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If you have sold or transferred all your shares in Yankuang Energy Group Company Limited*, you should at once hand this circular and the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, or a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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兗礦能源集團股份有限公司

YANKUANG ENERGY GROUP COMPANY LIMITED*

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

(Stock Code: 01171)

REVISION OF ANNUAL CAP UNDER EXISTING BULK COMMODITIES SALE AND PURCHASE AGREEMENT; AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Independent financial adviser to the Independent Board Committee and
the Independent Shareholders



A letter from the Board is set out on pages 6 to 33 of this circular. A letter from the Independent Board Committee is set out on pages 34 to 35 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 53 of this circular.

The notice convening the EGM to be held at the headquarters of the Company at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 on Friday, 27 October 2023 was published on Thursday, 28 September 2023, i.e. the same time this circular is sent to the Shareholders.

Whether or not you are able to attend the EGM in person, you are strongly advised to complete and sign the form of proxy in accordance with the instructions printed thereon. The form of proxy shall be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) or the Office of the Secretary to the Board at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC (for holders of A Shares) as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the meeting or any adjourned meeting(s) (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting(s) should you so wish.

* For identification purposes only

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DEFINITIONS

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

“A Share(s)”	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	a day which is not a Saturday, Sunday or a public holiday in the PRC or Hong Kong (as the case may be)
“Company”	Yankuang Energy Group Company Limited* (兗礦能源集團股份有限公司), a joint stock limited company incorporated under the laws of PRC in 1997, and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company or any adjournment thereof to be held at the headquarters of the Company at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 a.m. on Friday, 27 October 2023 for the purpose of considering and, if appropriate, approving the resolutions set out in the notice of EGM
“Existing Bulk Commodities Sale and Purchase Agreement”	the bulk commodities sale and purchase agreement entered into between the Company and Shandong Energy on 9 December 2020
“Existing Entrusted Management Service Framework Agreement”	the entrusted management service framework agreement entered into between the Company and Shandong Energy on 27 January 2022
“Existing Finance Lease Agreement”	the finance lease agreement entered into between the Company and Shandong Energy on 9 December 2020

DEFINITIONS

“Finance Leasing Service”	services including but not limited to the sale-leaseback service and direct finance leasing service to be provided by the Company to Shandong Energy Members in relation to the Leased Assets in accordance with the Proposed Finance Lease Agreement
“Group”	the Company and its subsidiaries
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share(s)”	overseas listed foreign invested shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“Independent Board Committee”	a committee of the Board comprising all independent non-executive Directors established for the purpose of considering (i) the revised annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025
“Independent Financial Adviser” or “Donvex Capital”	Donvex Capital Limited, a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity, and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the revised annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025
“Independent Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons

DEFINITIONS

“Individual Agreement(s)”	the separate individual agreement(s) for each Finance Leasing Service to be entered into between the Company and relevant Shandong Energy Members pursuant to the Proposed Finance Lease Agreement
“Latest Practicable Date”	Friday, 22 September 2023, being the latest practicable date of ascertaining certain information contained in this circular prior to its publication
“Leased Asset(s)”	the assets to be leased by the Company pursuant to the Individual Agreement(s)
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Luxi Mining”	Shandong Energy Group Luxi Mining Co., Ltd. (山東能源集團魯西礦業有限公司), a company established in the PRC, which is owned as to 49% by Shandong Energy through its wholly-owned subsidiary, and as to remaining 51% by the Company through acquisition. Upon completion of the acquisition, Luxi Mining will become a connected subsidiary of the Company. For specific details of the acquisition, please refer to the announcement of the Company dated 28 April 2023
“percentage ratio(s)”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan Region
“Proposed Bulk Commodities Sale and Purchase Agreement”	the bulk commodities sale and purchase agreement entered into between the Company and Shandong Energy on 25 August 2023
“Proposed Entrusted Management Service Framework Agreement”	the entrusted management service framework agreement entered into between the Company and Shandong Energy on 25 August 2023
“Proposed Finance Lease Agreement”	the finance lease agreement entered into between the Company and Shandong Energy on 25 August 2023
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong

DEFINITIONS

“Shandong Energy”	Shandong Energy Group Company Limited* (山東能源集團有限公司), a state-controlled limited liability company which is ultimately owned as to 70%, 20%, and 10% by Shandong Provincial People’ Government State-owned Assets Supervision and Administration Commission* (山東省人民政府國有資產監督管理委員會), Shandong Guohui Investment Holding Group Co., Ltd.* (山東國惠投資控股集團有限公司) and Shandong Caixin Assets Operation Co., Ltd.* (山東省財欣資產運營有限公司), respectively; and the controlling shareholder of the Company holding directly and indirectly approximately 54.67% of the total issued share capital of the Company as at the Latest Practicable Date
“Shandong Energy Members”	Shandong Energy and its subsidiaries (excluding the Group), including their associates from time to time
“Shareholder(s)”	shareholder(s) of the Company
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Xinjiang Energy & Chemical”	Yankuang Xinjiang Energy & Chemical Co., Ltd.(兗礦新疆能化有限公司), a company established in the PRC, which is owned as to 49% by Shandong Energy through its wholly-owned subsidiary, and as to remaining 51% by the Company through acquisition. Upon completion of the acquisition, Xinjiang Energy & Chemical will become a connected subsidiary of the Company. For specific details of the acquisition, please refer to the announcement of the Company dated 28 April 2023
“Yancoal Australia”	Yancoal Australia Ltd. (ACN 111 859 119), an overseas subsidiary of the Company
“%”	per cent

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LETTER FROM THE BOARD



兗礦能源集團股份有限公司

YANKUANG ENERGY GROUP COMPANY LIMITED*

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

(Stock Code: 01171)

Directors:

Li Wei
Xiao Yaomeng
Liu Jian
Liu Qiang
Zhang Haijun
Su Li
Huang Xiaolong

Registered office:

949 South Fushan Road
Zoucheng
Shandong Province
PRC
Postal Code: 273500

Principal place of business in Hong Kong:

40th Floor, Sunlight Tower
248 Queen's Road East
Wanchai
Hong Kong

Independent non-executive Directors:

Peng Suping
Zhu Limin
Woo Kar Tung, Raymond
Zhu Rui

28 September 2023

To the Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAP UNDER EXISTING BULK COMMODITIES
SALE AND PURCHASE AGREEMENT; AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

I. INTRODUCTION

References are made to the announcement of the Company dated 25 August 2023 together with the notice of EGM of the Company dated 28 September 2023 which has been published at the same time this circular is sent to Shareholders in relation to, among others, (1) the revision of annual cap under Existing Bulk Commodities Sale and Purchase Agreement; and (2) renewal of continuing connected transactions.

The purpose of this circular is to provide you with further details relating to (1) the revision of annual cap under Existing Bulk Commodities Sale and Purchase Agreement; and (2) renewal of continuing connected transactions.

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In this circular, references to the Company and Shandong Energy in relation to the Existing Bulk Commodities Sale and Purchase Agreement, the Proposed Bulk Commodities Sale and Purchase Agreement, the Existing Finance Lease Agreement, the Proposed Finance Lease Agreement, the Existing Entrusted Management Service Framework Agreement and the Proposed Entrusted Management Service Framework Agreement and the transactions thereunder shall include, in the case of the Company, its subsidiaries, or, in the case of Shandong Energy, its subsidiaries (excluding the Group) and its associates.

II. REVISION OF ANNUAL CAP UNDER EXISTING BULK COMMODITIES SALE AND PURCHASE AGREEMENT

References are made to the announcement of the Company dated 9 December 2020 and the circular of the Company dated 13 January 2021 in relation to, among other things, the Existing Bulk Commodities Sale and Purchase Agreement entered into between the Company and Shandong Energy.

Under the Existing Bulk Commodities Sale and Purchase Agreement, the Company and Shandong Energy may, from time to time, sell or purchase coal, iron ores, rubber and other bulk commodities from each other, for a term of three years commencing from 1 January 2021 and expiring on 31 December 2023. Among them, the annual cap for the year ending 31 December 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy is RMB3,270 million. As the overseas subsidiaries of the Company intend to expand coal sales channels through the affiliated trading companies of Shandong Energy, the aggregate value of the continuing connected transactions contemplated under the Existing Bulk Commodities Sale and Purchase Agreement for the year ending 31 December 2023 is expected to be higher than as envisaged at the time of entering into of the Existing Bulk Commodities Sale and Purchase Agreement, and the existing annual cap for the year ending 31 December 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement will not be sufficient to meet the business needs of the Group. In view of the aforesaid, on 25 August 2023, the Board has resolved to revise the existing annual cap for 2023 relating to the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement, while the terms of the Existing Bulk Commodities Sale and Purchase Agreement shall remain unchanged and be in force and effect.

The existing annual caps, the historical amounts and the revised annual cap

The existing annual caps, the historical amounts and the revised annual cap in respect of the transactions under the Existing Bulk Commodities Sale and Purchase Agreement are as follows:

LETTER FROM THE BOARD

Category	For the year ended		For the year ended		From	For the year ending	
	31 December 2021		31 December 2022		1 January	31 December 2023	
	Annual cap (RMB'000)	Actual amount	Annual cap (RMB'000)	Actual amount	30 June 2023 Actual amount (RMB'000)	Existing annual cap (RMB'000)	Revised annual cap
Sales of bulk commodities from the Company to Shandong Energy	2,970,000	2,303,620	3,270,000	2,300,588	1,297,300	3,270,000	6,000,000
Sales of bulk commodities from Shandong Energy to the Company	500,000	296,280	2,000,000 (Revised) ⁽¹⁾	321,071	373,917	2,000,000 (Revised) ⁽¹⁾	2,000,000
Total	<u>3,470,000</u>	<u>2,599,900</u>	<u>5,270,000</u>	<u>2,621,659</u>	<u>1,671,217</u>	<u>5,270,000</u>	<u>8,000,000</u>

Note (1): For details of the revisions to the annual caps for year ended 31 December 2022 and for the year ending 31 December 2023 for the continuing connected transactions in respect of the sales of bulk commodities from Shandong Energy to the Company under the Existing Bulk Commodities Sale and Purchase Agreement, please refer to the announcement of the Company dated 29 April 2022 and the circular of the Company dated 10 June 2022.

In terms of the transactions under the Existing Bulk Commodities Sale and Purchase Agreement, the actual amount as at the Latest Practicable Date did not exceed the existing annual caps for the year 2023.

The revised annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy contemplated under the Existing Bulk Commodities Sale and Purchase Agreement is determined with reference to (i) the historical amounts in respect of the transactions under the Existing Bulk Commodities Sale and Purchase Agreement; (ii) the average price of the relevant bulk commodities in 2023; and (iii) the adjusted sales plan of an overseas subsidiary of the Company in 2023.

The historical amount in respect of sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement for the six months ended 30 June 2023 amounted to approximately RMB1.3 billion. According to the management accounts of the Company, the historical amount in respect of sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement for the eight months ended 31 August 2023 amounted to approximately RMB2.621 billion, representing approximately 200% of the historical amount for the six months ended 30 June 2023. Given the rapid increase of the historical amount in respect of sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk

LETTER FROM THE BOARD

Commodities Sale and Purchase Agreement from July to August 2023, the Company expects that existing annual cap for the year 2023 will be fully utilized in 2023 and will not satisfy the expected business demand of the Company.

