

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yankuang Energy Group Company Limited\*, you should at once hand this circular 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).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



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)**

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN  
RELATION TO THE ABSORPTION AND MERGER;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL SERVICES TO SHANDONG ENERGY;  
AND  
(3) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL SERVICES TO THE COMPANY**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



---

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 a.m. on Friday, 28 October 2022 was published on 5 October 2022.

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. 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 (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 should you so wish.

\* For identification purposes only

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	7
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	47
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	49
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP</b> .....	I-1
<b>APPENDIX II – VALUATION REPORT OF SHANDONG ENERGY FINANCE COMPANY</b> .....	II-1
<b>APPENDIX III – VALUATION REPORT OF YANKUANG FINANCE COMPANY</b> .....	III-1
<b>APPENDIX IV – LETTER FROM REPORTING ACCOUNTANTS ON PROFIT FORECAST</b> .....	IV-1
<b>APPENDIX V – LETTER FROM THE BOARD ON THE PROFIT FORECAST</b> .....	V-1
<b>APPENDIX VI – GENERAL INFORMATION</b> .....	VI-1

---

## DEFINITIONS

---

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

“2023 Financial Services Agreement”	the financial services agreement entered into between Yankuang Finance Company and Shandong Energy on 29 April 2022
“Absorption and Merger”	the absorption and merger of Yankuang Finance Company by Shandong Energy Finance Company pursuant to the terms and conditions of the Absorption and Merger Agreement
“Absorption and Merger Agreement”	the absorption and merger agreement entered into between Shandong Energy Finance Company and Yankuang Finance Company on 8 September 2022
“associate(s)”	has the meaning as ascribed thereto in the Listing Rules
“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
“Benchmark Date”	30 June 2022, being the benchmark date adopted for the purpose of the Valuation Reports
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission
“Company”	Yankuang Energy Group Company Limited* (兗礦能源集團股份有限公司), a joint stock limited company established under the laws of PRC in 1997, and the H Shares and A shares of which are listed on the Hong Kong Stock Exchange (01171.HK) and the Shanghai Stock Exchange (600188.SH), respectively
“Completion”	completion of the Absorption and Merger in accordance with the Absorption and Merger Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

---

## DEFINITIONS

---

“EGM”	the 2022 second extraordinary general meeting of the Company to be held at the headquarters of the Company, 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 a.m. on Friday, 28 October 2022
“Enlarged Group”	the Group as enlarged by the Merged Enterprise and after the dissolution and deregistration of Yankuang Finance Company upon Completion
“General Commercial Banks”	general commercial banks which provide deposit services, comprehensive credit facility services and miscellaneous financial services
“First Financial Services Agreement”	the financial services agreement entered into between Shandong Energy Finance Company and Shandong Energy on 26 August 2022
“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”	an independent committee of the Board, comprising all independent non-executive Directors, established to advise the Independent Shareholders in respect of (i) the Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of the comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; and (iii) the provision of the deposit services under the Second Financial Services Agreement and the proposed annual caps

---

## DEFINITIONS

---

“Independent Financial Adviser”	Donvex Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of the comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; and (iii) the provision of the deposit services to the Group under the Second Financial Services Agreement and the proposed annual caps
“Independent Shareholders”	Shareholders other than Shandong Energy and its associates, and who are not involved in, or interested in the Absorption and Merger Agreement, the First Financial Services Agreement, Second Financial Services Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	third parties independent of the Company and its connected persons
“Independent Valuer”	China United Assets Appraisal Group Co., Ltd.* (中聯資產評估集團有限公司), an independent valuer in the PRC
“Latest Practicable Date”	7 October 2022, being the latest practicable date of ascertaining certain information contained in this circular before the issuing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Merged Enterprise”	the merged enterprise and surviving company upon Completion, being Shandong Energy Finance Company, after Absorption and Merger with Yankuang Finance Company
“PBOC”	People’s Bank of China
“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
“RMB”	Renminbi, the lawful currency of the PRC

---

## DEFINITIONS

---

“Second Financial Services Agreement”	the financial services agreement entered into between Shandong Energy Finance Company and the Company on 26 August 2022
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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’s 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 54.92% of the total issued share capital of the Company as at the Latest Practicable Date
“Shandong Energy Members”	Shandong Energy, its subsidiaries and associates (excluding the Company and its subsidiaries)
“Shandong Energy Finance Company”	Shandong Energy Group Finance Co., Ltd.* (山東能源集團財務有限公司), a company established in the PRC. Shandong Energy Finance Company is directly owned as to approximately 66.67% by Shandong Energy as at the Latest Practicable Date and will be directly owned as to approximately 53.92% by the Company and directly owned as to approximately 31.67% by Shandong Energy upon Completion. Shandong Energy Finance Company is a non-banking financial institution legally established with the approval of the CBIRC and is a professional institution engaging in corporate financial services
“Shareholder(s)”	shareholder(s) of the Company
“Shareholder A”	Zibo Mining Group Co., Ltd.* (淄博礦業集團有限責任公司), a company established in the PRC and principally engaged in mining and sales of coal, which is directly wholly-owned by Shandong Energy

---

## DEFINITIONS

---

“Shareholder B”	Linyi Mining Group Co., Ltd.* (臨沂礦業集團有限責任公司), a company established in the PRC and principally engaged in mining business, which is directly wholly-owned by Shandong Energy
“Shareholder C”	Shandong Xinjulong Energy Co., Ltd.* (山東新巨龍能源有限責任公司), a company established in the PRC and principally engaged in sales of construction materials and mining equipment, which is owned as to (i) 60% indirectly by Shandong Energy; (ii) 30% by Junxiao Co., Ltd.* (俊曉有限公司), which is in turn wholly-owned by CITIC Pacific Limited* (中信泰富有限公司); and (iii) 10% by Juye Lulin Mining Co., Ltd.* (巨野魯麟礦業有限公司), which is in turn wholly-owned by Juye County Finance Bureau* (巨野縣財政局)
“Shareholder D”	Shandong Dongyue Energy Co., Ltd.* (山東東嶽能源有限公司), a company established in the PRC and principally engaged in provision of transportation services, which is owned as to (i) 70% indirectly by Shandong Energy; (ii) 20% by Feicheng Urban Construction Investment Group Co., Ltd.* (肥城市城市建設投資集團有限公司), which is in turn wholly-owned by Feicheng State-owned Assets Operation Centre* (肥城市國有資產運營中心); and (iii) 10% by Shiheng Special Steel Holding Group Co., Ltd.* (石橫特鋼控股集團有限公司)
“Shareholder E”	Longkou Mining Group Co., Ltd.* (龍口礦業集團有限公司), a company established in the PRC and principally engaged in mining and sales of coal, which is directly wholly-owned by Shandong Energy
“Shareholder F”	Zaozhuang Mining (Group) Co., Ltd.* (棗莊礦業(集團)有限責任公司), a company established in the PRC and principally engaged in sales of coal and mining project management, which is directly wholly-owned by Shandong Energy
“Valuation Reports”	collectively, the valuation reports of Shandong Energy Finance Company and Yankuang Finance Company each prepared by the Independent Valuer

---

## DEFINITIONS

---

“Yankuang Finance Company” Yankuang Group Finance Co., Ltd.\* (兗礦集團財務有限公司), a limited liability company established in the PRC, which is owned as to 95% by the Company and 5% by Shandong Energy respectively as at the Latest Practicable Date. Yankuang Finance Company is a non-banking financial institution legally established with the approval of the CBIRC and is a professional institution engaging in corporate financial services

“%” per cent.

\* *For identification purposes only.*



---

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  
Liu Jian  
Xiao Yaomeng  
Zhu Qingrui  
Zhao Qingchun  
Huang Xiaolong

*Registered office:*

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

*Independent non-executive Directors:*

Tian Hui  
Zhu Limin  
Cai Chang  
Poon Chiu Kwok

*Principal place of business in Hong Kong:*

40th Floor, Dah Sing Financial Center  
248 Queen's Road East  
Wanchai  
Hong Kong

12 October 2022

*To the Shareholders*

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN  
RELATION TO THE ABSORPTION AND MERGER;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL SERVICES TO SHANDONG ENERGY;  
AND  
(3) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL SERVICES TO THE COMPANY**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 26 August 2022 in relation to, among others, the First Financial Services Agreement and the Second Financial Services Agreement and the announcement of the Company dated 8 September 2022 in relation to the Absorption and Merger Agreement.

---

## LETTER FROM THE BOARD

---

The purpose of this circular is to provide you with information relating to (i) the discloseable and connected transaction in relation to the Absorption and Merger; (ii) the major and continuing connected transaction – provision of financial services to Shandong Energy and (iii) the discloseable and continuing connected transaction – provision of financial services to the Company.

