries (excluding our Group) will not, and will procure their respective associates not to, engage in any activities in any form that will directly or indirectly compete with our core business, whether on its own or jointly with other entities, or hold any interests or rights in such competing business through a third party.
5. The Controlling Shareholders will not, in their respective shareholder capacities or by taking advantage of their relationships with the shareholders of our Company, engage in or participate in any activities that may harm the legal interests of our Company or the Shareholders of our Company.
6. After the completion of the Proposed Acquisition, (i) all the transportation quotas granted by the MOR to Yitai Group will be provided to us for use at nil consideration; (ii) Yitai Group will not use the transportation quotas or license any transportation quota to third parties before our request is satisfied first; and (iii) Yitai Group will apply to the MOR to change the holder of its account to us. Please refer to “Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions — 3. Transportation Quota License Agreement” for details.
7. Yitai Group has further undertaken that from the Listing Date, it will not sell any aforementioned coal products to any third parties and it will not engage in coal trading business, including but not

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

limited to, purchasing coal products from third parties. Further details about this arrangement are set out in “Connected Transactions — Continuing Connected Transaction — Non-exempt Continuing Connected Transactions — 7 Mutual provision of materials, equipment and services between us and Yitai Group in respect of the Retained Businesses and other businesses of Yitai Group.”

### *Options for New Business Opportunities*

The Controlling Shareholders have undertaken in the Non-competition Agreement that:

1. If the Controlling Shareholders or their subsidiaries become aware of a business opportunity, which directly or indirectly competes, or may lead to competition, directly or indirectly with our core business, they will notify us in writing with all relevant information immediately upon becoming aware of such business opportunity (“**Offer Notice**”). They are also obliged to use their best efforts to procure that such opportunity is first offered to us on terms and conditions that are fair and reasonable. We can decide whether or not to accept such business opportunity within 60 days from receiving the Offer Notice. Should we decide to accept such business opportunity, we shall notify the Controlling Shareholders in writing. Upon receiving our written notification of acceptance, the Controlling Shareholders are obliged to transfer the business opportunity to us upon terms that are fair and reasonable. Our independent non-executive Directors will decide whether to accept the new business opportunities. Our independent non-executive Directors may retain independent financial advisors to provide advice on our Company’s expenses. When considering whether or not to pursue the business opportunities, the independent non-executive Directors will consider, among others, the following factors: the valuation of the relevant business, the performance of the relevant business, the compatibility of the strategy of the relevant business with that of our Company, the prevailing market conditions, the available resources of our Company and other options available to our Company to pursue similar businesses from third parties or establish similar businesses. The Directors believe that the timeframe of 60 days is sufficient to conduct the aforesaid procedures, taking into account that (i) the Controlling Shareholder will notify us in writing with all relevant information immediately upon becoming aware of such business opportunity; and (ii) we usually need to make prompt decision when there are business opportunities to ensure that we can receive the most favorable terms and conditions.
2. The Controlling Shareholders shall procure any of its subsidiaries and associates (other than us) to first offer to us any business opportunity that competes, or may lead to competition, directly or indirectly with our core businesses.
3. If our Company or its subsidiaries decide not to accept the new business opportunities for any reason, it shall notify the Controlling Shareholders in written form within 60 days. If our Company does not reply to the Controlling Shareholders to accept the new business opportunities or does not send to the Controlling Shareholders the written confirmation to turn down the new business opportunities within the stipulated time period, the Controlling Shareholders are entitled to operate the new business opportunities by themselves on terms no more favorable than the terms offered to our Company and its subsidiaries, but the Controlling Shareholders cannot transfer the new business opportunities to any independent third parties.

### *Options for Acquisitions*

In relation to:

1. the Retained Businesses; and/or
2. any new business opportunity the Controlling Shareholders or their subsidiaries and associates may obtain that competes, or may compete, directly or indirectly with our core businesses,

the Controlling Shareholders have undertaken to grant us the option, pursuant to relevant laws and regulations, to acquire any equity interest, assets or other interests, which form part of the Retained Businesses or new businesses as described above. As the Non-competition Agreement will become effective on the Listing Date, we will have the option to acquire the Retained Businesses at our sole discretion upon the Listing Date. Therefore we have control over the timing of the acquisition of the Retained Businesses because we will

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

obtain the option upon the Listing Date. Our independent non-executive Directors will decide whether to exercise the option. Our independent non-executive Directors may retain independent financial advisors to provide advice on our Company's expenses.