The increase in expected business demand of the Company is mainly attributed to the adjusted sales plan for 2023 of Yancoal Australia, an overseas subsidiary of the Company. Shandong Energy Members started to increase coal procurement from Yancoal Australia since China opened up its coal import from Australia in the first half of 2023. Given that the zero tariffs policy on coal imports were extended to 31 December 2023 from 1 April 2023, Shandong Energy will significantly increase its coal procurement from Yancoal Australia in the second half of 2023 to satisfy the demands for steam coal from new customers of Shandong Energy Members. Pursuant to the adjusted plan of coal purchase from Yancoal Australia to Shandong Energy agreed between the Company and Shandong Energy, during the second half of 2023, coal sales from Yancoal Australia to Shandong Energy expect to be 2,700,000 tonnes with the expected average price of RMB 876 per tonne. In addition, the Company has reserved a buffer of approximately 5% to deal with any unforeseeable increase in unit price or sales of coal.

The above revised annual cap for 2023 is made on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group.

Reasons for and benefits of the revision of annual cap

The affiliated trading companies of Shandong Energy have the relevant qualifications for coal import business and downstream customer resources. Through the cooperation with the affiliated trading companies of Shandong Energy, the overseas subsidiary(ies) of the Company can further expand sales channels and increase sales scale, and capitalize on the difference in the price trend of domestic and foreign coal markets to improve profitability and avoid market risks. As the Company has a better understanding in the operation and reputation of Shandong Energy, the Company believes that the risk of trading with Shandong Energy Members is lower than trading with third parties. By selling bulk commodities to Shandong Energy Members, the Company could secure a long-term and stable revenue, which could reduce the operational risks of the entire trading business of the Group.

The Directors (including the independent non-executive Directors) consider that the revised annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy contemplated under the Existing Bulk Commodities Sale and Purchase Agreement is (i) on normal commercial terms and in the ordinary and usual course of business of the Group; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Implications under the Listing Rules

As at the Latest Practicable Date, Shandong Energy is a controlling Shareholder holding directly and indirectly approximately 54.67% of the issued share capital of the Company, and thus Shandong Energy constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Existing Bulk Commodities Sale and Purchase Agreement in 2023 constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

According to Rule 14A.54 of the Listing Rules, as the Company has proposed to revise the annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement, the Company is required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to continuing connected transaction. As the highest of the relevant percentage ratios relating to the revised annual cap for the sales of bulk commodities from the Company to Shandong Energy contemplated under the Existing Bulk Commodities Sale and Purchase Agreement exceeds 5% on an annual basis, the revised annual cap is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

References are made to the announcement of the Company dated 9 December 2020 and the circular of the Company dated 13 January 2021 in relation to, among other things, (i) the Existing Bulk Commodities Sale and Purchase Agreement and (ii) the Existing Finance Lease Agreement entered into between the Company and Shandong Energy. As the aforementioned agreements will expire on 31 December 2023 and the parties thereto expect that the continuing connected transactions contemplated thereunder will continue on an ongoing basis, on 25 August 2023, the Company and Shandong Energy entered into (1) the Proposed Bulk Commodities Sale and Purchase Agreement and (2) the Proposed Finance Lease Agreement to renew these continuing connected transactions.

1. Proposed Bulk Commodities Sale and Purchase Agreement

On 9 December 2020, the Company entered into the Existing Bulk Commodities Sale and Purchase Agreement with Shandong Energy for a term of three years commencing from 1 January 2021 and expiring on 31 December 2023. For details of the Existing Bulk Commodities Sale and Purchase Agreement, please refer to the announcement of the Company dated 9 December 2020 and the circular of the Company dated 13 January 2021.

Proposed Bulk Commodities Sale and Purchase Agreement

On 25 August 2023, the Company entered into the Proposed Bulk Commodities Sale and Purchase Agreement with Shandong Energy to renew the Existing Bulk Commodities Sale and Purchase Agreement on substantially the same terms.

LETTER FROM THE BOARD

Date

25 August 2023

Parties

- (1) the Company; and
- (2) Shandong Energy

Term

Two years commencing from 1 January 2024 and expiring on 31 December 2025.

Major terms

Under the Proposed Bulk Commodities Sale and Purchase Agreement, the Company and Shandong Energy may, from time to time, sell or purchase coal, iron ores, rubber and other bulk commodities from each other.

On or before 30 November each year, the requesting party may provide to the supplying party an annual assessment of the supplies that it requires from the other in the coming year and the parties shall agree on the annual plan for the coming year before 31 December each year. The parties may enter into specific contracts in accordance with the terms of the Proposed Bulk Commodities Sale and Purchase Agreement.

Payment

- (1) The payment of consideration of the Proposed Bulk Commodities Sale and Purchase Agreement can be settled on a one-off basis or by installment in accordance with paragraph (2) below.
- (2) Each party shall record all items payable to or from the other party in a calendar month in relation to the transactions under the Proposed Bulk Commodities Sale and Purchase Agreement in its accounts on or before the last Business Day of that calendar month. Save for the payments made for non-completed transactions or disputed payments, all payments incurred in a calendar month shall be settled in full by the responsible party within the next calendar month.

Pricing

The prices of coal, iron ores, rubber and other bulk commodities shall be determined according to the market price.

LETTER FROM THE BOARD

The market price shall be determined according to normal commercial terms based on the following:

- (1) The price offered by Independent Third Parties for provision of the same or similar type of bulk commodities in the same or similar area or in the vicinity under normal commercial terms in the ordinary course of business of such Independent Third Parties;
- (2) If the foregoing is not applicable, the price offered by Independent Third Parties in the PRC for provision of the same or similar type of bulk commodities under normal commercial terms in the ordinary course of business of such Independent Third Parties; and
- (3) If any national pricing policy becomes effective and applicable to any bulk commodities under the purchase and sale agreement at any time, the parties agree that the agreed purchase and sale price of such bulk commodities shall be subject to such national pricing policy.

To determine the market price, the sales department or purchase department of the Company and its designated personnel are mainly responsible for checking the prices offered by other Independent Third Parties generally through obtaining quotations from at least two Independent Third Parties via emails, fax or phone or tenders by publishing tender notice through various media resources, such as local newspapers. The sales department or purchase department of the Company will update the relevant information from time to time based on the procurement demand and continue to monitor the market price to ensure that each transaction is conducted in accordance with the pricing policy set out above.

Shandong Energy has undertaken that the price of such bulk commodities would not be higher than the price offered by Shandong Energy to any Independent Third Parties for the same type of bulk commodities under any circumstances.

In the event that the terms or conditions in respect of the supply or purchase of similar bulk commodities by any third party are better than those offered by Shandong Energy, or if the provision of such bulk commodities by Shandong Energy cannot meet the demand of the Company (including quantity and quality), the Company would be entitled to purchase any such bulk commodities from third parties.

Accordingly, the Directors believe that the above methods and procedures can ensure that the relevant continuing connected transactions will be conducted in accordance with the terms (including pricing policy) provided under the Proposed Bulk Commodities Sale and Purchase Agreement and such transactions will be conducted on normal commercial terms and in the interest of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

The historical amounts, proposed annual caps and reasons

Set out below are the historical annual amounts of the Existing Bulk Commodities Sale and Purchase Agreement for the two financial years ended 31 December 2022 and the six months ended 30 June 2023:

Category	For the year ended		For the year ended		For the	From 1
	31 December 2021		31 December 2022		year	January
	Annual	Actual	Annual	Actual	ending 31	2023 to 30
	cap	amount	cap	amount	December	June 2023
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	2023	June 2023
					Annual	Actual
					cap	amount
					(RMB'000)	(RMB'000)
Sales of bulk commodities from the Company to Shandong Energy	2,970,000	2,303,620	3,270,000	2,300,588	3,270,000 ⁽²⁾	1,297,300
Sales of bulk commodities from Shandong Energy to the Company	500,000	296,280	2,000,000 (Revised) ⁽¹⁾	321,071	2,000,000 (Revised) ⁽¹⁾	373,917
Total	<u>3,470,000</u>	<u>2,599,900</u>	<u>5,270,000</u>	<u>2,621,659</u>	<u>5,270,000</u>	<u>1,671,217</u>

Note (1): For details of the revisions to the annual caps for the year ended 31 December 2022 and for the year ending 31 December 2023 for the continuing connected transactions in respect of the sales of bulk commodities from Shandong Energy to the Company under the Existing Bulk Commodities Sale and Purchase Agreement, please refer to the announcement of the Company dated 29 April 2022 and the circular of the Company dated 10 June 2022.

Note (2): As disclosed above, the Company expects that the existing cap for the year 2023 will not be sufficient to meet the business needs of the Company, therefore the Board has resolved to revise the existing annual cap for the year 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement to increase to RMB6,000 million. The revision is subject to obtaining Independent Shareholders' approval at EGM.

Set out below are the proposed annual caps for each transaction category under the Proposed Bulk Commodities Sale and Purchase Agreement for each of the two financial years ending 31 December 2025:

LETTER FROM THE BOARD

Category	Annual cap for the year ending 31 December 2024 <i>(RMB'000)</i>	Annual cap for the year ending 31 December 2025 <i>(RMB'000)</i>
Sales of bulk commodities from the Company to Shandong Energy	8,000,000	8,000,000
Sales of bulk commodities from Shandong Energy to the Company	<u>2,800,000</u>	<u>2,800,000</u>
Total	<u>10,800,000</u>	<u>10,800,000</u>

In terms of the sales of bulk commodities from the Company to Shandong Energy, taking into account of (i) the average price of the relevant bulk commodities in 2023, (ii) the sales plan of the Group for selling coal, iron ores, rubber and other kinds of bulk commodities to Shandong Energy in 2023, and (iii) the increase in procurement demand of Shandong Energy and the intended business development plans of the Group in years 2024 to 2025, it is expected that the annual fees payable by Shandong Energy to the Company under the Proposed Bulk Commodities Sale and Purchase Agreement shall not exceed RMB8,000 million and RMB8,000 million for the two financial years ending 31 December 2024 and 2025, respectively.

In respect of the sales of bulk commodities from the Company to Shandong Energy, the proposed annual caps for FY2024 and FY2025 were determined with reference to (i) the coal and rubber demand of Shandong Energy; and (ii) the respective average unit price of coal and rubber. Specific details are as follows:

1. The Company expects that Shandong Energy will purchase approximately 9,596 kilotonnes of coal from the Group in each of the two fiscal years ending 31 December 2024 and 2025 at an average unit price of approximately RMB697 per tonne, and the amount to be received by the Group from Shandong Energy by the Group will be approximately RMB6,688.686 million per annum;
2. The Company expects that Shandong Energy will purchase approximately 39 kilotonnes of rubber from the Group in each of the two fiscal years ending 31 December 2024 and 2025 at an average unit price of approximately RMB13,505 per tonne, and the amount to be received by the Group from Shandong Energy will be approximately RMB519.995 million per annum; and
3. The Company has reserved a buffer of less than approximately 10% of the proposed annual cap (approximately RMB791.319 million) to deal with any unforeseeable increase in unit price or sales of bulk commodities.

LETTER FROM THE BOARD

In terms of the purchase of bulk commodities by the Company from Shandong Energy, taking into account of (i) the average price of the relevant bulk commodities in 2023; and (ii) the innovation of trade and logistics, the business development and the procurement plans of the Group for purchasing coal, iron ores, rubber and other kinds of bulk commodities from Shandong Energy, it is expected that the annual fees payable by the Company to Shandong Energy under the Proposed Bulk Commodities Sale and Purchase Agreement shall not exceed RMB2,800 million and RMB2,800 million for the two financial years ending 31 December 2024 and 2025, respectively.