### II. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ABSORPTION AND MERGER

On 8 September 2022, Shandong Energy Finance Company and Yankuang Finance Company, a non-wholly owned subsidiary of the Company, entered into the Absorption and Merger Agreement, pursuant to which Yankuang Finance Company shall be merged and absorbed by Shandong Energy Finance Company.

#### The Absorption and Merger Agreement

Date:	8 September 2022
Parties:	Shandong Energy Finance Company; and Yankuang Finance Company
Consideration:	Nil

#### The status of Shandong Energy Finance Company and Yankuang Finance Company prior to Completion

	Shandong Energy Finance Company	Yankuang Finance Company
Registered capital	RMB3,000,000,000	RMB4,000,000,000

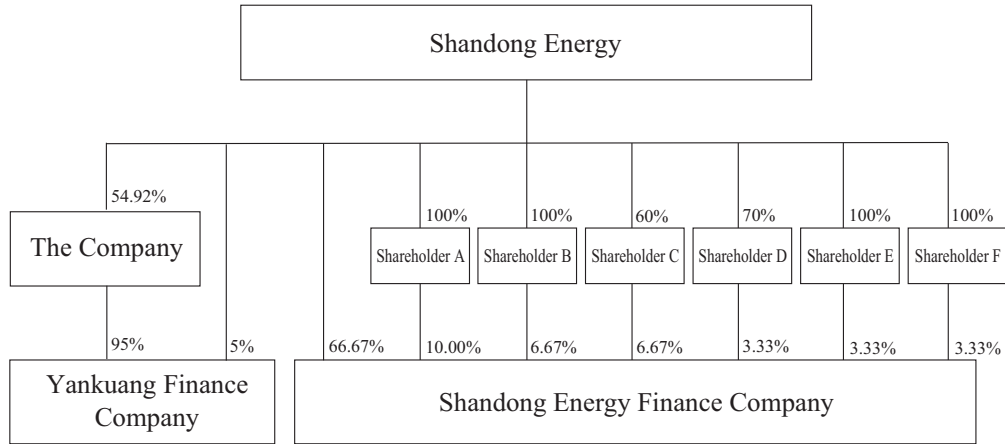
The registered capital and total investment of each of Shandong Energy Finance Company and Yankuang Finance Company have been fully paid up and no additional payment is required pursuant to the Absorption and Merger Agreement.

#### The status of the Merged Enterprise upon Completion

	The Merged Enterprise
Registered capital	RMB7,000,000,000

## LETTER FROM THE BOARD

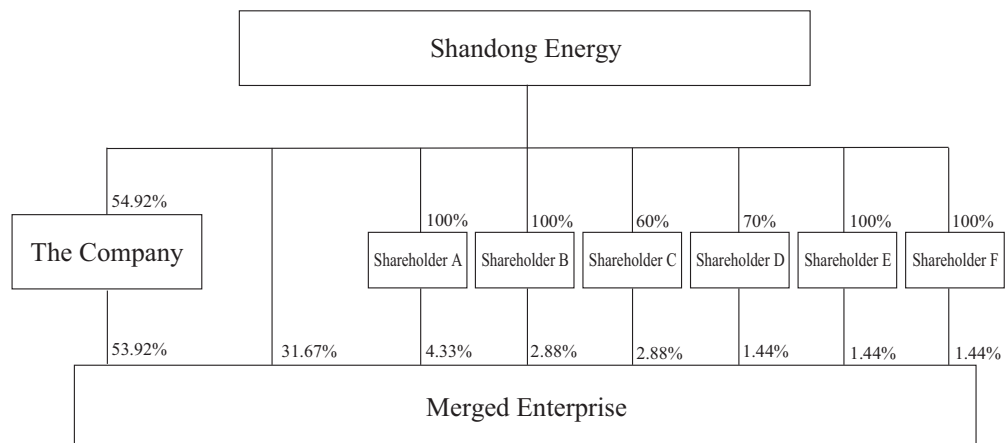
### The shareholding structure of the relevant parties immediately before the Completion



As at the Latest Practicable Date, Shandong Energy Finance Company is directly owned as to approximately 66.67% by Shandong Energy, directly owned as to approximately 10.00% by Shareholder A, directly owned as to approximately 6.67% by Shareholder B, directly owned as to approximately 6.67% by Shareholder C, directly owned as to approximately 3.33% by Shareholder D, directly owned as to approximately 3.33% by Shareholder E and directly owned as to approximately 3.33% by Shareholder F as at the Latest Practicable Date. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy; while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively.

As at the Latest Practicable Date, Yankuang Finance Company is owned as to 95% and 5% by the Company and Shandong Energy, respectively.

**The shareholding structure of the relevant parties immediately after the Completion (assuming there is no change to the shareholding held by Shandong Energy in the Company, Shareholder A, Shareholder B, Shareholder C, Shareholder D, Shareholder E and Shareholder F between the Latest Practicable Date and Completion)**



---

## LETTER FROM THE BOARD

---

Upon Completion, the Merged Enterprise, will be directly owned as to approximately 53.92% by the Company, directly owned as to approximately 31.67% by Shandong Energy, directly owned as to approximately 4.33% by Shareholder A, directly owned as to approximately 2.88% by Shareholder B, directly owned as to approximately 2.88% by Shareholder C, directly owned as to approximately 1.44% by Shareholder D, directly owned as to approximately 1.44% by Shareholder E and directly owned as to approximately 1.44% by Shareholder F. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy; while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively.

The registered capital of the Merged Enterprise will be the aggregate of the registered capital of Shandong Energy Finance Company and Yankuang Finance Company prior to the Absorption and Merger, being RMB7,000,000,000.

The Merged Enterprise will be the surviving company upon Completion, and continue to use its existing name, i.e. Shandong Energy Finance Company, and become the owner of all of the assets, liabilities, operations, personnel, contracts and all other rights and obligations of Yankuang Finance Company.

Upon Completion, Yankuang Finance Company will be dissolved and deregistered and will cease to be a subsidiary of the Company; and the Merged Enterprise will become a non-wholly owned subsidiary of the Company and its financial results will be consolidated into the consolidated financial statements of the Group, as determined in accordance with the relevant accounting standards and regulations.

### **Effective Conditions**

The Absorption and Merger Agreement shall be effective upon satisfaction of the following conditions:

- (i) the shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company have approved the Absorption and Merger at their respective shareholders' meetings;
- (ii) the Company has obtained approval of the Absorption and Merger from the Independent Shareholders at the EGM in accordance with the Listing Rules and applicable laws and regulations in the PRC;
- (iii) approval for the Absorption and Merger has been obtained from CBIRC; and
- (iv) approval for the Absorption and Merger has been obtained from Shandong Energy.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

## LETTER FROM THE BOARD

### Basis for determining the shareholding ratio in the Merged Enterprise upon Completion

The shareholding ratio in the Merged Enterprise upon Completion was determined with references to (i) the capital contribution of the shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company; and (ii) the valuation of the market value of the entire equity interest of shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 as set out in the Valuation Reports, being approximately RMB4,641.8 million and approximately RMB6,091.3 million, respectively. The table below illustrates the determination of the shareholding ratio in the Merged Enterprise upon Completion:

Name of parties to the Absorption and Merger Agreement	Name of shareholder	Amount of capital contribution as at the Latest Practicable Date (RMB million)	Shareholding in Shandong Energy Finance Company/ Yankuang Finance Company as at the Latest Practicable Date	Approximate value of equity interest (RMB million) (Note 1)	Shareholding in the Merged Enterprise upon Completion (Note 2)
Shandong Energy Finance Company	Shandong Energy	2,000	66.67%	3,094.55	28.83% (Note 3)
	Shareholder A	300	10.00%	464.18	4.33%
	Shareholder B	200	6.67%	309.46	2.88%
	Shareholder C	200	6.67%	309.46	2.88%
	Shareholder D	100	3.33%	154.73	1.44%
	Shareholder E	100	3.33%	154.73	1.44%
	Shareholder F	100	3.33%	154.73	1.44%
Yankuang Finance Company	The Company	3,800	95%	5,786.72	53.92%
	Shandong Energy	200	5%	304.56	2.84% (Note 3)
<b>Total</b>		<b>7,000</b>		<b>10,733.12</b>	<b>100%</b>

*Notes:*

- The approximate value of equity interest of each shareholder was determined based on the valuation of the market value of the entire equity interest of shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 as set out in the Valuation Reports, being approximately RMB4,641.8 million and approximately RMB6,091.3 million, respectively, corresponding to the interests held by the respective shareholders in Shandong Energy Finance Company and Yankuang Finance Company prior to the Completion.