### *Right of First Refusal*

The Controlling Shareholders have undertaken that, if they intend to transfer, sell, lease or license any of the following interests to a third party:

1. the Retained Businesses; and/or
2. any new business of the Controlling Shareholders or their subsidiaries or associates, which has been taken up by the Controlling Shareholders or any of their subsidiaries according to this Non-competition Agreement that competes, or may lead to competition, directly or indirectly with our core businesses,

the Controlling Shareholders shall notify us by written notice ("**Selling Notice**") with detailed terms in advance with all relevant information. We can decide whether to exercise the right of first refusal within 30 days in writing after receiving the Selling Notice. Our Controlling Shareholders have undertaken that until they receive the reply from us, they shall not notify any third party of the intention to transfer, sell, lease or license the business. If we do not exercise the right of first refusal or do not reply to the Controlling Shareholders within the agreed time period, our Controlling Shareholders are entitled to transfer, sell, lease or license the business to a third party with terms and conditions, which is equal to or above the terms and conditions stipulated in the Selling Notice. Our independent non-executive Directors will decide whether to exercise the right of first refusal with respect to the Retained Business. Our independent non-executive Directors may retain independent financial advisors to provide advice on our Company's expenses.

The Controlling Shareholders have further undertaken that subject to the request of our independent non-executive Directors, they will provide all information necessary for our independent non-executive Directors to review their compliance with and enforcement of the Non-competition Agreement. We will disclose the review by our independent non-executive Directors on the compliance, and enforcement of, the Non-competition Agreement in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules. In the event any business opportunities presented by or otherwise arising in connection with any of the Controlling Shareholders are turned down by us according to the Non-competition Agreement, we will disclose the decision, as well as the basis for such decision in our annual report or interim report. The Controlling Shareholders have undertaken and declared that they will make an annual declaration on compliance with the Non-competition Agreement and other connected transaction agreements in our annual report.

The Non-competition Agreement will remain in full force and be terminated upon the earlier of:

1. The Controlling Shareholders and their subsidiaries beneficially holding less than 30% of our issued share capital and no longer holding controlling power over our Company, or the Controlling Shareholders are no longer our controlling shareholders as stipulated under Rule 1.01 of the Listing Rules; and
2. Our H shares no longer being listed on the Hong Kong Stock Exchange.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we are satisfied that we can conduct our business independently from our Controlling Shareholders and their respective associates after the Global Offering.

<b>RELATIONSHIP WITH CONTROLLING SHAREHOLDERS</b>
---

## Independence of Board and Management

### *Composition of the Board and the senior management*

Our Board comprises eleven Directors. Apart from the two Directors who are associated with the Target Business Group, which will become part of our Group after the Proposed Acquisition, only four of our Directors are associated with the Controlling Shareholders. Of these eleven Directors, four are independent non-executive Directors and seven are executive Directors. Set out below is a table summarizing the positions held by the Directors at our Company and the Controlling Shareholders.

<u>No</u>	<u>Name</u>	<u>Position with our Company</u>	<u>Position with Yitai Group (other than the Target Business Group and the Retained Businesses)</u>	<u>Position with the Target Business Group</u>	<u>Position with the Retained Businesses</u>	<u>Position with Yitai Investment</u>
<i>Board of Directors</i>						
1.	Zhang Donghai <sup>(1)</sup>	Chairman, Executive Director	Director and President	None	Director of Yitai Guanglian	Director
2.	Liu Chunlin	Executive Director	Director and Chief Accountant	None	Director of Yitai Guanglian	Director
3.	Ge Yaoyong	Executive Director and President	Director	None	Director of Yitai Guanglian	None
4.	Zhang Dongsheng <sup>(2)</sup>	Executive Director	Director	None	None	None
5.	Kang Zhi	Executive Director and Vice President	None	None	None	None
6.	Zhang Xinrong	Executive Director and Vice President	None	Directors of Yitai Baoshan and Yitai Tongda	None	None
7.	Lv Guiliang	Executive Director and Chief Finance Officer	None	Supervisors of Yitai Baoshan and Yitai Tongda	None	None
8.	Xie Xianghua	Independent Non-executive Director	None	None	None	None
9.	Lian Junhai	Independent Non-executive Director	None	None	None	None
10.	Song Jianzhong	Independent Non-executive Director	None	None	None	None
11.	Tam Kwok Ming, Banny	Independent Non-executive Director	None	None	None	None

(1) Mr. Zhang Donghai is a son of Mr. Zhang Shuangwang. Mr. Zhang Shuangwang and his spouse are beneficially interested in 15.01% of the equity interests of Yitai Investment as members of the Employees Group.