In respect of the purchase of bulk commodities by the Company from Shandong Energy, the proposed annual caps for the two fiscal years ending 31 December 2024 and 2025 were determined with reference to (i) the demand for coal and non-ferrous metals of the Company; and (ii) the respective average unit price of coal and non-ferrous metals. Specific details are as follows:

1. For the two fiscal years ending 31 December 2024 and 2025, the Group plans to purchase approximately 2,237 kilotonnes of coal per annum from Shandong Energy at an average unit price of approximately RMB689 per tonne, and amount payable to Shandong Energy by the Group will be approximately RMB1,541.020 million per annum;
2. For the two fiscal years ending 31 December 2024 and 2025, the Group plans to purchase approximately 7 kilotonnes of non-ferrous metal per annum from Shandong Energy at an average unit price of approximately RMB141,000 per tonne, and the amount payable to Shandong Energy by the Group will be approximately RMB1,000 million per annum; and
3. The Company has reserved a buffer of less than approximately 10% of the proposed annual caps (approximately RMB258.98 million) to deal with any unforeseeable increase in unit price and sales of bulk commodities.

The Company refers to the average price of the relevant commodities in 2023 with reference to the quotations set out in several domestic information websites of bulk commodities, including but not limited to Zhuochuang Information (卓創資訊, <http://www.sci99.com/>) and Wind Information (Wind 資訊, <http://www.wind.com.cn/>), when estimating the annual caps for the purchase or sales of the bulk commodities, as this average price is the most recent average price which is available to the Company to provide an indication of the price trend for the next two years. Despite the fluctuation of the average price from time to time, the Company believes that the average price of the relevant bulk commodities for each of the financial year ending 31 December 2024 and 2025 would not significantly deviate from the average price in 2023. The average price of the relevant bulk commodities under the Proposed Bulk Commodities Sale and

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Purchase Agreement in the 2023 is (i) RMB690 per tonne for coal; (ii) RMB13,505 per tonne for the rubber; and (iii) RMB141,000 per tonne for the non-ferrous metals.

Reasons for and benefits of entering into the Proposed Bulk Commodities Sale and Purchase Agreement

As disclosed above, the entering into of the Proposed Bulk Commodities Sale and Purchase Agreement will help to alleviate the impact of cycle fluctuations on the business performance of the Company, enlarge the overall operating scale and improve the profitability of the Company. Furthermore, the Proposed Bulk Commodities Sale and Purchase Agreement will enable the Company and Shandong Energy to share the suppliers and customers in their respective resourcing and distribution channels which cover different areas, and thus bringing the advantages of both the Company and Shandong Energy in their resourcing and distribution channels into full play, thereby creating a synergistic effect that could expand the trading size, improve the sales volume and improve the revenue of both parties.

In addition, as the Company has a better understanding in the operation and reputation of Shandong Energy, the Company believes that the risk of trading with Shandong Energy is lower than trading with third parties. By purchasing bulk commodities from Shandong Energy, the Company could secure a long-term and stable source of supply. By selling bulk commodities to Shandong Energy, the Company could ensure the safety of the transactions, including payment recoveries. Collectively, this could reduce the operational risks of the entire trading business of the Company.

Under the Proposed Bulk Commodities Sale and Purchase Agreement, the coal, iron ores, rubber and other types of bulk commodities purchased by the Company from Shandong Energy are of different sources, batches, types or models from the coal, iron ores, rubber and other types of bulk commodities sold by the Company to Shandong Energy. No cross selling will be made under the Proposed Bulk Commodities Sale and Purchase Agreement.

Implications under the Listing Rules

As the highest of the relevant percentage ratios in respect of the transactions under the Proposed Bulk Commodities Sale and Purchase Agreement exceeds 5% on an annual basis, the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps thereunder are

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(i) on normal commercial terms or better and in the ordinary and usual course of business of the Group; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole.

2. Proposed Finance Lease Agreement

On 9 December 2020, the Company entered into the Existing Finance Lease Agreement with Shandong Energy, pursuant to which the Company has agreed to provide Finance Leasing Service to Shandong Energy Members during the period from 1 January 2021 to 31 December 2023. For details of the Existing Finance Lease Agreement, please refer to the announcement of the Company dated 9 December 2020 and the circular of the Company dated 13 January 2021.

Proposed Finance Lease Agreement

On 25 August 2023, the Company entered into the Proposed Finance Lease Agreement with Shandong Energy to renew the Existing Finance Lease Agreement on substantially the same terms.

Date

25 August 2023

Parties

- (1) the Company (as lessor); and
- (2) Shandong Energy (as lessee)

Term

Two years commencing from 1 January 2024 and expiring on 31 December 2025.

Main Arrangements of the Finance Leasing Service

Pursuant to the Proposed Finance Lease Agreement, the Company has agreed to provide Finance Leasing Service to Shandong Energy Members by way of direct finance leasing service and sale-leaseback service.

Under the direct finance leasing service, the Company (as lessor) will purchase the Leased Assets based on the demands and requirements of Shandong Energy Members (as lessee) from Independent Third-party suppliers, and will then lease the Leased Assets to Shandong Energy Members for their use in return for periodic lease payments. The ownership of the Leased Assets will be solely vested in the Company during the lease period. Shandong Energy Members could choose

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to purchase the Leased Assets after expiry of the lease or upon the consent of the Company prior to the expiry of the lease, subject to compliance with the then relevant requirements under the Listing Rules.

Under the sale-leaseback service, Shandong Energy Members (as lessee) will sell the Leased Assets to the Company (as lessor) at a negotiated purchase price with reference to the book value, the appraisal value, and/or the original acquisition costs of the Leased Assets, and the Company and/or its subsidiary will then lease the Leased Assets back to Shandong Energy Members for their use in return for periodic lease payments. The ownership of the Leased Assets will be solely vested in the Company during the lease period. Shandong Energy Members could choose to purchase the Leased Assets after expiry of the lease or upon the consent of the Company prior to the expiry of the lease, subject to compliance with the then relevant requirements under the Listing Rules.

The Company intends to pay the purchase price for the Leased Assets by way of its internal funds and financing funds.

The principal amount of each Finance Leasing Service will be equal to the respective purchase price of the Leased Assets. The principal and interest with respect to the provision of Finance Leasing Service will be paid by Shandong Energy Members according to the equal-principal or average-capital-plus-interests standard on a quarterly basis.

The Company will also charge commission fees or consulting fees with respect to the provision of Finance Leasing Service. Such commission fees or consulting fees will be paid by Shandong Energy or its Members to the Company upon or prior to the Company's payment of the purchase price of the Leased Assets.

Separate Individual Agreement(s)

With respect to the provision of each Finance Leasing Service, the Company and Shandong Energy Members will enter into separate Individual Agreement(s) pursuant to the Proposed Finance Lease Agreement and the transactions contemplated thereunder shall be conducted on normal commercial terms or better and no less favourable to the Company than the same offered by Shandong Energy Members to Independent Third Parties for receiving comparable finance leasing service. The term of the Individual Agreement(s) may exceed the term of the Proposed Finance Lease Agreement subject to the domestic and overseas approval procedures for connected transactions.

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Interests and fees

The interest rate and relevant fees to be agreed for the Finance Leasing Service shall be fair and reasonable and on normal commercial terms or better. In particular, when determining the effective interest rate, the Company shall make reference to the following non-exhaustive factors:

- (1) not lower than 5% above the lending rates published by the National Interbank Funding Center at the same period, and the highest interest rate will not exceed 7.5%;
- (2) the financing costs of the Company;
- (3) the quotations for similar finance leasing services offered by the Company to Independent Third Parties;
- (4) the risk premium of Shandong Energy Members; and
- (5) all other relevant fees, including the annual commission fees and consulting fees not higher than 1% of the principal of the relevant finance lease agreement.

The Company will consider the above factors and ensure that the overall terms and conditions for providing the Finance Leasing Service, including the effective interest rates and fees as well as payment conditions and other material terms, are no less favourable to the Company than the same offered by Shandong Energy Members to Independent Third Parties for receiving comparable finance leasing service.

Leased Assets

The Leased Assets include, among others, mechanical equipment, facilities and other movable and immovable properties.

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The historical amounts, proposed annual caps and reasons

Set out below are the historical annual amounts of the Existing Finance Lease Agreement for the two financial years ended 31 December 2022 and the six months ended 30 June 2023:

Category	For the year ended		For the year ended		For the	From 1
	31 December 2021		31 December 2022		year	January
	Annual cap	Actual amount	Annual cap	Actual amount	ending 31 December 2023	2023 to 30 June 2023
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	Annual cap	Actual amount
					(RMB'000)	(RMB'000)
Maximum transaction amount ¹	6,510,000	0	7,595,000	0	8,680,000	271
Maximum interest and fees payment ²	<u>510,000</u>	<u>0</u>	<u>595,000</u>	<u>0</u>	<u>680,000</u>	<u>15</u>
Total	<u>7,020,000</u>	<u>0</u>	<u>8,190,000</u>	<u>0</u>	<u>9,360,000</u>	<u>286</u>

Note 1 i.e., the aggregate outstanding daily balance of the principal amount together with the interests, commission fees and the consulting fees

Note 2 i.e., the aggregate balance of the interests, commission fees and the consulting fees

Set out below are the proposed annual caps under the Proposed Finance Lease Agreement for each of the two financial years ending 31 December 2025.

Category	Annual cap	Annual cap
	for the year ending 31 December 2024	for the year ending 31 December 2025
	(RMB'000)	(RMB'000)
Maximum transaction amount ³	1,000,000	2,000,000
Maximum interest and fees payment ⁴	<u>85,000</u>	<u>170,000</u>
Total	<u>1,085,000</u>	<u>2,170,000</u>

Note 3 i.e., the proposed annual cap for the aggregate outstanding daily balance of the principal amount together with the interests, commission fees and the consulting fees

Note 4 i.e., the proposed annual cap for the aggregate balance of the interests, commission fees and the consulting fees

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The proposed annual caps were calculated by reference to (i) needs for new equipment and the construction plans for new projects of Shandong Energy Members; (ii) the financing amount required for possible projects with potential cooperation with the Group; and (iii) the estimated the loan prime rate for RMB loans and service fee rates from 2023 to 2025. It is expected that the annual caps for 2024 and 2025 will not exceed RMB1,085 million and RMB2,170 million, respectively.

As shown in the table set out in the section headed “2. Proposed Finance Lease Agreement – The historical amounts, proposed annual caps and reasons” of this circular, utilization rate of the existing annual caps under the Existing Finance Lease Agreement was low and the Existing Finance Lease Agreement was not fully utilized. It was mainly attributable to the fact that the financing plan of Shandong Energy and its Members on which the existing annual caps under the Existing Finance Lease Agreement were determined has changed, and therefore the amount payable by Shandong Energy to the Group for the provision of Finance Leasing Service failed to reach the level as expected at the time when the existing annual caps were projected. Finance Leasing Service is mainly market-driven. The transaction volume and total transaction amount of continuing connected transactions with respect to the provision of Finance Leasing Service by the Group to Shandong Energy Members varies depending on a number of external factors which are beyond the control of the Group, such as the change in financing needs of Shandong Energy Members due to postponement or cancellation of certain projects or Shandong Energy Members obtaining better terms from Independent Third Party(ies), etc. As such, it would be unreasonable for the Company to refrain from entering into the Proposed Finance Lease Agreement or scale down the proposed annual caps solely by virtue of low utilization rates.