---

## LETTER FROM THE BOARD

---

2. The shareholding of each shareholder in the Merged Enterprise upon Completion was determined based on the approximate value of equity interest of each shareholder divided by the aggregated market value of the entire equity interest of shareholders of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 as set out in the Valuation Reports (i.e. RMB10,733.1 million).
3. In aggregate, Shandong Energy will directly hold 31.67% in the Merged Enterprise upon Completion.

### **Reasons for and benefits of the Absorption and Merger**

The Company is principally engaged in the business of mining, high-end chemicals and new materials, new energy, high-end equipment manufacturing and smart logistics.

Both Shandong Energy Finance Company and Yankuang Finance Company are principally engaged in the provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; and provision of loans and finance leasing to members.

According to the Measures for the Implementation of Administrative Permits for Non-Banking Financial Institutions of the CBIRC (CBIRC Decree No. 6 of 2020), Shandong Energy can only set up one finance company. As such, the Company, as a shareholder of Yankuang Finance Company, is required to consolidate Yankuang Finance Company and Shandong Energy Finance Company by way of implementing the Absorption and Merger in accordance with the law.

Upon Completion, the Merged Enterprise will further increase the capacity of its investment, financing and guarantee business in the future, enhance the competitiveness of services to its members and further improve the quality of its assets and profitability. As the controlling shareholder of the Merged Enterprise, the Company will enjoy the economic benefits of the improved profitability of the Merged Enterprise and maintain a stable return on its investment.

The Directors (including independent non-executive Directors) are of the view that the Absorption and Merger Agreement is on normal commercial terms which have been negotiated at an arm's length basis and are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. As Mr. Li Wei is a director of Shandong Energy and Mr. Liu Jian and Mr. Zhu Qingrui are senior management of Shandong Energy, they are regarded as having material interests in the Absorption and Merger Agreement and the transactions contemplated thereunder, and have abstained from voting on the relevant resolutions of the Board for approving the Absorption and Merger Agreement and the transactions contemplated thereunder.

---

## LETTER FROM THE BOARD

---

### Information on the parties

#### Shandong Energy Finance Company

Shandong Energy Finance Company is a subsidiary of Shandong Energy registered and established in Shandong Province on 30 December 2013. The principal businesses of Shandong Energy Finance Company include provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; provision of loans and finance leasing to members. Shandong Energy Finance Company is a non-banking financial institution legally established with the approval of the CBIRC.

Set out below are certain audited financial information of Shandong Energy Finance Company prepared in accordance with PRC accounting standard for the two financial years ended 31 December 2021:

	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2021</b>
	<i>RMB</i>	<i>RMB</i>
Revenue	693,973,644.33	579,981,765.10
Net profit before tax	403,153,113.63	376,776,520.49
Net profit after tax	320,517,582.00	253,355,865.04

As at 31 December 2021, the audited total and net assets value of Shandong Energy Finance Company as shown in its audited financial statements were approximately RMB31,391,828,369 and RMB4,627,023,540 respectively.

The above figures are extracted from the audit report (Zhongxinghuashenzi [2022] No. 110165) issued by Zhongxinghua Certified Public Accountants (Special General Partnership).

#### Yankuang Finance Company

Yankuang Finance Company is a subsidiary of the Company registered and established in Shandong Province on 13 September 2010. The principal businesses of Yankuang Finance Company include provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; provision of loans and finance leasing to members. Yankuang Finance Company is a non-banking financial institution legally established with the approval of the CBIRC.

---

## LETTER FROM THE BOARD

---

Set out below are certain audited financial information of Yankuang Finance Company prepared in accordance with PRC accounting standard for the two financial years ended 31 December 2021:

	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2021</b>
	<i>RMB</i>	<i>RMB</i>
Revenue	390,118,253.83	525,371,382.38
Net profit before tax	272,895,238.39	448,249,241.67
Net profit after tax	204,425,315.48	336,210,272.64

As at 31 December 2021, the audited total and net assets value of Yankuang Finance Company as shown in its audited financial statements were approximately RMB43,602,239,400 and RMB5,701,866,642 respectively.

The above figures are extracted from the audit report (Xinlianyi Shenzi [2022] No. 0263) issued by Xinlianyi Accounting Firm.

### **Listing Rules Implications**

As one or more of the applicable percentage ratios in respect of the Absorption and Merger exceed 5% but all are less than 25%, the Absorption and Merger constitutes a discloseable transaction for the Company, and is subject to the reporting and announcement requirements pursuant to Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Shandong Energy is a controlling shareholder of the Company and it directly holds approximately 66.67% equity interest in Shandong Energy Finance Company. Therefore, Shandong Energy Finance Company is an associate of Shandong Energy pursuant to Rule 14A.13(1) of the Listing Rules and hence a connected person of the Company pursuant to Rule 14A.04(4) of the Listing Rules. Hence, the Absorption and Merger contemplated under the Absorption and Merger Agreement constitutes a connected transaction of the Company. Accordingly, the Absorption and Merger constitutes a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the shareholding ratio in the Merged Enterprise upon Completion was determined with references to, among other things, the valuation of the market value of the entire equity interest of shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 as set out in the Valuation Reports, which were prepared based on the discounted cash flow method under the income approach by the Independent Valuer, such valuations constitute a profit forecast under Rule 14.61 of the Listing Rules.



---

## LETTER FROM THE BOARD

---

Pursuant to Rule 14.62(1) of the Listing Rules, the following are the details of the principal assumptions, including commercial assumptions, on which the Valuation Reports prepared by the Independent Valuer were based:

The assumptions upon which the valuations were based, as contained in each of the Valuation Reports for Shandong Energy Finance Company and Yankuang Finance Company, are identical and are set out below:

### **I. General Assumptions**

#### ***1. Transaction Assumption***

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the Independent Valuer conducts valuation in a simulated market based on the trading conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

#### ***2. Open Market Assumption***

The open market assumption is to assume that assets traded in the market or to be traded in the market, the transactions parties are equal to each other in asset transactions, and each has the opportunity and time to obtain sufficient market information to make rational judgments on the function, use and transaction price of the assets. The open market assumption is based on the fact that assets can be bought and sold publicly in the market.

#### ***3. Business going-concern Assumption***

The business going-concern assumption refers to a valuation assumption made by taking the whole assets of the enterprise as the object of evaluation. Namely, it is assumed that the enterprise as the operating entity operates continually in pursuit of its operation objectives under its external environment. The operators of the enterprise are responsible and capable of assuming liabilities; and the enterprise conducts lawful operation, and is able to earn appropriate profits to maintain its capability to operate as a going-concern.

---

## LETTER FROM THE BOARD

---

### II. Special Assumptions

1. The macroeconomic policy, industrial policy and development policy of the countries and regions where Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) are located, except for those known to the public, does not change significantly after the Benchmark Date.
2. There is no significant change in tax benchmarks, tax rates, and policy levy charges applicable to Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) after the Benchmark Date, except for those known to the public.
3. The management of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) fulfil their duties on the Benchmark Date, and will continue to maintain the existing business management model for continuous operation.
4. The accounting policies adopted by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) and the accounting policies and accounting methods adopted in the preparation of appraisal reports after the Benchmark Date shall be consistent in material aspects.
5. The acquisition and utilization methods of the production and business premises of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) will be consistent as they were as at the Benchmark Date without any change.
6. The composition of income and cost and business strategy of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) will continue to operate in the future operating period in accordance with the business plan determined on the Benchmark Date. The profits and losses caused by changes in business types as a result of changes in management, business strategies and business environment in the future are not taken into account.
7. It is assumed that in the future operating period, the various expenses of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) during the period will continue to be incurred according to the business plan and business needs as at the Benchmark Date.
8. It is assumed that there are no other man-made irresistible factors and unforeseen factors during the forecast period which will cause significant adverse effects Shandong Energy Finance Company or Yankuang Finance Company (as the case may be).

---

## LETTER FROM THE BOARD

---

9. It is assumed that the basic information and financial information provided by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) are true, accurate and complete.
10. The scope of assessment is only based on the assessment declaration form provided by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be), without considering the contingent assets and contingent liabilities that may exist outside the list provided by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be).
11. It is assumed that operating cash inflows and cash outflows will occur evenly in the future earnings period of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be).
12. All assets in this appraisal are premised on the actual stock on the Benchmark Date, and the current market price of the relevant assets is based on the effective domestic price on the Benchmark Date.
13. The main business income of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) mainly comes from net interest income, handling fee and commission income and investment income, regardless of possible new business in the future.
14. The future net profit will be distributed to the greatest extent possible after satisfying the business development and capital control of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be).

### III. Quantitative Assumptions

#### (a) *Shandong Energy Finance Company*

##### 1. *Forecasted revenue*

The revenue of Shandong Energy Finance Company consists of (i) interest income generated from loans and deposit due from the central bank and other financial institutions; and (ii) fee and commission income.