(2) Mr. Zhang Dongsheng is a nephew of Mr. Zhang Shuangwang.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Six of the eleven members of our Board, namely Mr. Zhang Donghai, Mr. Liu Chunlin, Mr. Ge Yaoyong and Mr. Zhang Dongsheng, also hold offices as directors with Yitai Group. The details of each of our overlapping Directors are set out below:

- Mr. Zhang Donghai is an executive Director and the chairman of our Company, who is primarily responsible for the overall corporate strategy, planning and business development of our Group. Mr. Zhang Donghai is also a director and the president of Yitai Group, primarily responsible for the day-to-day management and operation of Yitai Group.
- Mr. Liu Chunlin is an executive Director of our Company and he also serves as a director and the chief accountant of Yitai Group, who is primarily responsible for the financial management of Yitai Group.
- Mr. Ge Yaoyong is an executive Director and the President of our Company, who is primarily responsible for the day-to-day management and operation of our Group, as well as our mine operation. Mr. Ge is also a director of Yitai Group, but has no executive functions within Yitai Group.
- Mr. Zhang Dongsheng is an executive Director of our Company, who is primarily responsible for the construction and operation of our Group's railway business. He is also a director of Yitai Group, but has no executive functions with Yitai Group.
- Mr. Zhang Xinrong is an executive Director and a vice president of our Company. He is primarily assisting our President on our Group's day-to-day business and operations with a focus on the coal production business of our Company. Mr. Zhang Xinrong also serves as a director of Yitai Baoshan and Yitai Tongda, respectively, primarily being responsible for the day-to-day management and operation of the aforesaid two companies.
- Mr. Lv Guiliang is an executive Director and the chief finance officer of our Company. He is primarily responsible for the financial management of our Group. Mr. Lv Guiliang also serves as a supervisor of Yitai Baoshan and Yitai Tongda, respectively, primarily being responsible for the examination of the financial accounts and the performance of the directors and senior management of their duties in the aforesaid two companies.

Although Mr. Zhang Donghai and Mr. Liu Chunlin have executive functions, and have involvement in the day-to-day management of Yitai Group, they both spend the majority of their time and attention on our Company's operations and management as Yitai Group's business is relatively smaller in size compared to ours. And as the Proposed Acquisition will be carried out after the Listing, which will transfer substantially all Yitai Group's coal operation, transportation and trading business to our Company, Mr. Zhang Donghai and Mr. Liu Chunlin expect to spend more time on our Company thereafter. Mr. Ge Yaoyong and Mr. Zhang Dongsheng do not have any executive functions within, and do not have any involvement in the day-to-day management of Yitai Group, and as a result, they spend substantially all of their time on the management of our Company. Although Mr. Zhang Xinrong and Mr. Lv Guiliang also hold positions with Yitai Baoshan and Yitai Tongda, the business of Yitai Baoshan and Yitai Tongda is much smaller in size compared to our business. As a result, each of Mr. Zhang Xinrong and Mr. Lv Guiliang confirmed that they currently devote and will continue to devote the majority of their time and work-related resources to our Group's business and development. In addition, after Yitai Baoshan and Yitai Tongda are transferred to our Company upon the Proposed Acquisition, there will be no overlapping directors and senior management between our Company and Yitai Baoshan and Yitai Tongda. In the event that the Proposed Acquisition cannot be completed within eight months from the Listing Date, to further enhance the independence of our board of Directors, Mr. Zhang Xinrong and Mr. Lv Guiliang have undertaken that they will resign from their respective positions in the Target Business Group. As such, the Directors are of the view that Mr. Zhang Xinrong and Mr. Lv Guiliang's current positions with Yitai Baoshan and Yitai Tongda will not materially affect their discharge of duties as our Directors and senior management.