The proposed annual caps for 2024 and 2025 under the Proposed Finance Lease Agreement were determined after having considered the following factors:

- (1) Luxi Mining and Xinjiang Energy & Chemical will become the connected subsidiaries of the Company after the completion of the Company’s acquisition of Luxi Mining and Xinjiang Energy & Chemical in the second half of 2023. It is a usual practice of the Company to purchase large-scale equipment through finance leases. The purchase of large-scale equipment by Luxi Mining and Xinjiang Energy & Chemical through the purchase of Finance Leasing Service from other subsidiaries of the Company will become connected transactions of the Company;
- (2) According to the Company’s statistics, from 1 January 2023 to the Latest Practicable Date, the equipment procurement amount declared by Luxi Mining and Xinjiang Energy & Chemical to Shandong Energy exceeded RMB 1 billion. As such, the Company expects the equipment

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procurement amount of Luxi Mining and Xinjiang Energy & Chemical in 2024 and 2025 would remain at RMB 1 billion, largely unchanged from that of 2023, respectively;

- (3) The maximum daily outstanding principal amount under the Proposed Finance Lease Agreement in 2024 is expected to be approximately RMB1 billion with an annual interest not to exceed RMB75 million (calculated based on the pricing policy of a minimum lease interest rate of 5% above the LPR for the same period and a maximum lease interest rate of 7.5%) and commission fee not to exceed RMB10 million (i.e. 1% of the principal amount), totaling approximately RMB1.085 billion; and
- (4) Since the term of finance lease business is generally more than one year, the outstanding principal in 2023 and 2024 will be rolled over into the 2025 repayable principal amount. Accordingly, the maximum daily outstanding principal amount under the Proposed Finance Lease Agreement in 2025 is expected to be approximately RMB 2 billion with the annual interest not to exceed RMB150 million (calculated based on the pricing policy of a minimum lease interest rate of 5% above the LPR for the same period and a maximum lease interest rate of 7.5%) and the commission fee not to exceed RMB20 million (i.e. 1% of maximum principal amount), totaling approximately RMB2.170 billion.

Having considered the above factors, the Board of the Company considers that the proposed annual caps for 2024 and 2025 under the Proposed Finance Lease Agreement are in line with the Company's business needs and are fair and reasonable.

Reasons for and benefits of entering into the Proposed Finance Lease Agreement

By the provision of the Finance Leasing Service to Shandong Energy Members, the subsidiaries of the Company engaging in financial leasing business will centralize procurement of equipment and financing to improve the Group's bargaining advantage over equipment procurement and credit financing and to improve the profitability and competitiveness of the Group. Meanwhile, the provision of asset leasing services to Shandong Energy on normal commercial terms will enable the Group to effectively control the risks of its financial leasing business, and the interest payment generated from the Finance Leasing Service (after deducting the financing costs) will enable the Group to obtain a stable cash inflow.

Implications under the Listing Rules

As the highest of the relevant percentage ratios in respect of the transactions under the Proposed Finance Lease Agreement exceeds 0.1% but is less than 5% on an annual basis, the Proposed Finance Lease Agreement, the transactions

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contemplated thereunder and the proposed annual caps thereunder are subject to reporting and announcement requirements but are exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the Finance Lease Agreement, the transactions contemplated thereunder and the proposed annual caps thereunder are (i) on normal commercial terms or better and in the ordinary and usual course of business of the Group; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole.

3. Proposed Entrusted Management Service Framework Agreement

On 27 January 2022, the Company entered into the Existing Entrusted Management Service Framework Agreement with Shandong Energy for a term of three years commencing from 1 January 2022 and expiring on 31 December 2024. As the highest of the relevant percentage ratios in respect of the annual caps for the three years ending 31 December 2024 under the Existing Entrusted Management Service Framework Agreement is less than 0.1% on an annual basis both at the time of entering into of the Existing Entrusted Management Service Framework Agreement and as at 25 August 2023, the Existing Entrusted Management Service Framework Agreement, the transactions conducted and contemplated thereunder and the annual caps thereunder are exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Considering that the Company intends to align the expiry date of all continuing connected transactions to end on 31 December 2025 to facilitate the unified management of continuing connected transactions between the Company and its connected persons, the Company entered into the Proposed Entrusted Management Service Framework Agreement with Shandong Energy on substantially the same terms on 25 August 2023, for a term of one year expiring on 31 December 2025.

Set out below are the major terms of the Existing Entrusted Management Service Framework Agreement:

Existing Entrusted Management Service Framework Agreement

Date

27 January 2022

Parties

- (1) the Company; and
- (2) Shandong Energy

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Term

Three years commencing from 1 January 2022 and expiring on 31 December 2024.

Major terms

Pursuant to the Existing Entrusted Management Service Framework Agreement, the Company will provide management services to Shandong Energy in relation to the Target Assets (including assets or equity interests) entrusted by it from time to time. The service scope includes but is not limited to, strategic management, industrial development, major safety technology management, management of related production and operation, and product sales, as well as undertaking the regulatory responsibility for major safety and environmental protection issues of Target Assets as required by laws.

The parties shall determine the specific scope of Target Assets for entrusted management, the authorization relating to the management of specific assets and entrusted management fees through separate negotiation, which shall be clarified in entrusted management implementation agreements and may be adjusted under the framework of the Existing Entrusted Management Service Framework Agreement through negotiation.

During the period of entrusted management, the ownership of Target Assets remains unchanged, the ownership of and revenue from Target Assets shall be vested to Shandong Energy, and Shandong Energy is entitled to participate in the decision-making on the overall design, planning and coordinated development of Target Assets.

During the period of entrusted management, the Target Assets will not be consolidated into the financial statements of the Company. The Company will be entitled to the entrusted management fee in relation to the management services provided during the period of entrusted management.

Pricing

During the term of the Existing Entrusted Management Service Framework Agreement, the accumulated entrusted management fee to be received by the Company from Shandong Energy in relation to the Target Assets shall not exceed RMB60 million.

The specific entrusted management fee for Target Assets will be determined according to the status of Target Assets, the Company's expenses arising from entrusted management and the profitability of Target Assets.

If any national pricing policy becomes effective and applicable to any agreed entrusted management issues, the specific entrusted management fee for Target Assets is subject to such national pricing. "National pricing" means the price of

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entrusted management provided by the laws, regulations, decisions, orders or pricing policies issued by competent governmental authorities of the PRC (as the case may be).

Payment

The entrusted management fee shall be paid on an annual basis, and the details shall be determined by the parties according to the conditions of Target Assets through separate negotiation.

Set out below are the major terms of the Proposed Entrusted Management Service Framework Agreement:

Proposed Entrusted Management Service Framework Agreement

On 25 August 2023, the Company entered into the Proposed Entrusted Management Service Framework Agreement with Shandong Energy.

Date

25 August 2023

Parties

- (1) the Company; and
- (2) Shandong Energy

Term

One year commencing from 1 January 2025 and expiring on 31 December 2025.

Major terms

Pursuant to the Proposed Entrusted Management Service Framework Agreement, the Company will provide management services to Shandong Energy in relation to the Target Assets. The service scope includes but is not limited to, strategic management, industrial development, major safety technology management, management of related production and operation, and product sales, as well as undertaking the regulatory responsibility for major safety and environmental protection issues of Target Assets as required by laws.

The parties will determine the specific scope of Target Assets for entrusted management, the authorization relating to the management of specific assets and entrusted management fees through separate negotiation, which shall be clarified

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in an entrusted management implementation agreement and may be adjusted under the framework of the Proposed Entrusted Management Service Framework Agreement through negotiation.

During the period of entrusted management, the ownership of Target Assets remains unchanged, the ownership of and revenue from Target Assets shall be vested to Shandong Energy, and Shandong Energy is entitled to participate in the decision-making on the overall design, planning and coordinated development of Target Assets.

During the period of entrusted management, the Target Assets will not be consolidated into the financial statements of the Company. The Company will be entitled to the entrusted management fee in relation to the management services provided during the period of entrusted management.

Pricing

During the term of the Proposed Entrusted Management Service Framework Agreement, the accumulated entrusted management fee received by the Company from Shandong Energy in relation to the Target Assets shall not exceed RMB60 million.

The specific entrusted management fee for Target Assets will be determined according to the status of Target Assets, the Company's expenses arising from entrusted management and the profitability of Target Assets.

If any national pricing policy becomes effective and applicable to any agreed entrusted management issues, the specific entrusted management fee for Target Assets is subject to such national pricing. "National pricing" means the price of entrusted management provided by the laws, regulations, decisions, orders or pricing policies issued by competent governmental authorities of the PRC (as the case may be).

Payment

The entrusted management fee shall be paid on an annual basis, and the details shall be determined by the parties according to the conditions of Target Assets through separate negotiation.

The historical amounts, proposed annual caps and reasons

The historical annual amounts of the entrusted management fees under the Existing Entrusted Management Service Framework Agreement for the financial year ended 31 December 2022 and the six months ended 30 June 2023 are RMB4.303 million and RMB2.151 million, respectively. The annual caps for the three financial years ending 31 December 2024 under the Existing Entrusted Management Service Framework Agreement are RMB60 million. The Company

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expects that the transaction amount of the continuing connected transactions in 2023 and 2024 under the Existing Entrusted Management Service Framework Agreement will not exceed the approved existing annual cap for each year.

The low utilization rate of the existing annual cap for the financial year ended 31 December 2022 and the six months ended 30 June 2023 is attributable to the fact that (i) the progress in entrusting certain assets by Shandong Energy to the Group for management in an effort to avoid competition and increase management efficiency has been slower than expected when the existing annual caps were determined; (ii) due to the reason stated in (i), as of the Latest Practicable Date, the underlying assets entrusted by Shandong Energy for management by the Group consists solely of Shandong Energy's electricity assets in Australia and Jining, Shandong province with an aggregate asset size significantly lower than expected when the existing annual caps were determined.

Notwithstanding the low utilization rate of the existing annual caps for 2022 and the first half of 2023, taking into account that (i) the entrustment of the existing entrusted assets will continue to be managed by the Group in the future, and (ii) after the completion of the acquisitions of Luxi Mining and Xinjiang Energy & Chemical by the Company in the second half of 2023, additional 13 subsidiaries of Shandong Energy which were previously managed by Luxi Mining and Xinjiang Energy & Chemical will be included in the scope of the underlying assets to be entrusted by Shandong Energy and the entrusted management fees payable by Shandong Energy to the Group will be substantially increased. Accordingly, the Board considers that it is appropriate to set the proposed annual cap for the entrusted management fee for the financial year ending 31 December 2025 at RMB60 million.

Reasons for and benefits of entering into the Proposed Entrusted Management Service Framework Agreement

By conducting the transactions under the Proposed Entrusted Management Service Framework Agreement, the Company will be able to bring its advantages in resources and professional management in relevant industries into full play, avoid competition with Target Assets in relevant industries, promote the resource sharing and synergy between the Company and Shandong Energy, tap into the scale advantages, enhance the market competitiveness of the Group in relevant industries, and further improve the economic benefits of the Company.

Implications under the Listing Rules

As the highest of the relevant percentage ratios in respect of the transactions under the Existing Entrusted Management Service Framework Agreement or the Proposed Entrusted Management Service Framework Agreement is less than 0.1%, the Existing Entrusted Management Service Framework Agreement or the Proposed Entrusted Management Service Framework Agreement and the

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transactions contemplated thereunder are exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

According to the applicable PRC regulations, the Company will submit the resolution relating to, among others, the Proposed Entrusted Management Service Framework Agreement and the transactions contemplated thereunder for the Independent Shareholders' approval at the EGM.

The Directors (including the independent non-executive Directors) consider that the Proposed Entrusted Management Service Framework Agreement, the transactions contemplated thereunder and the proposed annual cap thereunder are (i) on normal commercial terms or better and in the ordinary and usual course of business of the Group; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole.