---

## LETTER FROM THE BOARD

---

The following table sets out the basis of the forecasted revenue of Shandong Energy Finance Company:

<b>Items</b>	<b>Basis</b>
Interest income generated from loans	<p>It is forecasted based on the estimated average daily short-term and long-term loan balances multiplied by the estimated respective loan interest rates.</p> <p>As advised by the Independent Valuer, (i) the average daily loan balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected demand for the credit facilities by the Group; and (ii) the loan interest rates, including long-term loan interest rate of 3.55% and short-term loan interest rate of 3.34%, which are the interest rates for the six months ended 30 June 2022, are adopted to forecast the interest income generated from loans throughout the forecast period.</p>
Interest income generated from deposit due from the central bank and other financial institutions	<p>It is forecasted based on the estimated average daily deposit balance multiplied by the estimated deposit interest rate.</p> <p>As advised by the Independent Valuer, (i) the average daily deposit balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected increase in deposit; and (ii) the deposit interest rate is determined based on the interest rate offered by the central bank as at 30 June 2022 of 1.62% (for deposit due from the central bank) and the interest rate offered by other financial institutions as at 30 June 2022 of 2.29% (for deposit due from other financial institutions).</p>

---

## LETTER FROM THE BOARD

---

<b>Items</b>	<b>Basis</b>
Fee and commission income	<p>It is forecasted based on the fee charged for the entrusted loans.</p> <p>As advised by the Independent Valuer, since it is expected that the demand for entrusted loans will be stable during the forecast period, the fee and commission income is estimated based on the fee charged for the entrusted loans for the six months ended 30 June 2022.</p>

### *2. Forecasted cost of revenue*

The cost of revenue of Shandong Energy Finance Company comprises (i) interest expense paid to the depositors for the deposits; and (ii) fee and commission charges. As advised by the Independent Valuer, (i) the interest expense paid to the depositors for the deposits during the forecast period is calculated based on the estimated average daily deposit multiplied by the estimated interest rate; (ii) the estimated average daily deposit is determined with reference to the actual average daily deposit for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022; (iii) the estimated interest rate is determined with reference to the actual average interest rate for each of the two years ended 31 December 2019 and 2020 since Shandong Energy Finance Company increased the interest rates granted to the depositors for the year ended 31 December 2021 and the six months ended 30 June 2022 in order to reduce the impact of COVID-19 pandemic on the depositors and it is expected that Shandong Energy Finance Company will not offer such increased interest rates to the depositors during the forecast period; and (iv) the fee and commission charges during the forecast period are estimated based on the historical fee and commission charges for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022.

### *3. Forecasted investment revenue*

Shandong Energy Finance Company currently holds a treasury bond investment with a yield of 2.02%. The forecasted investment revenue is based on the daily average balance of the investment on the Benchmark Date and estimated annual interest rate level in future years.

---

## LETTER FROM THE BOARD

---

### 4. *Forecasted business and management fees*

The business and management fees of Shandong Energy Finance Company mainly comprise labor costs, business hospitality and depreciation expenses, rental fees, supervision fees, etc, among which (i) labor costs are forecasted based on the estimated annual growth rate of 5%; (ii) rental fees are forecasted according to the relevant contracts; (iii) depreciation expenses are forecasted based on the estimated future depreciation of fixed assets; and (iv) supervision fees are forecasted based on both institution supervision fees and business supervision fees in accordance with the requirements of the “Notice of the China Banking and Insurance Regulatory Commission on the Payment of the Banking and Insurance Regulatory Fees in 2021 forwarded by the Shandong Banking and Insurance Regulatory Bureau “ (Lu Yinbaojianfa [2022] No. 3). Other fees are forecasted based on their proportion to revenue or annual average in historical years.

### 5. *Forecasted tax and surcharge*

Shandong Energy Finance Company provides financial services such as loans, discounts, and intermediary business to group members, and the applicable value-added tax rate is 6%. Shandong Energy Finance Company are mainly subject to the following tax and surcharge: urban construction tax of 7%, education surcharge of 3%, local education surcharge of 2% and stamp duty. The tax and surcharge are forecasted based on the estimated tax base multiplied by the relevant tax rates.

### 6. *Forecasted impairment loss of assets*

The main impairment loss of assets of Shandong Energy Finance Company is impairment loss of loans. The impairment loss of assets are forecasted based on the estimated balance of loans and advances newly granted by Shandong Energy Finance Company in future years multiplied by an impairment loss rate of 2.5%.

### 7. *Forecasted income tax*

The applicable income tax rate of Shandong Energy Finance Company is 25%. According to the historical situation, the forecast of income tax is based on the predicted operating results and the applicable tax rate of 25%.

---

## LETTER FROM THE BOARD

---

### 8. *Forecasted increase in equity*

According to the provisions of the Company Law of the PRC and its articles of association, Shandong Energy Finance Company shall allocate 10% of the net profit to the statutory surplus reserve and the statutory surplus reserve shall not be withdrawn when it exceeds 50% of the registered capital of Shandong Energy Finance Company. According to the Administrative Measures for the Provision of Reserve Funds of Financial Enterprises issued by the Ministry of Finance on March 30, 2012 (Caijin (2012) No. 20), Shandong Energy Finance Company shall maintain a general risk reserve at 1.5% of the closing balance of deposits with other financial institutions, loans and advances.

### 9. *Forecasted comprehensive income*

Shandong Energy Finance Company had no other comprehensive income in the historical periods so no forecast for other comprehensive income is made by the Independent Valuer.

### 10. *Discount rate*

The discount rate adopted by the Independent Valuer in the valuation of Shandong Energy Finance Company is 9.08%, which is determined based on the cost of equity of Shandong Energy Finance Company since the valuation of Shandong Energy Finance Company was estimated based on the net present value of the projected free cash flows to equity of Shandong Energy Finance Company. In estimating the cost of equity, the Independent Valuer has adopted the capital asset pricing model which is a commonly used model to compute the cost of equity as discount rate. As advised by the Independent Valuer, in determining the cost of equity, (i) the risk-free rate was determined with reference to the yield of PRC government bond which will be expired after 10 years from the Benchmark Date; (ii) the market risk premium was calculated based on the index rate of return of the Shanghai Stock Exchange Composite Index less the risk-free rate; (iii) the levered beta was determined based on the average levered beta of listed banks on Shanghai Stock Exchange whose businesses are similar to those of Shandong Energy Finance Company; and (iv) the specific risk premium was determined based on the risk factors of Shandong Energy Finance Company as compared to those of the comparable companies in terms of the following, including but not limited to the size of the company, enterprise development stage, core competitiveness, dependence on major customers and key suppliers, financing capabilities and costs.

---

## LETTER FROM THE BOARD

---

In light of the above factors and taking into account the fact that (i) the valuation report has been prepared in compliance with PRC valuation procedures, standards, laws and regulations by the Independent Valuer with necessary qualification and relevant valuation experience; (ii) the Independent Valuer has reviewed relevant financial information, operational information and other relevant data concerning Shandong Energy Finance Company, and conducted due diligence to gain a thorough understanding of Shandong Energy Finance Company; and (iii) the Directors have reviewed and discussed with the Independent Valuer the methodology, basis and assumptions adopted in the valuation and have been advised that the valuation assumptions adopted are the usual assumptions adopted by a professional valuer for such entity, the Directors are of the view that the assumptions adopted by the Independent Valuer in the valuation of Shandong Energy Finance Company are fair and reasonable.

**(b) *Yankuang Finance Company***

*1. Forecasted revenue*

The revenue of Yankuang Finance Company consists of (i) interest income generated from loans, bills discounting, and deposit due from the central bank and other financial institutions; (ii) investment income; and (iii) fee and commission income.