<b>RELATIONSHIP WITH CONTROLLING SHAREHOLDERS</b>
---

Apart from those of our Directors set out above with concurrent positions with our Controlling Shareholders, only two of six of our senior management hold positions within the Target Business Group, which will become part of our Group upon the completion of the Proposed Acquisition. All such senior management members are full-time employees of our Company as shown in the table below:

No	Name	Position with our Company	Position with Yitai Group (other than the Target Business Group and the Retained Businesses)	Position with the Target Business Group	Position with the Retained Businesses	Position with Yitai Investment
<i>Senior Management</i>						
1.	Ge Yaoyong	Executive Director and President	Director	None	Director of Yitai Guanglian	None
2.	Kang Zhi	Executive Director, Vice President and Department Head of the Transportation and Sales Business Department	None	None	None	None
3.	Zhang Xinrong	Executive Director, Vice President and Department Head of the Coal Production Business Department	None	Directors of Yitai Baoshan and Yitai Tongda	None	None
4.	Ji Yongqiang	Vice President	None	None	None	None
5.	Lv Guiliang	Executive Director and Chief Finance Officer	None	Supervisors of Yitai Baoshan and Yitai Tongda	None	None
6.	Liu Jiming	Chief Engineer and President of the Labor's Union	None	None	None	None
7.	Jian Qing'e	Board Secretary and Joint Company Secretary	None	None	None	None

Our Directors believe that our Directors and senior management are able to perform their roles in our Company independently and we are able to operate our businesses independently of the Controlling Shareholders after the Listing for the following reasons:

- Each of our Directors is aware of his or her fiduciary duties as a Director which requires, among others, that he or she acts for the benefit and in the best interests of us and does not allow any conflict between his or her duties as a Director and his or her personal interest.
- The majority — seven out of eleven members of our Board — have no overlapping position with Yitai Group after the Proposed Acquisition. In addition, our Board, as a whole, makes the decisions for our Company pursuant to the Articles of Association.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- The decision-making process of the Board set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of a conflict of interest, such as consideration of resolutions in relation to transactions with the Controlling Shareholders, the relevant Director(s) who is/are connected with the Controlling Shareholders shall be excused from the meeting in respect of such resolution, abstain from voting and not be counted in the quorum. Such resolution shall only be passed by the affirmative votes of at least half of the total number of Directors not associated with the Controlling Shareholders. However, such Director(s) shall not be precluded from attending the rest of the meeting, being counted in the quorum and voting for other matters which such Director(s) is/are not interested. Further, when considering connected transactions, only the independent non-executive Directors will review the relevant transactions.
- The day-to-day operation of our Company is managed by our senior management, most of whom are independent of Yitai Group and Yitai Investment and are our full-time employees; and two of our overlapping Directors and overlapping senior management who hold positions in the Target Business Group will cease to be overlapping Directors and overlapping senior management upon the completion of the Proposed Acquisition.
- We have appointed four independent non-executive Directors, comprising more than one-third of our Board, to provide a better balance of the number of interested and independent Directors with a view to promoting our interests and those of our Shareholders as a whole. Our independent non-executive Directors have diversified skills and expertise and our Board will benefit from their independent advice from various areas.

Based on the above, we are satisfied that we are capable of maintaining independence from the Controlling Shareholders.

### Independence of business operations

We are in possession of all production and operating facilities and technology relating to our businesses. Currently, we engage in our core businesses independently, with the independent right to make operational decisions and implement such decisions. The principal raw materials and equipment we use are generally widely available and we are not dependent on the Controlling Shareholders for our supplies. We also have direct and close contact with our customers without dependence on the Controlling Shareholders for market access. We have sufficient capital, equipment and employees to operate our businesses independently from the Controlling Shareholders.

The Controlling Shareholders have undertaken in the Non-competition Agreement and the Transportation Quota License Agreement (as defined in "Connected Transactions") that Yitai Group will license the transportation quota granted to Yitai Group by the MOR to us for use at nil consideration. For further details, please see the paragraph headed "Non-competition Agreement" and the "Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions — 3. Transportation Quota License Agreement."

Pursuant to the Trademarks License Agreement (as defined in "Connected Transactions"), Yitai Group has granted us a license to use various trademarks owned by Yitai Group for the term of each of the licensed trademarks and subject to renewal. Further details of the Trademarks License Agreement are set out in "Connected Transactions — Continuing Connected Transaction — Exempt Continuing Connected Transactions — 1. Trademarks License Agreement." Yitai Group will use the trademarks mainly for its real estate and the Retained Business. Our Company currently has no plan to develop our own trademark.