IV. INTERNAL CONTROL MEASURES

In order to safeguard the interest of the Company and Shareholders as a whole, the Company has adopted the following internal control measures to regulate transactions between the Group and Shandong Energy and its members:

1. In respect of transactions under the Existing Bulk Commodities Sale and Purchase Agreement and the Proposed Bulk Commodities Sale and Purchase Agreement, the Group's sales department or purchasing department shall ensure that the terms of all sales or purchase orders are in compliance with the relevant framework agreements and the relevant departments and personnel shall be satisfied that: (i) all sales or purchase orders have been properly reviewed and approved; (ii) market prices have been applied to all sales or purchase orders (please refer to page 12 of this circular for the procedures for determining market prices); and (iii) each of the relevant transactions is on normal commercial terms;
2. In respect of the provision of Finance Leasing Service by the Group to Shandong Energy, the commercial bank credit market has generally adopted the LPR-based pricing method, and the pricing model of the finance lease industry has also fully converged to the LPR-based pricing method these days. The interest rates under the Individual Agreements entered into between the Company and Shandong Energy are not lower than 5% above the lending rates published by the National Interbank Funding Center at the same period, and the Company also makes reference to the interest rates of other financial institutions that provide credit to Shandong Energy before providing finance lease services to Shandong Energy and its members, in order to ensure that the relevant interest rates are in line with normal commercial terms and are no less favourable to the Company than the same offered by Shandong Energy Members to Independent Third Parties for receiving comparable finance leasing service.

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3. In addition, before the Company's subsidiaries enter into a specific implementation agreement, they are required to go through an application procedure in accordance with the Company's internal management system, whereby the necessity, reasonableness, fairness and compliance of the transaction will be reviewed by the relevant departments responsible for compliance under the listing rules, financial management, audit and risk;
4. the Company's finance management department will compile statistics on the amounts of the continuing connected transactions on a quarterly basis in order to identify any transactions that may be at risk of exceeding the annual cap; and
5. The auditor and the independent non-executive Directors of the Company will conduct an annual review of the continuing connected transactions and will confirm in the Company's annual report that the transactions have been entered into in accordance with the terms and conditions of the relevant framework agreements and the pricing policies contemplated thereunder, which are on normal commercial terms or on terms no less favorable than those offered by the Independent Third Party(ies) and are in the interests of the Company and its shareholders as a whole.

V. INFORMATION OF THE PARTIES

The Company

The Company is principally engaged in the business of mining, high-end chemical new materials, new energy, and high-end equipment manufacturing and smart logistics. The Company's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production, prime quality low Sulphur coal for use in pulverized coal injection, and chemical products such as methanol and acetic acid, etc.

Shandong Energy

Shandong Energy is a state-controlled limited liability company, 90% equity interest of which is held directly and indirectly by the State-owned Assets Supervision and Administration Commission of Shandong Province, and the rest 10% equity interest of which is indirectly held by the Department of Finance of Shandong Province. As at the Latest Practicable Date, its registered capital is RMB30.2 billion and its legal representative is Li Wei. The principal business of Shandong Energy includes coal, thermal power generation, coal chemicals, high-end equipment manufacturing, new energy and materials, and modern trade and logistics. As at the Latest Practicable Date, Shandong Energy is the controlling Shareholder, holding directly and indirectly approximately 54.67% of the issued share capital of the Company, and is hence a connected person of the Company.

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VI. GENERAL INFORMATION

On 25 August 2023, the second meeting of the ninth session of the Board considered and approved (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the Proposed Finance Lease Agreement and the Proposed Entrusted Management Service Framework Agreement, the transactions and the respective proposed annual caps contemplated thereunder.

As Mr. Li Wei, Mr. Liu Jian, Mr. Liu Qiang and Mr. Zhang Haijun, all being the directors of the Company, are regarded as having material interests in the transactions contemplated under the transactions, they have abstained from voting on the relevant resolutions of the Board for approving (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the Proposed Finance Lease Agreement and the Proposed Entrusted Management Service Framework Agreement, the transactions and the respective proposed annual caps thereunder. Save as disclosed above, none of the other Directors has a material interest in such transactions.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to (i) the revision of the annual cap for 2023 relating to the sales of bulk commodities from the Company to Shandong Energy contemplated under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025.

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the revision of the annual cap for 2023 relating to the sales of bulk commodities from the Company to Shandong Energy contemplated under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025.

According to the applicable PRC regulations, the Company will submit the resolution relating to the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement, and each resolutions relating to the Proposed Bulk Commodities Sale and Purchase Agreement, the Proposed Finance Lease Agreement and the Proposed Entrusted Management Service Framework Agreement, the transactions and the respective proposed annual caps thereunder for the Independent Shareholders' approval at the EGM. The resolution regarding each of the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase, and the Proposed Bulk Commodities Sale and Purchase

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Agreement, the Proposed Finance Lease Agreement and the Proposed Entrusted Management Service Framework Agreement and the respective proposed annual caps thereunder are not mutually conditional.

VII. EGM

The notice convening the EGM was published on 28 September 2023, i.e. the same time this circular is sent to the Shareholders.

The following resolutions, among others, will be proposed to the Shareholders at the EGM:

As ordinary resolutions:

To consider and approve each of the following ordinary resolutions:

- (1) “**THAT**, to consider and approve the revised annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy contemplated under the Existing Bulk Commodities Sale and Purchase Agreement”;
- (2) “**THAT**, to consider and approve the entering into of the Proposed Bulk Commodities Sale and Purchase Agreement by the Company with Shandong Energy for a term of two years, the continuing connected transactions contemplated thereunder and the proposed annual caps for 2024 and 2025 in relation thereto”;
- (3) “**THAT**, to consider and approve the entering into of the Proposed Finance Lease Agreement by the Company with Shandong Energy for a term of two years, the continuing connected transactions contemplated thereunder and the proposed annual caps for 2024 and 2025 in relation thereto”; and
- (4) “**THAT**, to consider and approve the entering into of the Proposed Entrusted Management Service Framework Agreement by the Company with Shandong Energy for a term of one year, the continuing connected transactions contemplated thereunder and the proposed annual cap for 2025 in relation thereto”.

Whether or not you are able to attend the meeting in person, you are strongly advised to complete and sign the form of proxy in accordance with the instructions printed thereon. For holders of H Shares of the Company, the proxy form shall be lodged with the Company’s H Share Registrar, Hong Kong Registrars Limited at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. For holders of A Shares of the Company, the proxy form shall be lodged at the Office of the Secretary to the Board at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the above meeting or any adjourned meeting should you so wish.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Shandong Energy is a controlling Shareholder of the Company holding directly and indirectly approximately 54.67% of the issued share capital of the Company. Shandong Energy and its associates will abstain from voting at the EGM on the ordinary resolutions approving (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the Proposed Finance Lease Agreement and the Proposed Entrusted Management Service Framework Agreement, the transactions and the respective proposed annual caps thereunder, which will be taken by poll as required under the Listing Rules. As at the Latest Practicable Date, so far as the Directors are aware, other than the aforesaid, there is no other associate of Shandong Energy that holds shares of the Company and therefore is required to abstain from voting on the aforesaid ordinary resolutions at the EGM.

As at the Latest Practicable Date, Shandong Energy pledged its 171,415,778 A Shares to CITIC Securities Co., Ltd. to provide guarantee for the exchangeable corporate bonds issued by Shandong Energy. Save as disclosed above, to the extent that the Company is aware and having made all reasonable enquiries, as at the Latest Practicable Date:

- (i) there was no voting trust or other agreement or arrangement or understanding entered into by or binding upon Shandong Energy or its associates, whereby they had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of their Shares in the Company to a third party, whether generally or on a case-by-case basis;
- (ii) Shandong Energy and its associates were not subject to any obligation or entitlement whereby they had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares in the Company to a third party, whether generally or on a case-by-case basis; and
- (iii) it was not expected that there would be any discrepancy between the beneficial shareholding interest of Shandong Energy or its associates in the Company and the number of Shares in the Company in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

VIII. CLOSURE OF H SHARE REGISTER OF MEMBERS OF THE COMPANY

The H Share register of members of the Company will be closed from Thursday, 19 October 2023 to Friday, 27 October 2023, both days inclusive, during which period no transfer of the Company's H Shares will be registered. In order to attend EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share Registrar, Hong Kong Registrars Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 18 October 2023 for registration. H Shareholders whose names appear on the H Share register of members of the Company maintained by Hong Kong Registrars Limited at the close of business on Wednesday, 18 October 2023 will be eligible to attend the EGM.

LETTER FROM THE BOARD

IX. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 34 to 35 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser set out on pages 36 to 53 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders.

The Directors (including members of the Independent Board Committee after receiving the advice from the Independent Financial Adviser) consider that (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the Proposed Finance Lease Agreement and the Proposed Entrusted Management Service Framework Agreement, the transactions and the respective proposed annual caps thereunder are (a) on normal commercial terms in the ordinary and usual course of business of the Group; (b) fair and reasonable; and (c) in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Independent Shareholders to vote in favour of the aforesaid resolutions at the EGM.

X. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix to this circular.

By order of the Board
Yankuang Energy Group Company Limited*
Li Wei
Chairman of the Board

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



兗礦能源集團股份有限公司

YANKUANG ENERGY GROUP COMPANY LIMITED*

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

(Stock Code: 01171)

Registered office:

949 South Fushan Road

Zoucheng

Shandong Province

PRC

Postal Code: 273500

Principal place of business in Hong Kong:

40th Floor, Sunlight Tower

248 Queen's Road East

Wanchai

Hong Kong

28 September 2023

To Independent Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAP UNDER EXISTING BULK COMMODITIES
SALE AND PURCHASE AGREEMENT; AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 28 September 2023 (“**Circular**”), of which this letter forms part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires. We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025 are fair and reasonable in so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Donvex Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025. The letter from Donvex Capital, which contains its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 36 to 53 of this Circular.

Your attention is also drawn to the “Letter from the Board” set out on pages 6 to 33 of this Circular and the additional information set out in Appendix to this Circular. Having taken into account the proposed (i) revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025, and having considered the interests of the Independent Shareholders and the advice from Donvex Capital, we consider that (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025 are (a) on normal commercial terms in the ordinary and usual course of business of the Group; (b) fair and reasonable; and (c) in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions to approve (i) the revision of annual cap for 2023 in respect of the sales of bulk commodities from the Company to Shandong Energy under the Existing Bulk Commodities Sale and Purchase Agreement; and (ii) the Proposed Bulk Commodities Sale and Purchase Agreement, the transactions and the proposed annual caps thereunder for the two years ending 31 December 2024 and 2025.

Yours faithfully,

Yankuang Energy Group Company Limited*

Peng Suping, Zhu Limin

Woo Kar Tung, Raymond, Zhu Rui

Independent Board Committee

LETTER FROM DONVEX CAPITAL

The following is the full text of the letter of advice from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 2502, 25/F
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

28 September 2023

*The Independent Board Committee and the Independent Shareholders of
Yankuang Energy Group Company Limited**

Dear Sir/Madam,

REVISION AND RENEWAL OF ANNUAL CAP FOR THE CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to:

- (i) the revision of the existing annual cap under the Existing Bulk Commodities Sale and Purchase Agreement (the "**Existing Annual Cap**") for the year ending 31 December 2023 ("**FY2023**"); and
- (ii) the proposed annual caps for the sales and purchase of coal, iron ores, rubber and other bulk commodities between the Company and Shandong Energy under the Proposed Bulk Commodities Sale and Purchase Agreement for the year ending 31 December 2024 and 2025 (the "**Proposed Annual Caps**").