The following table sets out the basis of the forecasted revenue of Yankuang Finance Company:

<b>Items</b>	<b>Basis</b>
Interest income generated from loans	<p>It is forecasted based on the estimated average daily loan balance multiplied by the estimated loan interest rate.</p> <p>As advised by the Independent Valuer, (i) the average daily loan balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected demand for the credit facilities by the Group; and (ii) the loan interest rate of 3.40%, which is the interest rate for the six months ended 30 June 2022, is adopted to forecast the interest income generated from loans throughout the forecast period.</p>



---

## LETTER FROM THE BOARD

---

<b>Items</b>	<b>Basis</b>
Interest income generated from bills discounting	<p>It is forecasted based on the estimated average daily balance of bills discounting multiplied by the estimated bill discounting interest rate.</p> <p>As advised by the Independent Valuer, (i) since the average balance of the bill discounting business is volatile for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022, the average balance for the six months ended 30 June 2022 is adopted to forecast the interest income generated from bills discounting which is expected to reflect the demand for bills discounting in the forecast period; and (ii) the interest rate adopted for the forecast is the average interest rate of each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022.</p>
Interest income generated from deposit due from the central bank and other financial institutions	<p>It is forecasted based on the estimated average daily deposit balance multiplied by the estimated deposit interest rate.</p> <p>As advised by the Independent Valuer, (i) the average daily deposit balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected increase in deposit; and (ii) the deposit interest rate is determined based on the interest rate offered by the central bank as at 30 June 2022 of 1.62% (for deposit due from the central bank) and the interest rate offer by other financial institutions as at 30 June 2022 of 2.29% (for deposit due from other financial institutions).</p>

---

## LETTER FROM THE BOARD

---

<b>Items</b>	<b>Basis</b>
Investment income	<p>It is forecasted based on the estimated average average daily balance multiplied by the estimated yield rates of bond fund and money market funds.</p> <p>As advised by the Independent Valuer, (i) the average daily balance as at 30 June 2022 has been adopted for the forecast of the investment income during the forecast period; and (ii) considering that the yield rates of the bond fund and money market funds are volatile, the yield rates during the forecast period were determined with reference to the average yield rates of the bond fund and money market funds for each of the two years ended 31 December 2020 and 2021 and the six months ended 30 June 2022.</p>
Fee and commission income	<p>It is forecasted based on the fee charged for the financial services, including but not limited to the charges for the issuance of acceptance bills, letter of credit, and letter of guarantee.</p> <p>As advised by the Independent Valuer, since it is expected that the demand for the financial services will be stable during the forecast period, the fee and commission income is estimated based on the commission income for the six months ended 30 June 2022.</p>

### *2. Forecasted cost of revenue*

The cost of revenue of Yankuang Finance Company consists of (i) interest expense paid to the depositors for the deposits; and (ii) fee and commission charges. As advised by the Independent Valuer, (i) the interest expense paid to the depositors for the deposits during the forecast period is calculated based on the estimated average daily deposit multiplied by the estimated interest rate; (ii) the estimated average daily deposit is determined with reference to the actual average daily deposit for each of the two years ended 31 December 2020, and 2021 and the six months ended 30 June 2022 while the above estimated interest rate are determined with reference to the actual average interest rate during the three years ended 31 December 2021 and the six months

---

## LETTER FROM THE BOARD

---

ended 30 June 2022; and (iii) the fee and commission charges during the forecast period are estimated based on the historical fee and commission charges for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022.

### *3. Forecasted business and management fees*

The business and management fees of Yankuang Finance Company mainly comprise labor costs, business hospitality and depreciation expenses, rental fees, information service fees, etc, among which (i) labor costs are forecasted based on the estimated annual growth rate of 5%; (ii) rental fees are forecasted according to the relevant contracts; (iii) depreciation expenses are forecasted based on the estimated future depreciation of fixed assets and right-of-use assets. Travel expenses and vehicle usage fees shall increase year by year with the increase of business income and are estimated based on its proportion to business income. Other fees are forecasted based on the historical annual average level since their amounts are relatively stable in recent years.

### *4. Forecasted tax and surcharge*

Yankuang Finance Company provides financial services such as loans, discounts, and intermediary business to group members, and the applicable value-added tax rate is 6%. Yankuang Finance Company is mainly subject to the following tax and surcharge: urban construction tax rate of 7%, education surcharge rate of 3% and local education surcharge rate of 2%. The tax and surcharge are forecasted based on the estimated tax base multiplied by the relevant tax rates.

### *5. Forecasted impairment loss of assets*

The main impairment loss of assets of Yankuang Finance Company is impairment loss of loans. The impairment loss of assets are forecasted based on the estimated balance of loans and advances newly granted by Yankuang Finance Company in future years multiplied by an impairment loss rate of 2.5%.

### *6. Forecasted income tax*

The applicable income tax rate of Yankuang Finance Company is 25%. According to the historical situation, the forecast of income tax is based on the predicted operating results and the applicable tax rate of 25%.

---

## LETTER FROM THE BOARD

---

### 7. *Forecasted increase in equity*

According to the provisions of the Company Law of the PRC and its articles of association, Yankuang Finance Company shall allocate 10% of the net profit to the statutory surplus reserve and the statutory surplus reserve shall not be withdrawn when it exceeds 50% of the registered capital of Yankuang Finance Company. According to the Administrative Measures for the Provision of Reserve Funds of Financial Enterprises issued by the Ministry of Finance on March 30, 2012 (Caijin (2012) No. 20), Yankuang Finance Company shall maintain a general risk reserve at 1.5% of the closing balance of deposits with other financial institutions, loans and advances.

### 8. *Forecasted comprehensive income*

Yankuang Finance Company had no other comprehensive income in the historical periods so no forecast for other comprehensive income is made by the Independent Valuer.

### 9. *Discount rate*

The discount rate adopted by the Independent Valuer in the valuation of Yankuang Finance Company is 9.08%, which is determined based on the cost of equity of Yankuang Finance Company since the valuation of Yankuang Finance Company was estimated based on the net present value of the projected free cash flows to equity of Yankuang Finance Company. In estimating the cost of equity, the Independent Valuer has adopted the capital asset pricing model which is a commonly used model to compute the cost of equity as discount rate. As advised by the Independent Valuer, in determining the cost of equity, (i) the risk-free rate was determined with reference to the yield of PRC government bond which will be expired after 10 years from the Benchmark Date; (ii) the market risk premium was calculated based on the index rate of return of the Shanghai Stock Exchange Composite Index less the risk-free rate; (iii) the levered beta was determined based on the average levered beta of listed banks on Shanghai Stock Exchange whose businesses are similar to those of Yankuang Finance Company; and (iv) the specific risk premium was determined based on the risk factors of Yankuang Finance Company as compared to those of the comparable companies in terms of the following, including but not limited to the size of the company, enterprise development stage, core competitiveness, dependence on major customers and key suppliers, financing capabilities and costs.

---

## LETTER FROM THE BOARD

---

In light of the above factors and taking into account the fact that (i) the valuation report has been prepared in compliance with PRC valuation procedures, standards, laws and regulations by the Independent Valuer with necessary qualification and relevant valuation experience; (ii) the Independent Valuer has reviewed relevant financial information, operational information and other relevant data concerning Yankuang Finance Company, and conducted due diligence to gain a thorough understanding of Yankuang Finance Company; and (iii) the Directors have reviewed and discussed with the Independent Valuer the methodology, basis and assumptions adopted in the valuation and have been advised that the valuation assumptions adopted are the usual assumptions adopted by a professional valuer for such entity, the Directors are of the view that the assumptions adopted by the Independent Valuer in the valuation of Yankuang Finance Company are fair and reasonable.

### **Confirmations**

SHINEWING (HK) CPA Limited the reporting accountant of the Company, has reviewed the arithmetical accuracy of the calculations of the profit forecast on which the valuations as contained in the Valuation Reports are based, which involve the adoption of accounting policies and the appropriateness and validity of the assumptions. The Board has confirmed that the profit forecast as contained in the Valuation Reports have been made after due and careful enquiry by the Board.

The text of the report from SHINEWING (HK) CPA Limited and the letter issued by the Board, both dated 8 September 2022, are set out in Appendix IV and Appendix V to this circular, respectively.

### **III. PROVISION OF FINANCIAL SERVICES TO SHANDONG ENERGY**

Reference is made to the announcement (“**Financial Services Announcement**”) of the Company dated 29 April 2022 and the circular of the Company dated 10 June 2022 in relation to the 2023 Financial Services Agreement entered into between Yankuang Finance Company, a subsidiary of the Company, and Shandong Energy. Unless stated otherwise, capitalised terms used herein shall have the same meanings as those defined in the Financial Services Announcement.

As stated in the Financial Services Announcement, as the 2020 Financial Services Agreement will expire on 31 December 2022 and the parties thereto expect that the continuing connected transactions contemplated thereunder will continue on an ongoing basis, Yankuang Finance Company entered into the 2023 Financial Services Agreement with Shandong Energy to provide deposit services, comprehensive credit facility services and miscellaneous financial services to Shandong Energy Members. The 2023 Financial Services Agreement, the transactions contemplated thereunder and the relevant annual caps were approved in the annual general meeting of the Company held on 30 June 2022. For details of such annual general meeting, please refer to the announcement of the Company dated 30 June 2022.

---

## LETTER FROM THE BOARD

---

In light of the Absorption and Merger, Shandong Energy Finance Company has entered into the First Financial Services Agreement with Shandong Energy in order to provide deposit services, comprehensive credit facility services and miscellaneous financial services to Shandong Energy Members in replace of Yankuang Finance Company. The major terms of the First Financial Services Agreement are set out below:

**Date**

26 August 2022

**Parties:**

- (1) Shandong Energy Finance Company
- (2) Shandong Energy

**Major Terms and Pricing Policy**

Pursuant to the First Financial Services Agreement, Shandong Energy Finance Company shall provide the following financial services to Shandong Energy Members:

*(i) Deposit services*

Shandong Energy Finance Company shall provide deposit services to Shandong Energy Members in accordance with normal commercial terms with a maximum daily balance (including accrued interests) of not exceeding RMB62.5 billion during the term of the First Financial Services Agreement.