During the Track Record Period, the size of the connected transactions between our Group and Yitai Group which will continue after the Listing was relatively low compared to our Group's total costs and total revenue, respectively. For 2009, 2010 and 2011, the aggregate value of the connected transactions which will continue after the Listing paid by our Group to Yitai Group was approximately RMB123.8 million, RMB123.4 million and RMB151.7 million, respectively, accounting for approximately 2.4%, 2.1% and 1.9% of our Group's total costs, respectively. For the same period, the aggregate value of the connected transactions which will continue after the Listing paid by Yitai Group to our Group was approximately RMB232.5 million, RMB137.0 million and RMB187.7 million, accounting for approximately 2.3%, 1.0% and 1.1% of our Group's total revenue, respectively.

After the Listing, the connected transactions in relation to the Target Business Group will cease once the Proposed Acquisition is completed and the connected transactions in relation to the Retained Businesses will cease once the Retained Businesses are acquired by our Group. Please see “Relationship with Controlling Shareholders — Competition — Non-competition Agreement” for details. In addition, except for the coal chemical technology provided by Yitai Group to our Group, there are alternative products and service providers readily available in the market for similar prices and quality services. Therefore, our Directors are of the view that the continuing connected transactions with Yitai Group are not crucial to our Group. Although the coal chemical technology provided by Synfuels China (a subsidiary of Yitai Group) to Yitai Coal-to-oil (a subsidiary of our Group) is crucial for the coal-to-oil production of Yitai Coal-to-oil, given that Yitai Group holds 20% of the equity interests in Yitai Coal-to-oil and is the largest shareholder of Synfuels China, after the Listing the Directors believe that Synfuels China will continue to provide coal chemical technology to Yitai Coal-to-oil as it is in the interest of both Synfuels China and Yitai Group.

As of the Latest Practicable Date our Group has no plan to acquire the 20% equity interest in Yitai Coal-to-oil from Yitai Group as the Directors believe that our Group benefits from the diversification of the shareholding structure of Yitai Coal-to-oil for the following reasons:

- The Directors confirm that as of the date of establishment of Yitai Coal-to-oil, Yitai Group was introduced as a minority shareholder with a 20% shareholding to minimize the risk in investing in the coal chemical industry.
- Given the vast amount of capital expenditure required for the future development of Yitai Coal-to-oil, part of the investment fund will be shared by Yitai Group under the current shareholding structure of Yitai Coal-to-oil.

We have our own organizational structure with independent departments and businesses and administrative units, each with specific areas of responsibility. In addition to maintaining a set of comprehensive internal control procedures to facilitate the effective operation of our businesses, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of our Shareholders as a whole. We have also adopted protective measures to ensure the enforceability of the Non-competition Agreement between us and the Controlling Shareholders. For further details of the enforceability of such protective measures, see “Relationship with Controlling Shareholders — Competition — Non-competition Agreement.” We have also adopted a set of corporate governance measures, such as rules of the Shareholders meeting, rules of the Board meeting, Rules on the conduct of connected transactions, which are modeled based on the PRC laws and regulations.

### **The organisational structure of Yitai Investment**

The organisational structure of Yitai Investment comprises shareholders’ meeting, board of directors and board of supervisors, and the shareholders’ meeting is the organ of authority. The shareholders’ meeting exercises its duties and rights pursuant to the PRC Company Law and the Articles of Association of Yitai Investment.

The board of directors currently comprises seven directors, namely Mr. Zhang Shuangwang (chairman), Mr. Zhang Donghai, Mr. Liu Chunlin, Mr. Qi Wenbin, Mr. Li Chengcai, Mr. Su Zhongyou and Mr. Liu Zhike. Among the seven directors, Mr. Zhang Shuangwang currently also serves as the chairman of Yitai Group. He founded Ikocho League Township Enterprise Company in 1988 and successively held various positions in Yitai Investment, Yitai Group and our Company, respectively. Mr. Zhang Donghai is an executive Director and the chairman of our Company. Mr. Liu Chunlin is an executive Director of our Company. For details of the biographies of Mr. Zhang Donghai and Mr. Liu Chunlin, please refer to “Directors, Supervisors, Senior Management and Employees — Directors.” Mr. Qi Wenbin and Mr. Li Chengcai currently both serve as directors and vice presidents of Yitai Group. They joined the predecessors of Yitai Group in 1990 and 1988, respectively. Mr. Su Zhongyou currently does not hold directorship or senior management positions in Yitai Group and our Company. He joined the predecessor of Yitai Group in 1995. Mr. Liu Zhike currently only serves as an assistant to the chairman of Yitai Group. He joined the predecessor of Yitai Group in 1994. The board of directors is responsible to the shareholders and exercises the management function of our company in accordance with the PRC Company Law and the Articles of Association. The directors are elected by the shareholders during the shareholders’ general meeting every three years and may be re-elected upon expiry of the term.