Details of the revision of the Existing Annual Cap and the determination of the Proposed Annual Caps (collectively, the "**Mutual Provision of Bulk Commodities**") are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 28 September 2023 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

* For identification purpose only

LETTER FROM DONVEX CAPITAL

As disclosed in the Letter from the Board, on 25 August 2023:

- (i) the Board resolved to revise the Existing Annual Cap; and
- (ii) the Company entered into the Proposed Bulk Commodities Sale and Purchase Agreement with Shandong Energy, pursuant to which the Company and Shandong Energy may, from time to time, sell or purchase coal, iron ores, rubber and other bulk commodities from each other for the two years ending 31 December 2025.

As at the Latest Practicable Date, Shandong Energy is a controlling shareholder of the Company holding, directly and indirectly, approximately 54.67% of the issued share capital of the Company. As such, Shandong Energy constitutes a connected person of the Company under the Listing Rules. Therefore, the Mutual Provision of Bulk Commodities constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

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

As the highest of the applicable percentage ratio in respect of the revised Existing Annual Cap under the Existing Bulk Commodities Sale and Purchase Agreement (the “**Revised Annual Cap**”) for FY2023 is higher than 5% on an annual basis, the Revised Annual Cap is subject to reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratio in respect of the Proposed Annual Caps is more than 5% on an annual basis, the Proposed Annual Caps are subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions will be passed by way of poll at the EGM. Any Shareholder with a material interest in the Mutual Provision of Bulk Commodities and his close associates will abstain from voting on the ordinary resolutions for approving the Mutual Provision of Bulk Commodities at the EGM. As Shandong Energy is a controlling shareholder of the Company, Shandong Energy and its associates will abstain from voting at the EGM on the ordinary resolution(s) for the purpose of approving the Mutual Provision of Bulk Commodities. As at the Latest Practicable Date, so far as the Directors are aware, other than the aforesaid, no other associate of Shandong Energy holds shares of the Company and therefore is required to abstain from voting on such ordinary resolution(s).

LETTER FROM DONVEX CAPITAL

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Peng Suping, Zhu Limin, Woo Kar Tung, Raymond, and Zhu Rui, has been established to advise the Independent Shareholders as to (i) whether the Revised Annual Cap is fair and reasonable and in the interest of the Company and the Shareholders as a whole; (ii) whether the terms of the Proposed Bulk Commodities Sale and Purchase Agreement are in the ordinary and usual course of business, on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; (iii) whether the Proposed Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Mutual Provision of Bulk Commodities, the Revised Annual Cap and the Proposed Annual Caps. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

We did not act as financial adviser to the Group and its respective connected persons in the past two years immediately preceding the Latest Practicable Date.

In the past two years immediately preceding the Latest Practicable Date, we have acted as the independent financial adviser to independent board committee and independent shareholders of the Company for:

- (i) the connected transaction in relation to the grant of restricted A Shares to the connected participants under the incentive scheme, details of which are set out in the circular of the Company dated 12 January 2022;
- (ii) the discloseable and continuing connected transaction in relation to the provision of financial services to Shandong Energy dated 29 April 2022, and the revision of annual caps for the provision of products, materials, and asset leasing to Shandong Energy for each of the year ended 31 December 2022 (“FY2022”) and FY2023, details of which are set out in the circular of the Company dated 10 June 2022;
- (iii) the discloseable and connected transaction in relation to the absorption and merger between Yankuang Group Finance Co., Ltd.* (兗礦集團財務有限公司) (“**Yankuang Finance Company**”) and Shandong Energy Group Finance Co., Ltd.* (山東能源集團財務有限公司) (“**Shandong Energy Finance Company**”), the major and continuing connected transaction in relation to the provision of comprehensive credit facility services from Shandong Energy Finance Company to Shandong Energy, and the discloseable and connected transaction in relation to the provision of deposit services from Shandong Energy Finance Company to the Company, details of which are set out in the circular of the Company dated 12 October 2022; and

LETTER FROM DONVEX CAPITAL

- (iv) the discloseable and connected transaction in relation to the acquisition of 51% equity interest in Luxi Mining and Xinjiang Energy & Chemical, and the continuing connected transactions in relation to the provision of products, materials and asset leasing under the proposed provision of products, materials and asset leasing agreement dated 28 April 2023, details of which are set out in the circular of the Company dated 9 June 2023 (collectively, the “**Previous Engagements**”).

Under the Previous Engagements, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders of the Company in relation to (i) the grant of restricted A Shares to the connected participants; (ii) the provision of financial services to Shandong Energy and the revision of annual caps for the provision of products, materials, and asset leasing; (iii) the absorption and merger between Yankuang Finance Company and Shandong Energy Finance Company, the provision of comprehensive credit facility services from Shandong Energy Finance Company to Shandong Energy, and the provision of deposit services from Shandong Energy Finance Company to the Company; and (iv) the acquisition of 51% equity interest in Luxi Mining and Xinjiang Energy & Chemical and the provision of products, materials and asset leasing from the Group to Shandong Energy. Apart from the independent financial adviser roles in connection with the Previous Engagements and the Mutual Provision of Bulk Commodities, we have not acted in any capacity of the Group in the past two years immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in relation to the Mutual Provision of Bulk Commodities. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

LETTER FROM DONVEX CAPITAL

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Mutual Provision of Bulk Commodities and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with the Mutual Provision of Bulk Commodities, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. Background information of the parties

1. *The Company*

The Company is principally engaged in the business of mining, high-end chemical new materials, new energy, and high-end equipment manufacturing and smart logistics. The Company's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production, prime quality low sulfur coal for use in pulverized coal injection, and chemical products such as methanol and acetic acid etc.

2. *Shandong Energy*

Shandong Energy is a state-controlled limited liability company, 90% equity interest of which is held directly and indirectly by the State-owned Assets Supervision and Administration Commission of Shandong Province, and the remaining 10% equity interest of which is indirectly held by the Department of Finance of Shandong Province. As at the Latest Practicable Date, its registered capital is RMB30.2 billion

LETTER FROM DONVEX CAPITAL

and its legal representative is Li Wei. The principal business of Shandong Energy includes coal, thermal power generation, coal chemicals, high-end equipment manufacturing, new energy and materials, and modern trade and logistics.

As at the Latest Practicable Date, Shandong Energy is the controlling Shareholder, holding directly and indirectly approximately 54.67% of the issued share capital of the Company, and is hence a connected person of the Company.

B. Mutual Provision of Bulk Commodities

1. Background

On 9 December 2020, the Company entered into the Existing Bulk Commodities Sale and Purchase Agreement with Yankuang Group Company Limited (兗礦集團有限公司) (currently known as Shandong Energy) (“**Yankuang Group**”), pursuant to which the Company and Yankuang Group may, from time to time, sell or purchase coal, iron ores, rubber and other bulk commodities from each other, for a term of three years commencing from 1 January 2021 and expiring on 31 December 2023.

On 29 April 2022, the Board has resolved to revise the annual cap in respect of the Existing Bulk Commodities Sale and Purchase Agreement for the two years ending 31 December 2023, while the terms of the Existing Bulk Commodities Sale and Purchase Agreement shall remain unchanged and be in force and effect. Regarding the details of the above, please refer to the announcement of the Company dated 29 April 2022 and the circular of the Company dated 10 June 2022.

The Company expected that the Existing Annual Cap regarding the sales of bulk commodities from the Company to Shandong Energy for FY2023 will not be sufficient to meet the business needs of the Group. As such, on 25 August 2023, the Board has resolved to revise the Existing Annual Cap regarding the sales of bulk commodities from the Company to Shandong Energy for FY2023, while the terms of the Existing Bulk Commodities Sale and Purchase Agreement shall remain unchanged and be in force and effect.

In addition, on 25 August 2023, the Company entered into the Proposed Bulk Commodities Sale and Purchase Agreement with Shandong Energy to renew the Existing Bulk Commodities Sale and Purchase Agreement on substantially the same terms.

LETTER FROM DONVEX CAPITAL

2. *Reasons for and benefits of the Mutual Provision of Bulk Commodities*

(1) *The revision of the Existing Annual Cap for FY2023*

The management of the Company expected that the Existing Annual Cap for FY2023 would not be sufficient due to the following reasons:

- (i) the Shandong Energy Members have expanded their customer base in FY2023. Pursuant to the requests of their new customers, the new customers planned to purchase thermal coal from the Shandong Energy Members. In light of the above, the Shandong Energy Members would purchase thermal coal from the suppliers for their further sales to their customers; and
- (ii) given that:
 - (a) in the first half of FY2023, the PRC government has removed all the restrictions on Australian coal imports;
 - (b) benefiting from the removal of the above restrictions, Yancoal Australia, a non-wholly owned subsidiary of the Company as at the Latest Practicable Date, is able to provide thermal coal to the Shandong Energy Members; and
 - (c) as the Shandong Energy Members has a better understanding in the operation and reputation of the Group, the Shandong Energy Members believes that the risk of trading with the Group is lower than the risk trading with the independent third parties, and vice versa.

As such, the Existing Annual Cap for FY2023 needs to be revised upwards to accommodate the latest business needs of the Group.

(2) *The Proposed Annual Caps*

The Company considered that it has been familiar with the business operation and the reputation of Shandong Energy, and is of the view that the entering into of the Proposed Bulk Commodities Sale and Purchase Agreement with Shandong Energy can reduce the operation risks of the Group. On one hand, in respect of the purchase of bulk commodities from Shandong Energy, the Company is able to maintain a long-term and stable source of supply of bulk commodities from Shandong Energy. On the other hand, in respect of the sales of bulk commodities to Shandong Energy, the Company could reduce the operational risks in any default in the payment terms of the transactions.

LETTER FROM DONVEX CAPITAL

In view of the above, we concur with the Company's view that the entering into of the Proposed Bulk Commodities Sale and Purchase Agreement will strengthen the Group's ability to carry out stable and sustainable business and therefore it is in the interest of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Proposed Bulk Commodities Sale and Purchase Agreement

The following summarizes the principal terms of the Proposed Bulk Commodities Sale and Purchase Agreement:

Date

25 August 2023

Parties

- (i) The Company; and
- (ii) Shandong Energy

Term

Two years commencing from 1 January 2024 and expiring on 31 December 2025

Major terms

Pursuant to the Proposed Bulk Commodities Sale and Purchase Agreement, the Company and Shandong Energy may, from time to time, sell or purchase coal, iron ores, rubber, and other bulk commodities from each other.

On or before 30 November each year, the requesting party may provide to the supplying party an annual assessment of the supplies that it requires from the other in the coming year and the parties shall agree on the annual plan for the coming year before 31 December each year. The parties may enter into specific contracts in accordance with the terms of the Proposed Bulk Commodities Sale and Purchase Agreement.

Payment terms

- (i) The payment of consideration under the Proposed Bulk Commodities Sale and Purchase Agreement shall be settled on the one-off basis or by instalment in accordance with paragraph (ii) below; and

LETTER FROM DONVEX CAPITAL

- (ii) Each party shall record all items payable to or from the other party under the Proposed Bulk Commodities Sale and Purchase Agreement in its account on or before the last Business Day of that calendar month. Save for the payments made for non-completed transactions or the disputed payments, all payments of the completed transactions under the Proposed Bulk Commodities Sale and Purchase Agreement shall be settled in full within the next calendar month.

Pricing

The price of coal, iron ores, and rubber shall be determined according to the market price.