The interest rate for Shandong Energy Members' deposit with Shandong Energy Finance Company shall comply with relevant regulations of the PBOC and be determined on normal commercial terms with reference to the deposits benchmark interest rate promulgated by the PBOC periodically (if any), and the interest rate offered by the General Commercial Banks for the provision of same type of deposit services.

*(ii) Comprehensive credit facility services*

Shandong Energy Finance Company shall provide comprehensive credit facilities (including but not limited to loans, trade financing, bill acceptance and discounting, overdraft, factoring, guarantee, loan commitment, opening of letter of credit, etc.) to Shandong Energy Members with a maximum daily balance (including accrued interests) of not exceeding RMB28 billion, RMB30 billion and RMB32 billion for each of the three years from 2023 to 2025 respectively during the term of the First Financial Services Agreement.

The interest rate for the loan to be provided by Shandong Energy Finance Company to Shandong Energy Members shall comply with relevant regulations of the PBOC and be determined on normal commercial terms with reference to the

---

## LETTER FROM THE BOARD

---

loan benchmark interest rate promulgated by the PBOC periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of loan services.

*(iii) Miscellaneous financial services*

Shandong Energy Finance Company shall provide miscellaneous financial services (including but not limited to bill acceptance and discounting services, financial and financing consultation services, credit certification and related consultation services, agency services, settlement services including payment and receipt, entrusted loans services, guarantee business services and other ancillary services in relation to settlement services) to Shandong Energy Members. The total annual fees charged by Shandong Energy Finance Company for the provision of miscellaneous financial services to Shandong Energy Members shall not exceed RMB6 million during the term of the First Financial Services Agreement.

The fees for the provision of miscellaneous financial services to Shandong Energy Members shall be charged by Shandong Energy Finance Company according to the prescribed rates determined by the PBOC or the CBIRC. If no such prescribed rates are available, the services fees shall be determined on normal commercial terms with reference to the fees charged by General Commercial Banks for the provision of the same type of financial services.

Shandong Energy Finance Company will (i) directly collect the information about the relevant rates set by the PBOC and/or the General Commercial Banks for relevant deposit and comprehensive credit facility services and the policy promulgated by the PBOC; (ii) directly collect the information about the standard fees and charges for relevant miscellaneous financial services as specified by the PBOC or the CBIRC (if applicable) and fees and charges provided by the General Commercial Banks so as to ensure that each transaction is conducted in accordance with the above pricing policy of the First Financial Services Agreement.

In addition, according to the provisions of the First Financial Services Agreement, if Shandong Energy Members have not repaid a loan and/or its interest upon the expiry of term of such loan, Shandong Energy Finance Company can convert the corresponding amounts of deposits of such Shandong Energy Members which is placed with Shandong Energy Finance Company as repayment of principal of such loan together with interest. If Shandong Energy Members have funding difficulty and cannot repay the principal of the loan from Shandong Energy Finance Company or its interest, Shandong Energy shall assume the joint liability for repayment of the principal of such loan together with interest.

### **Effective Date and Conditions Precedent**

The First Financial Services Agreement shall become effective upon the satisfaction of the following conditions precedent, among others, with effect from 1 January 2023 and will expire on 31 December 2025:

---

## LETTER FROM THE BOARD

---

1. Yankuang Finance Company and Shandong Energy Finance Company entered into an agreement in respect of the Absorption and Merger and such agreement came into effect.
2. The completion of the internal approval process of the Merged Enterprise in respect of the First Financial Services Agreement.
3. The Company obtained approval for the First Financial Services Agreement from its shareholders' meeting.
4. All Shandong Energy Members covered by the First Financial Services Agreement completed filing with the CBIRC.
5. The Merged Enterprise has met the regulatory requirements of the CBIRC in order to carry out the business covered by the First Financial Services Agreement, and the necessary business has been approved by CBIRC (if necessary).
6. The contents of the First Financial Services Agreement are in compliance with the regulatory requirements of the CBIRC.
7. All the changes of the Merged Enterprise are approved by the CBIRC and the change of business registration is completed.
8. Shandong Energy has completed the internal approval process and issued the approval document for the First Financial Services Agreement.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

### **Internal Control Measures**

The following procedures have been adopted by the Group to ensure that the relevant continuing connected transactions will proceed according to the terms (including the pricing policy) required by the First Financial Services Agreement, and such transactions will proceed on normal commercial terms and are in the interests of the Company and the Shareholders as a whole:

In terms of credit risks management, the credit review committee of Shandong Energy Finance Company will conduct prior review over the proposed comprehensive credit facilities amount and terms of the credit agreement before granting credit facilities to Shandong Energy Members. The senior management of Shandong Energy Finance Company will re-examine the decision making and approval procedure of the credit review committee of Shandong Energy Finance Company before providing comprehensive credit facility services to Shandong Energy Members. The audit committee of the Company will conduct quarterly review over the approval procedure and provision of the comprehensive credit facility services between Shandong Energy Finance Company and Shandong Energy Members. To evaluate the financial position



---

## LETTER FROM THE BOARD

---

and credit records of Shandong Energy Members, the business department of Shandong Energy Finance Company will require Shandong Energy Members to provide financial statements on a quarterly basis and to provide monthly management accounts immediately before granting any loan to Shandong Energy Members.

In terms of information transparency, according to the requirements of China National Association of Finance Companies, Shandong Energy Finance Company will report data of key operating indicators and the financial statements to the association on monthly, quarterly and annual basis. China National Association of Finance Companies publishes periodically the basic operating data for finance companies' sector on its official website, announces periodically the operating data and indicator ranking of finance companies with member units. Furthermore, under regulatory requirements of the CBIRC and the PBOC, Shandong Energy Finance Company reports and sends its financial statements to the regulators on a monthly basis. The Company will disclose the operating information of Shandong Energy Finance Company and the provision of continuing connected transactions under the First Financial Services Agreement in its interim and annual reports.

As such, the Directors consider that the above methodologies and procedures could ensure that the relevant continuing connected transactions will proceed according to the terms (including the pricing policy) required by the First Financial Services Agreement, and such transactions will proceed on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

---

## LETTER FROM THE BOARD

---

### **Capital Risk Control Measures**

To protect the interests of the Shareholders, Shandong Energy Finance Company has implemented the following capital risk control measures in relation to the control of the Group's capital risk exposure:

- (i) Shandong Energy Finance Company has formulated its business management system and internal risk control system based on its needs in business operation and risk management.
- (ii) Shandong Energy Finance Company has implemented capital budget control and planning management. It has tightened its centralized control over payments to monitor capital flow.
- (iii) Shandong Energy Finance Company has set up the risk indicators monitoring mechanism. The mechanism will raise monthly alert based on calculations of twenty indicators in seven aspects, such as capital adequacy, liquidity, credit risks and market risks, to ensure the risks are measurable and manageable. Shandong Energy Finance Company will track and manage the entire process of credit facilities to ensure that the risks before, amidst and after credit grant are measurable, and that the credit assets are financially secure.
- (iv) Shandong Energy Finance Company has upgraded its capital management system to ensure the safe operation of its capital management network.

The Directors consider that the above capital risk control measures adopted by Shandong Energy Finance Company in respect of the continuing connected transactions contemplated under the First Financial Services Agreement are appropriate and that such procedures and measures will give sufficient assurance to the Shareholders that such continuing connected transactions will be appropriately monitored by the Company.

### **Payment**

The payment of the relevant interests, expenses and service fees for the above services can be settled by the parties on a one-off basis or by installment in accordance with specific circumstances. Shandong Energy Finance Company will use internal resources to pay the relevant interests to Shandong Energy Members for the provision of deposit services.

---

## LETTER FROM THE BOARD

---

### Historical Amount, Proposed Annual Caps and Reasons

The aggregate historical transaction amounts of the financial services provided by Yankuang Finance Company and Shandong Energy Finance Company to Shandong Energy Members for the two years ended 31 December 2020 and 31 December 2021 and six months ended 30 June 2022 are set out as follows:

Item	Unit	For the year ended 31 December 2020 Actual amount	For the year ended 31 December 2021 Actual amount	For the six months ended 30 June 2022 Actual amount
Maximum daily balance of deposit	RMB billion	40.733	62.531	31.029
Maximum daily balance of comprehensive credit facility	RMB billion	22.133	24.290	23.504
Aggregate miscellaneous financial services fees	RMB million	2.885	1.782	0.811

Having considered the historical maximum daily balance of deposit for the year ended 31 December 2021 as provided by Yankuang Finance Company and Shandong Energy Finance Company to Shandong Energy Members, the Board proposed that the maximum daily balance of deposit (including accrued interests) under the First Financial Services Agreement shall not exceed RMB62.5 billion for each of the three years ending 31 December 2023, 31 December 2024 and 31 December 2025.