The board of supervisors currently comprises seven supervisors, namely Mr. Li Wenshan (chairman), Mr. Zhang Guibin, Mr. Liu Wenhong, Mr. Wang Zhipeng, Mr. Zhao Youcun, Mr. Dang Kun and Mr. Yang Deqing. All of the supervisors currently serve as a supervisor of Yitai Group do not hold a directorship or senior management position in both Yitai Group and our Company. The board of supervisors exercises the duties and responsibility in accordance with the PRC Company Law and the articles of association. Each supervisor has a term of three years and may be re-elected upon expiry of the term.

Based on the above, the Directors are of the view that we operate independently from the Controlling Shareholders and their subsidiaries (excluding our Group).

### **Financial independence**

We have our own finance department responsible for discharging the treasury, accounting, reporting, group credit and internal control functions independent from the Controlling Shareholders and their subsidiaries (excluding our Company). We have sufficient capital to operate our businesses independently, and have adequate internal resources and a strong credit profile to support our daily operations. See “Financial Information — Working capital confirmation.”

We have settled all amounts due to the Controlling Shareholders of a non-trade nature and released all guarantees provided for us by the Controlling Shareholders and their subsidiaries (excluding our Company) prior to the Listing, except for the guarantee provided by Yitai Group to Yitai Coal-to-oil in proportion to its beneficial shareholding in Yitai Coal-to-oil. See “Connected Transactions — Continuing Connected Transaction — Exempt continuing connected transaction — 4 Guarantee provided by us for loan facilities granted to Yitai Coal-to-oil.”

The Directors are of the view that we are capable of obtaining financing from third parties without relying on any guarantee or security provided by the Controlling Shareholders and the PRC lenders are independent third parties. Therefore, we operate independently from the Controlling Shareholders from a financial prospective.

### **Corporate governance**

Our Board will consist of not less than four independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We will ensure that our independent non-executive Directors are of sufficient calibre, knowledge and experience, have no connection or relationship with us or our connected persons and will carry weight in our decision-making process.

We have adopted the following decision-making procedures for matters or transactions of potential conflicts of interest between us and Yitai Group:

- Any of our overlapping Directors in Yitai Group will not vote or be counted in the quorum on any resolutions of our Board relating to our transactions (including to exercise or not to exercise the options to acquire the Retained Businesses under the Non-competition Agreement) with Yitai Group.
- Any of our Directors who cannot vote or be counted in the quorum shall not attend the relevant part of the Board meeting or participate in the discussions on the relevant resolution, unless his attendance and participation are specifically invited by our disinterested Directors. The Director will still be subject to the aforementioned restrictions on voting and being counted in the quorum on the relevant resolution.
- Any new business opportunities under the Non-competition Agreement (including to exercise or not to exercise any option under the Non-competition Agreement) and all other matters determined by our Board as having a potential conflict of interest with Yitai Group will be referred to our independent non-executive Directors for discussion and decision. When necessary, they will engage an independent financial advisor to advise them on these matters. If our independent non-executive Directors decide to exercise or not to exercise any option under the Non-competition Agreement, we will inform our Shareholders of the views of our independent non-executive Directors by means of an announcement or in our annual report, if required by applicable laws and the Listing Rules.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- Our annual report will include the views and decisions, with bases, of our independent non-executive Directors on whether to take up any new opportunities under the Non-competition Agreement (including to exercise or not to exercise any option under the Non-competition Agreement) or other matters having a potential conflict of interest with Yitai Group that have been referred to the independent non-executive Directors.
- Our independent non-executive Directors will review the compliance of the Non-competition Agreement of Yitai Group on an annual basis and disclose the results of the review in our annual reports. Yitai Group has undertaken to provide and use reasonable endeavours to procure the provision to our Company of such other information as may be necessary for us to properly consider whether to exercise the option under the Non-competition Agreement.
- All new activities and opportunities between us and any of the Retained Businesses (including the exercise or non-exercise of the options), and any on-going connected transactions, will comply with the applicable requirements under the Listing Rules.

Based on the above, our Board is satisfied that there are sufficient and effective preventive measures to manage conflicts of interest and our Board is able to operate independently of Yitai Group.