The market price shall be determined according to normal commercial terms based on the following:

- (i) the price offered under normal commercial terms and in the ordinary course of business by Independent Third Parties located in the area or in the vicinity of such area where the same or similar type of bulk commodities are provided; or
- (ii) the price offered under normal commercial terms and in the ordinary course of business by Independent Third Parties located in the PRC (if the price stated in paragraph (i) above is not applicable); and
- (iii) if any national pricing policy becomes effective and applicable to any bulk commodities, the parties agree that both the purchase and selling prices of such bulk commodities are subject to such national pricing policy.

To determine the market price, the sales department or purchase department of the Company and its designated personnel are mainly responsible for checking the prices offered by other Independent Third Parties generally through obtaining quoted fees from at least two Independent Third Parties via emails, fax or phone or tenders by publishing tender notice through various media resources such as local newspapers. The sales department or purchase department of the Company will update the relevant information from time to time based on the procurement demand and will continue to monitor the Market Price to ensure that each transaction is conducted in accordance with the pricing policy set out above.

Shandong Energy has undertaken that the selling price of the bulk commodities offered to the Company shall not be higher than the selling price offered by Shandong Energy to any Independent Third Parties for the same type of bulk commodities under any circumstances (the “**Undertaking**”).

LETTER FROM DONVEX CAPITAL

If the supply or purchase terms or conditions proposed by any third party for similar bulk commodities are more favorable than the terms or conditions provided by Shandong Energy, or if the bulk commodities provided by Shandong Energy fail to meet this requirement in any respect (including quantity and quality), the Company has the right to buy or sell such bulk commodities from the third party.

4. Assessment on the internal control procedures of the pricing method under the Existing Bulk Commodities Sale and Purchase Agreement

We have carried out the following procedures to verify the effectiveness of the internal control under the Existing Bulk Commodities Sale and Purchase Agreement.

(1) Sales of bulk commodities from the Company to Shandong Energy

We have randomly selected three transactions (one transaction in each of the year ended 31 December 2021 (“FY2021”), FY2022, and the six months ended 30 June 2023 (“6M2023”)) and reviewed the determination of the market price, and noted that the market price in the above three transactions were determined with reference to the quoted prices as shown in the Chinese websites of bulk commodities, such as Zhuochuang Information (卓創資訊, <http://www.sci99.com/>) under Sublime China Information Co., Ltd. (山東卓創資訊股份有限公司), a listed company in the PRC (stock code: 301299.SZ) mainly engaged in the provision of data in relation to the bulk commodities. As such, we are of the view that the determination of the market price complied with the internal control measures of the Company.

(2) Sales of bulk commodities from Shandong Energy to the Company

We have randomly selected three transactions (one transaction in each of FY2021, FY2022, and 6M2023) and reviewed the determination of the market price, and noted that the market price in the above three transactions were determined with reference to the prices quoted on the tenders provided by the Independent Third Parties. As such, we are of the view that the determination of the market price complied with the internal control measures of the Company.

We have also randomly selected another three transactions (one transaction in each of FY2021, FY2022, and 6M2023) to assess whether the Undertaking had been properly implemented by Shandong Energy. We noted that the prices of the above transactions offered by Shandong Energy were no less favorable than those offered to the Independent Third Parties. As such, we are of the view that the Undertaking has been properly implemented by Shandong Energy.

LETTER FROM DONVEX CAPITAL

(3) *Conclusion*

Taking into account the above, we are of the view that the Group has adequate internal control policies and procedures in place to ensure that the pricing policy and the Undertaking under the Proposed Bulk Commodities Sale and Purchase Agreement will be implemented.

5. *Analysis on the annual caps*

(1) *The historical amount and the annual caps under the Mutual Provision of Bulk Commodities*

The following table sets forth:

- (i) the comparison between the historical transaction amount of the transactions contemplated under the Mutual Provision of Bulk Commodities for FY2021, FY2022, and 6M2023 and the Existing Annual Caps for the same periods;
- (ii) the comparison between the Existing Annual Cap and the Revised Annual Cap for FY2023; and
- (iii) the Proposed Annual Caps for the year ending 31 December 2024 (“**FY2024**”) and the year ending 31 December 2025 (“**FY2025**”):

	FY2021			FY2022			FY2023			FY2024	FY2025	
	Annual Cap	Historical amount	Utilization rate	Annual Cap	Historical amount	Utilization rate	Existing Annual Cap	Historical amount for 6M2023	Utilization rate for 6M2023	Revised Annual Cap	Proposed Annual Cap	Proposed Annual Cap
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000
Sales of bulk commodities from the Company to Shandong Energy	2,970,000	2,303,620	77.6	3,270,000	2,300,588	70.4	3,270,000	1,297,300	39.7	6,000,000	8,000,000	8,000,000
Sales of bulk commodities from Shandong Energy to the Company	500,000	296,280	59.3	2,000,000 (Note)	321,071	16.1	2,000,000 (Note)	373,917	18.7	2,000,000	2,800,000	2,800,000

Note: The annual caps of the sales of bulk commodities from Shandong Energy to the Company have been revised upward (i) from RMB550 million to RMB2,000 million for FY2022; and (ii) from RMB600 million to RMB2,000 million for FY2023, respectively. For the details of the above, please refer to the announcement of the Company dated 29 April 2022 and the circular of the Company dated 10 June 2022.

LETTER FROM DONVEX CAPITAL

We noted that the utilization rate of the sales of bulk commodities from Shandong Energy to the Company amounted to approximately 59.3%, 16.1% and 18.7% for FY2021, FY2022, and 6M2023, respectively. The low utilization rate is due to the following reasons:

- (i) in FY2021, the purchase quantity of coal from Shandong Energy was lower than expected due to the promulgation of the coal supply guarantee policy by the PRC government. In support of the PRC government's coal supply guarantee policy, the Shandong Energy Group has given priority to supply coal to thermal power plants, which has reduced the amount of coal available for sale by Shandong Energy Group to the Group;
- (ii) in FY2022, the purchase quantity of the bulk commodities from Shandong Energy was lower than expected because the market price of the bulk commodities is more favorable than the price offered by Shandong Energy; and
- (iii) in FY2023, the purchase quantity of coal from Shandong Energy was lower than expected because the demand for the coal from the customers of the Company to manufacture the steel decreased due to weak demand for the steel of the real estate industry in the PRC in the first half of 2023.

(2) *Assessment on the Revised Annual Cap and the Proposed Annual Caps*

(a) *Sales of bulk commodities from the Company to Shandong Energy*

FY2023

We noted that the annual cap of the sales of bulk commodities from the Company to Shandong Energy for FY2023 increased from RMB3,270 million to RMB6,000 million, representing an increase of approximately 83.5%. We are advised by the management of the Company that the Revised Annual Cap for FY2023 is determined with reference to the following:

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FY2023
RMB'000

Existing Annual Cap, including:		
Sales from other subsidiaries of the Company (excluding Yancoal Australia) to Shandong Energy	a	2,600,000
Sales from Yancoal Australia to Shandong Energy	b	<u>670,000</u>
Subtotal	c=a+b	<u>3,270,000</u>
Add: Revision of annual cap of sales from Yancoal Australia to Shandong Energy	d	2,396,000
Add: A buffer for the Proposed Annual Caps to deal with any unforeseeable increase in the unit price or the sales of the coal	e	<u>334,000</u>
Revised Annual Cap	f=c+d+e	<u><u>6,000,000</u></u>

<i>Including:</i>		
Sales from other subsidiaries of the Company to Shandong Energy	a	2,600,000
Sales from Yancoal Australia to Shandong Energy	g=b+d	3,066,000
A buffer for the Proposed Annual Caps to deal with any unforeseeable increase in the unit price or the sales of the coal	e	334,000

We are advised by the management of the Company that such increase is mainly attributable to the increment in the sales of thermal coal from Yancoal Australia to Shandong Energy. Regarding the reasons for the increment in the sales of thermal coal, please refer to the section headed “PRINCIPAL FACTORS AND REASONS CONSIDERED – B. Mutual Provision of Bulk Commodities – 2. Reasons for and benefits of the Mutual Provision of Bulk Commodities – (1) The revision of the Existing Annual Cap for FY2023” in this letter.

LETTER FROM DONVEX CAPITAL

In view of the above, based on (i) the historical sales of the coal to Shandong Energy from Yancoal Australia for 6M2023; and (ii) the sales plan of the coal to Shandong Energy from Yancoal Australia for the six months ending 31 December 2023 which has been agreed by the Company and Shandong Energy, the total volume to be sold by Yancoal Australia to Shandong Energy for FY2023 will amount to 3.5 million tons in total at an average selling price of RMB876 per ton.

We are advised by the management of the Company that the average selling price of RMB876 per ton is determined with reference to the prices quoted on (i) GlobalCOAL (<https://www.globalcoal.com/>), a leading online physical coal trading platform in the world; and (ii) Argus/McCloskey (<https://www.argusmedia.com/en/>), a leading provider of market intelligence to the global energy and commodity markets. We have reviewed the prices as stated on the above websites, and noted that the average selling price is determined according to the price quoted on the above websites in August 2023. In view of the above, we consider that the average selling price is fair and reasonable.

FY2024 and FY2025

We are advised by the management of the Company that the Proposed Annual Caps for FY2024 and FY2025 are determined with reference to (i) the demand for coal and rubber from Shandong Energy; and (ii) the respective average unit price of coal and rubber. The following table sets forth the details of the Proposed Annual Caps for FY2024 and FY2025:

	FY2024 and FY2025		
	Average price	Selling quantity	Subtotal
	<i>RMB per ton</i>	<i>Thousand ton</i>	<i>RMB'000 (Note 1)</i>
Coal	697 (Note 2)	9,596	6,688,686
Rubber	13,505	39	519,995
A buffer for the Proposed Annual Caps to deal with any unforeseeable increase in the unit price or the sales of the bulk commodities			791,319
Total			8,000,000

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Notes:

1. The difference between the subtotal as shown in the table above and its arithmetic product is due to rounding.
2. The average price of coal is calculated by the total sales of coal from the Group to the Shandong Energy Members divided by the total tons of coal sold for 6M2023.

Coal

We are advised by the management of the Company that the average selling price of coal of approximately RMB697 per ton is determined with reference to (i) the aggregate sales of the coal from the Group to the Shandong Energy Members for 6M2023; and (ii) the prices of coal quoted on the website of bulk commodities.

In assessing the fairness and reasonableness of the average selling price of the coal, we have reviewed (i) the historical sales of the coal by the Group in 6M2023; and (ii) the prices of coal from 1 January 2023 to 25 August 2023 (i.e., the date of approving the Revised Annual Cap and the Proposed Annual Caps by the Board) as quoted on the website of China Coal Resources* (中國煤炭資源網, www.sxcoal.com), the most popular website for the coal industry in China. We noted that the average selling price of coal (a) is determined according to the prices under the abovementioned historical sales; and (b) falls within the range of the prices between 1 January 2023 and 25 August 2023 (from approximately RMB400 per ton to approximately RMB800 per ton) as quoted on the website of China Coal Resources. In view of the above, we consider that the average selling price of coal is fair and reasonable.

Rubber

We are advised by the management of the Company that the average selling price of rubber of approximately RMB13,505 per ton is determined with reference to (i) the aggregate sales of the rubber by the subsidiaries of the Company in 6M2023; and (ii) the price of rubber quoted on the website of bulk commodities.