Having considered (i) the historical maximum daily balances of comprehensive credit facility provided by Yankuang Finance Company and Shandong Energy Finance Company to Shandong Energy Members; (ii) the increasing funding needs of Shandong Energy Members for investment in new projects, trade financing and procurement of materials in 2023; (iii) a reasonable annual growth expectation of the funding needs of Shandong Energy Members from 2023 to 2025; and (iv) the wider scope of financial services business of Shandong Energy Finance Company as compared with that of Yankuang Finance Company, the Board proposed that the maximum daily balance (including accrued interests) of comprehensive credit facility to be provided by Shandong Energy Finance Company to Shandong Energy Members under the First Financial Services Agreement shall not exceed RMB28 billion, RMB30 billion and RMB32 billion for each of the three years ending 31 December 2023, 31 December 2024 and 31 December 2025, respectively.

Having considered Shandong Energy Members' demand for the miscellaneous financial services, the Board proposed that the maximum annual fees payable for such miscellaneous financial services under the First Financial Services Agreement shall not exceed RMB6 million for each of the three years ending 31 December 2023, 31 December 2024 and 31 December 2025.

---

## LETTER FROM THE BOARD

---

The above annual caps are 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 entering into the First Financial Services Agreement**

The Company is principally engaged in the business of mining, high-end chemicals and new materials, new energy, high-end equipment manufacturing and smart logistics.

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.

Upon Completion, Yankuang Finance Company will be merged and absorbed by Shandong Energy Finance Company and Yankuang Finance Company will subsequently be dissolved and deregistered. In order to maintain the provision of financial services to Shandong Energy Members, the Company considers that the surviving entity of the Merger Transaction, i.e. Shandong Energy Finance Company, needs to enter the First Financial Services Agreement with Shandong Energy.

Through the provision of financial services to Shandong Energy Members, Shandong Energy Finance Company can expand its source of capital through absorbing capitals from Shandong Energy Members, enlarge its business scope, improve its profitability through providing loan and settlement services to Shandong Energy Members by means of charging loan interests and other service fees. At the same time, the Company can integrate financial resources and replace external high-interest loans through the platform of Shandong Energy Finance Company, thereby lowering its financing costs and improving its competitive edge.

The Directors (including the independent non-executive Directors) consider that the transactions under the First Financial Services Agreement are entered into after arm's length negotiations and based on normal commercial terms, and therefore the terms of such transactions and the proposed caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Implications under the Listing Rules**

Upon Completion, the Merged Enterprise will be directly owned as to approximately 53.92% by the Company, directly owned as to approximately 31.67% by Shandong Energy, directly owned as to approximately 4.33% by Shareholder A, directly owned as to approximately 2.88% by Shareholder B, directly owned as to approximately 2.88% by Shareholder C, directly owned as to approximately 1.44% by Shareholder D, directly owned as to approximately 1.44% by Shareholder E and directly owned as to approximately 1.44% by Shareholder F. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy; while Shareholder C and Shareholder D are owned as to 60% and

---

## LETTER FROM THE BOARD

---

70% by Shandong Energy, respectively. As such, the Merged Enterprise will become a subsidiary of the Company under the Listing Rules. Since Shandong Energy is a controlling Shareholder of the Company holding directly and indirectly approximately 54.92% of the issued share capital of the Company as at the Latest Practicable Date, upon Completion, if materializes, the First Financial Services Agreement would constitute a major and continuing connected transaction of the Company which is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

*(i) Deposit services*

As the deposit services to be provided by Shandong Energy Finance Company to Shandong Energy Members under the First Financial Services Agreement are on normal commercial terms, and no security over the assets of the Group is or will be granted in respect of such services, the deposit services to be provided by Shandong Energy Finance Company to Shandong Energy Members are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

*(ii) Comprehensive credit facility services*

As the highest applicable percentage ratio with respect to the proposed annual caps in relation to the provision of comprehensive credit facility services under the First Financial Services Agreement is more than 25% but less than 100%, such transactions, together with the proposed annual caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Such transactions also constitute a major transaction of the Company and are subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

*(iii) Miscellaneous financial services*

As all of the relevant applicable percentage ratios with respect to the proposed annual caps in relation to the provision of miscellaneous financial services under the First Financial Services Agreement are less than 0.1%, such transactions are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

---

## LETTER FROM THE BOARD

---

### IV. PROVISION OF FINANCIAL SERVICES TO THE COMPANY

Apart from the First Financial Services Agreement, Shandong Energy Finance Company also entered into the Second Financial Services Agreement with the Company. The major terms of the Second Financial Services Agreement are set out below:

**Date**

26 August 2022

**Parties:**

- (1) Shandong Energy Finance Company
- (2) The Company

**Major Terms and Pricing Policy**

Pursuant to the Second Financial Services Agreement, Shandong Energy Finance Company shall provide the following financial services to the Group:

*(i) Deposit services*

Shandong Energy Finance Company shall provide deposit services to the Group in accordance with normal commercial terms with a maximum daily balance (including accrued interests) of not exceeding RMB27 billion during the term of the Second Financial Services Agreement.

The interest rate for the Group's deposit with Shandong Energy Finance Company shall comply with relevant regulations of the PBOC and be determined on normal commercial terms with reference to the deposits benchmark interest rate promulgated by the PBOC periodically (if any), and the interest rate offered by the General Commercial Banks for the provision of same type of deposit services.

*(ii) Comprehensive credit facility services*

Shandong Energy Finance Company shall provide comprehensive credit facilities (including but not limited to loans, trade financing, bill acceptance and discounting, overdraft, factoring, guarantee, loan commitment, opening of letter of credit, etc.) to the Group with a maximum daily balance (including accrued interests) of not exceeding RMB15 billion, RMB16 billion and RMB17 billion for each of the three years from 2023 to 2025 respectively during the term of the Second Financial Services Agreement.

The interest rate for the loan to be provided by Shandong Energy Finance Company to the Group shall comply with relevant regulations of the PBOC and be determined on normal commercial terms with reference to the loan benchmark interest rate promulgated by the PBOC periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of loan services.

---

## LETTER FROM THE BOARD

---

*(iii) Miscellaneous financial services*

Shandong Energy Finance Company shall provide miscellaneous financial services (including but not limited to bill acceptance and discounting services, financial and financing consultation services, credit certification and related consultation services, agency services, settlement services including payment and receipt, entrusted loans services, guarantee business services and other ancillary services in relation to settlement services) to the Group. The total annual fees charged by Shandong Energy Finance Company for the provision of miscellaneous financial services to the Group shall not exceed RMB5 million during the term of the Second Financial Services Agreement.

The fees for the provision of miscellaneous financial services to the Group shall be charged by Shandong Energy Finance Company according to the prescribed rates determined by the PBOC or the CBIRC. If no such prescribed rates are available, the services fees shall be determined on normal commercial terms with reference to the fees charged by General Commercial Banks for the provision of the same type of financial services.

With regard to the deposit services, Shandong Energy Finance Company will inform the Company's finance management department the relevant rates set by the PBOC for similar services and provide the Company with the cap value of the interest rate stipulated by the government when the Group's deposits are being placed in Shandong Energy Finance Company, which rates shall be independently verified by the Company. In addition, the Company will consider the quality of services provided by Shandong Energy Finance Company and General Commercial Banks or financial institutions in the PRC in making its choice of service provider. With regard to the comprehensive credit facility services, when loans and financing services are required by the Group, the Company's finance management department will check and compare the relevant rates set by the PBOC or General Commercial Banks for comparable services.

In addition, Shandong Energy Finance Company will inform the Company's finance management department the balance of the Group's deposits in Shandong Energy Finance Company and the balance of loans provided by Shandong Energy Finance Company to the Group on a monthly basis. The finance management department of the Company will designate a person who is specifically responsible to monitor the relevant rates set by the PBOC and/or General Commercial Banks for similar deposit and comprehensive credit facility services and the policy promulgated by the PBOC to ensure that each transaction is conducted in accordance with the abovementioned pricing policy under the Second Financial Services Agreement.

In respect of the above-mentioned miscellaneous financial services, the Company's finance management department will check the standard fees and charges as specified by PRC regulatory authorities and, if necessary, the fees and charges offered by at least two General Commercial Banks or brokerage companies in the PRC and compare them with the fees and charges offered by Shandong Energy Finance Company to ensure the service fees and charges will be no less favorable than the terms offered by the General Commercial Banks or brokerage companies in the PRC.