In assessing the fairness and reasonableness of the average selling price of rubber, we have reviewed (i) the historical sales of the rubber by the Group in 6M2023; and (ii) the prices of rubber from 1 January 2023 to 25 August 2023 as quoted on the website of Zhuochuang Information (卓創資訊, <http://www.sci99.com/>). We noted that the average selling price of the rubber under the Proposed Annual Caps (a) is determined according to the prices under the abovementioned historical sales; (b) is close to the average price of the rubber between 1 January 2023 and 25 August 2023 (approximately RMB13,558 per ton) as quoted on the website of Zhuochuang Information; and (c) falls

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within the range of the prices between 1 January 2023 and 25 August 2023 (from approximately RMB12,825 per ton to approximately RMB14,800 per ton) as shown on the website of Zhuochuang Information. In view of the above, we consider that the average selling price of rubber is fair and reasonable.

(b) *Sales of bulk commodities from Shandong Energy to the Company*

We are advised by the management of the Company that the Proposed Annual Caps are determined with reference to (i) the demand for coal and non-ferrous metals from the Company; and (ii) the respective average unit price of coal and non-ferrous metals. The following table sets forth the details of the Proposed Annual Caps for FY2024 and FY2025:

	FY2024 and FY2025		
	Average price	Selling quantity	Subtotal
	<i>RMB per ton</i>	<i>Thousand ton</i>	<i>RMB'000 (Note 1)</i>
Coal	689 (Note 2)	2,237	1,541,020
Non-ferrous metals	141,000	7	1,000,000
A buffer for the Proposed Annual Caps to deal with any unforeseeable increase in the unit price or the sales of the bulk commodities			258,980
Total			2,800,000

Notes:

1. The difference between the subtotal as shown in the table above and its arithmetic product is due to rounding.
2. The average price of coal is calculated by the total purchase of coal from the Shandong Energy Members by the Group divided by the total tons of coal purchased for 6M2023.

Coal

We are advised by the management of the Company that the average purchase price of coal of approximately RMB689 per ton is determined with reference to (i) the aggregate purchase of the coal by the subsidiaries of the Company in 6M2023; and (ii) the prices of coal quoted on the website of bulk commodities.

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In assessing the fairness and reasonableness of the average purchase price of coal, we have reviewed (i) the historical purchase of the coal by the Group in 6M2023; and (ii) the prices of coal from 1 January 2023 to 25 August 2023 as quoted on the website of China Coal Resources. We noted that the average purchase price of coal (a) is determined according to the prices under the abovementioned historical purchase; and (b) falls within the range of the prices between 1 January 2023 and 25 August 2023 (from approximately RMB400 per ton to approximately RMB2,000 per ton) as quoted on the website of China Coal Resources. In view of the above, we consider that the average purchase price of coal is fair and reasonable.

Non-ferrous metals

We are advised by the management of the Company that the average purchase price of non-ferrous metals of approximately RMB141,000 per ton is determined with reference to the market price of non-ferrous metals on 21 August 2023 (i.e., the latest price immediately preceding the date of approving the Revised Annual Cap and the Proposed Annual Caps by the Board).

In assessing the fairness and reasonableness of the purchase price of non-ferrous metals, we have reviewed the market price of the non-ferrous metals on 21 August 2023 as quoted on the website of MySteel* (我的鋼鐵網, www.mysteel.com), and noted that the market price of the non-ferrous metals on 21 August 2023 as shown on the website of MySteel is the same as the price of non-ferrous metals adopted under the Proposed Annual Caps for FY2024 and FY2025. In view of the above, we consider that the average purchase price of non-ferrous metals is fair and reasonable.

Basis of the increase in the Proposed Annual Caps for the sales of bulk commodities from Shandong Energy to the Company

In addition, we noted that the Proposed Annual Caps for the sales of bulk commodities from Shandong Energy to the Company have been increased as compared to the historical annual caps for each of the year ended 31 December 2021, 2022, and 2023 notwithstanding the low utilization rate of the above historical annual caps. We are advised by the management of the Company that the increase in the Proposed Annual Caps for the sales of bulk commodities from Shandong Energy to the Company is principally attributable to the following reasons:

- (i) it is expected that the banking facility in relation to the trading of the non-ferrous metals will be granted to the subsidiary of the Company by the financial institutions in the fourth quarter of FY2023. Therefore, the Group will be able to expand its purchase of the non-ferrous metals from Shandong Energy; and

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- (ii) the demand for the non-ferrous metals would increase since the PRC government has supported the development of real estate industry by easing the purchase restrictions for people who want to buy a second house and reducing down payment ratios for first-time homebuyers.

In view of the above, we considered that the increase in the Proposed Annual Caps for the sales of bulk commodities from Shandong Energy to the Company as compared with the historical annual caps is fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the Revised Annual Cap is fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Proposed Bulk Commodities Sale and Purchase Agreement are in the ordinary and usual course of business, on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; and (iii) the Mutual Provision of Bulk Commodities and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the EGM to approve the Revised Annual Cap, the Proposed Bulk Commodities Sale and Purchase Agreement and the Proposed Annual Caps and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 21 years of experience in corporate finance advisory.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTEREST

Shareholding of Directors, chief executive and Supervisors

As at the Latest Practicable Date, save as disclosed below, none of the Directors, chief executive or Supervisors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange.

Name	Title	Number of A Shares held as at the Latest Practicable Date (Shares)
Li Wei	Director	15,000 ⁽¹⁾
Liu Jian	Director	128,700 ⁽²⁾
Liu Qiang	Director	240,000 ⁽³⁾
Xiao Yaomeng	Director	525,000 ⁽⁴⁾
Huang Xiaolong	Director	240,000 ⁽⁵⁾

All the interests disclosed above represent long position in the A Shares.

Note:

- (1) These A Shares include shares granted to Mr. Li Wei under the restricted stock incentive scheme of the Company and bonus shares distributed to Mr. Li Wei under the 2022 annual profit proposal of the Company, which are not subject to lock-up restrictions as at the Latest Practicable Date.
- (2) These A Shares include shares granted to Mr. Liu Jian under the restricted stock incentive scheme of the Company and bonus shares distributed to Mr. Liu Jian under the 2022 annual profit proposal of the Company, which are not subject to lock-up restrictions as at the Latest Practicable Date.
- (3) These A Shares include shares granted to Mr. Liu Qiang under the restricted stock incentive scheme of the Company and bonus shares distributed to Mr. Liu Qiang under the 2022 annual profit proposal of the Company, of which 240,000 shares are subject to lock-up restriction as at the Latest Practicable Date.

- (4) These A Shares include shares granted to Mr. Xiao Yaomeng under the restricted stock incentive scheme of the Company and bonus shares distributed to Mr. Xiao Yaomeng under the 2022 annual profit proposal of the Company, of which 300,000 shares are subject to lock-up restriction as at the Latest Practicable Date.
- (5) These A Shares include shares granted to Mr. Huang Xiaolong under the restricted stock incentive scheme of the Company and bonus shares distributed to Mr. Huang Xiaolong under the 2022 annual profit proposal of the Company, of which 240,000 shares are subject to lock-up restriction as at the Latest Practicable Date.

Shareholding of substantial Shareholders

As far as the Directors are aware, save as disclosed below, as at the Latest Practicable Date, other than the Directors, chief executive or supervisors of the Company, there were no other persons who were substantial Shareholders or had interests or short positions in the shares or underlying shares of the Company, which should (i) be disclosed pursuant to Sections 2 and 3 under Part XV of the SFO; (ii) be recorded in the register to be kept pursuant to Section 336 of the SFO; or (iii) notify the Company and the Stock Exchange in other ways.

Name of substantial Shareholders	Class of Shares	Capacity	Number of Shares Held (shares)	Nature of Interest	Percentage in the H Share Capital of the Company	Percentage in Total Share Capital of the Company
Shandong Energy	A Shares (State-owned legal person shares)	Beneficial owner	3,385,986,710	Long position	–	45.50%
			171,415,778	Short position	–	2.30%
Shandong Energy <i>(Note 1)</i>	H Shares	Interest of controlled corporations	682,483,500	Long position	23.95%	9.17%

Notes:

1. Yankuang Group (Hong Kong) Company Limited holds such H Shares in the capacity of beneficial owner.
2. The percentage figures above have been rounded off to the nearest second decimal place.
3. Information disclosed herein is based on the information available on the website of the Stock Exchange at www.hkexnews.hk and information provided by China Securities Depository and Clearing Corporation Limited Shanghai Branch.

As at the Latest Practicable Date, Mr. Li Wei, Mr. Liu Jian and Mr. Liu Qiang were directors or senior management of Shandong Energy, the controlling Shareholder having an interest in the Shares required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited accounts of the Group were made up.

4. CONSENT AND QUALIFICATION OF EXPERT

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and references to its name in the form and context in which it appear:

Name	Qualifications
Donvex Capital Limited	a corporation licensed under the SFO to engage in type 6 (advising on corporate finance) regulated activity

The expert referred to above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and references to its name in the form and context in which it appear.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group nor did it has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates (as defined under the Listing Rules) had any interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling Shareholder of the Company).

8. LITIGATION

As at the Latest Practicable Date, the Group was involved in one arbitration cases and five litigation cases, all of which were contractual disputes (four cases as plaintiff, two cases as defendant). Please refer to pages 68 to 71 of the 2023 interim report of the Company for further details.

As far as the Directors are aware, save as disclosed above and on pages 68 to 71 of the 2023 interim report of the Company, none of the members of the Group was at present engaged in any other litigation or claim or arbitration of material importance and there was no other litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

9. MISCELLANEOUS

- (a) As at the Latest Practicable Date, the Directors of the Company are Mr. Li Wei, Mr. Xiao Yaomeng, Mr. Liu Jian, Mr. Liu Qiang, Mr. Zhang Haijun, Mr. Su Li and Mr. Huang Xiaolong, and the independent non-executive Directors of the Company are Mr. Peng Suping, Mr. Zhu Limin, Mr. Woo Kar Tung, Raymond and Ms. Zhu Rui.
- (b) The registered office of the Company is 949 South Fushan Road, Zoucheng, Shandong Province, PRC, Postal Code: 273500.
- (c) The H Share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (d) As at the Latest Practicable Date, Mr. Huang Xiaolong and Mr. Wong Wai Chiu were the joint company secretaries of the Company.

Mr. Huang Xiaolong, is a senior economist and master of law and was appointed as the Secretary to the Board in 30 July 2021. Mr. Huang graduated from University of International Business and Economics.

Mr. Wong Wai Chiu is a fellow of Hong Kong Chartered Governance Institute (previously known as Hong Kong Institute of Chartered Secretaries), a fellow of the Chartered Governance Institute, a member of CPA Australia, a member of the Hong Kong Trustee Association and a Certified Trust Practitioner. Mr. Wong Wai Chiu possesses a B. Soc. Sc. (Hon.) in Accounting and Management from the University of Hong Kong, a Post-Graduate Diploma in Hong Kong and UK law from the Manchester Metropolitan University of United Kingdom, Master degree in Corporate Governance from the Hong Kong Polytechnic University, Master Degree in Arbitration and Dispute Resolution from City University of Hong Kong and Master of Applied Science (Information Science) Degree from the University of Technology, Sydney, Australia.

- (e) Unless the context otherwise requires, all references to times in this circular refer to Hong Kong times.
- (f) The Chinese text of this circular shall prevail over the English text, in case of any inconsistency.

10. DOCUMENTS ON DISPLAY

Copies of the following documents are available on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and on the website of the Company (<http://www.ykenergy.com/>) for a period of 14 days from the date of this circular:

- (a) Existing Bulk Commodities Sale and Purchase Agreement;
- (b) Proposed Bulk Commodities Sale and Purchase Agreement;
- (c) Proposed Finance Lease Agreement;
- (d) Existing Entrusted Management Service Framework Agreement and the Proposed Entrusted Management Service Framework Agreement;
- (e) the written consent from Donvex Capital referred to in paragraph 4 of this appendix.