---

## LETTER FROM THE BOARD

---

Accordingly, the Directors believe that the above methodologies and procedures can ensure that the relevant continuing connected transactions will be conducted in accordance with the terms (including pricing policy) of the Second Financial Services Agreement and such transactions will be conducted on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

### **Effective Date and Conditions Precedent**

The Second Financial Services Agreement shall become effective upon the satisfaction of the following conditions precedent, among others, with effect from 1 January 2023 and will expire on 31 December 2025:

1. Shandong Energy Finance Company and Yankuang Finance Company entered into an agreement in respect of the Absorption and Merger and such agreement came into effect.
2. The completion of the internal approval process of the Merged Enterprise in respect of the Second Financial Services Agreement.
3. The Company obtained approval for the Second Financial Services Agreement from its shareholders' meeting.
4. All Group members covered by the Second Financial Services Agreement completed filing with the CBIRC.
5. The Merged Enterprise has met the regulatory requirements of the CBIRC in order to carry out the business covered by the Second Financial Services Agreement, and the necessary business has been approved by CBIRC (if necessary).
6. The contents of the Second Financial Services Agreement are in compliance with the regulatory requirements of the CBIRC.
7. all the changes of the Merged Enterprise are approved by the CBIRC and the change of business registration is completed.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.



---

## LETTER FROM THE BOARD

---

### Capital Risk Control Measures

To protect the interests of the Group and the Shareholders, Shandong Energy Finance Company provided the following representations and warranties under the Second Financial Services Agreement in relation to the control of the Group's capital risks:

- (1) Shandong Energy Finance Company shall strictly comply with the risk monitoring indicators and guidelines for financial institutions issued by the CBIRC and that its major regulatory indicators such as gearing ratio and liquidity ratio shall comply with the requirements of the CBIRC and other relevant laws, administrative regulations, departmental rules and regulatory documents in the PRC;

Shandong Energy Finance Company shall ensure the safety of funds and control risks of assets and liabilities. In the event of any of the following situations, Shandong Energy Finance Company shall notify the Company immediately, and shall actively take measures to mitigate the risks and prevent the spread of such risks:

- (i) the asset-liability ratio of Shandong Energy Finance Company does not meet the regulatory requirements of the CBIRC;
  - (ii) occurrence of material events in Shandong Energy Finance Company such as the run of depositors, unpaid due debts, guarantee advance, serious malfunction in computer system, being robbed or defrauded, or when directors or the senior management are involved in severe violation of discipline or criminal cases;
  - (iii) Shandong Energy Finance Company is subject to administrative punishments or orders to rectify by the CBIRC and other regulatory authorities due to violations of laws and regulations; and
  - (iv) occurrence of other material events which results in Shandong Energy Finance Company subject to administrative punishments or orders to rectify by the CBIRC and other regulatory authorities;
- (2) the Group's deposits with Shandong Energy Finance Company shall only be used by Shandong Energy Finance Company within the scope stipulated by the CBIRC;
  - (3) copies of the regulatory reports submitted by Shandong Energy Finance Company to the CBIRC and other relevant regulatory authorities shall be provided to the Group at the same time;

---

## LETTER FROM THE BOARD

---

- (4) the Group shall be entitled to review and obtain the relevant documents such as account books, financial statements and audit reports of Shandong Energy Finance Company in accordance with the PRC Company Law and the articles of association of Shandong Energy Finance Company; and
- (5) Shandong Energy Finance Company shall notify the Group immediately upon occurrence of any circumstance that may jeopardize the security of the Group's deposits or other situations in which the security of Group's funds held by Shandong Energy Finance Company may potentially be affected. The Group shall be entitled to withdraw its deposits with Shandong Energy Finance Company.

The Board considers that the above capital risk control measures adopted by the Group in respect of the continuing connected transactions contemplated under the Second Financial Services Agreement are appropriate and that the Company will duly monitor the relevant procedures and measures for such continuing connected transactions to provide sufficient assurance to the Shareholders.

### Payment

The payment of the relevant interests, expenses and service fees for the above services can be settled by the parties on a one-off basis or by instalment in accordance with specific circumstances. The Group and Shandong Energy Finance Company will fund the payment out of their internal resources.

### Historical Amount, Proposed Annual Caps and Reasons

The historical transaction amounts of the financial services provided by Yankuang Finance Company to the Group for the two years ended 31 December 2020 and 31 December 2021 and for the six months ended 30 June 2022 are set out follows:

Item	Unit	For the year ended 31 December 2020 Actual amount	For the year ended 31 December 2021 Actual amount	For six months ended 30 June 2022 Actual amount
Maximum daily balance of deposit	RMB billion	12.602	12.974	26.229
Closing balance of comprehensive credit facility as at the end of the period	RMB billion	12.744	10.354	11.048
Aggregate miscellaneous financial services fees	RMB million	2.147	3.270	1.854

Having considered the historical maximum daily balance of deposit for the six months ended 30 June 2022, the Board proposed that the maximum daily balance of deposit (including accrued interests) under the Second Financial Services Agreement shall not exceed RMB27 billion for each of the three years ending 31 December 2023, 31 December 2024 and 31 December 2025.

---

## LETTER FROM THE BOARD

---

Having considered (i) the historical balances of comprehensive credit facility provided by Yankuang Finance Company to the Group for the two years ended 31 December 2021 and six months ended 30 June 2022; and (ii) the increasing funding needs of the Group for investment in new projects, trade financing and procurement of materials in the coming future, the Board proposed that the maximum daily balance (including accrued interests) of comprehensive credit facility to be provided by Shandong Energy Finance Company to the Group under the Second Financial Services Agreement shall not exceed RMB15 billion, RMB16 billion and RMB17 billion for each of the three years ending 31 December 2023, 31 December 2024 and 31 December 2025, respectively.

Having considered the Group's demand for the miscellaneous financial services, the Board proposed that the maximum annual fees payable for such miscellaneous financial services under the Second Financial Services Agreement shall not exceed RMB5 million for each of the three years ending 31 December 2023, 31 December 2024 and 31 December 2025.

The above annual caps are 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 entering into the Second Financial Services Agreement**

The Company is principally engaged in the business of mining, high-end chemicals and new materials, new energy, high-end equipment manufacturing and smart logistics.

Shandong Energy Finance Company is directly owned as to approximately 66.67% by Shandong Energy, directly owned as to approximately 10.00% by Shareholder A, directly owned as to approximately 6.67% by Shareholder B, directly owned as to approximately 6.67% by Shareholder C, directly owned as to approximately 3.33% by Shareholder D, directly owned as to approximately 3.33% by Shareholder E and directly owned as to approximately 3.33% by Shareholder F as at the Latest Practicable Date. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy; while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively. The principal businesses of Shandong Energy Finance Company include provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; provision of loans and finance leasing to members. Shandong Energy Finance Company is a non-banking financial institution legally established with the approval of the CBIRC.

Through the provision of financial services to the Group, Shandong Energy Finance Company can expand its source of capital through absorbing capitals from the Group, enlarge its business scope, improve its profitability through providing loan and

---

## LETTER FROM THE BOARD

---

settlement services to the Group by means of charging loan interests and other service fees. At the same time, the Company can integrate financial resources and replace external high-interest loans through the platform of Shandong Energy Finance Company, thereby lowering the Company's financing costs and improving its competitive edge. The transactions contemplated under the Second Financial Services Agreement will not affect the independence of the Company and are in the interests of the Company and the Shareholders.

Since the Second Financial Services Agreement shall become effective upon, among others, entering into of the agreement in relation to the Absorption and Merger and its completion, and Company will directly hold approximately 53.92% of Shandong Energy Finance Company upon Completion, the Company will also be able to benefit from the profits of Shandong Energy Finance Company.

The Directors (including the independent non-executive Directors) consider that the transactions under the Second Financial Services Agreement are entered into after arm's length negotiations and based on normal commercial terms, and therefore the terms of such transactions and the proposed caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Implications under the Listing Rules**

As at the Latest Practicable Date, Shandong Energy Finance Company is a subsidiary of Shandong Energy, who is a controlling Shareholder holding directly and indirectly approximately 54.92% of the issued share capital of the Company, and thus Shandong Energy Finance Company constitutes a connected person of the Company. Accordingly, the transactions contemplated under the Second Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Upon Completion, the Merged Enterprise will be directly owned as to approximately 53.92% by the Company, directly owned as to approximately 31.67% by Shandong Energy, directly owned as to approximately 4.33% by Shareholder A, directly owned as to approximately 2.88% by Shareholder B, directly owned as to approximately 2.88% by Shareholder C, directly owned as to approximately 1.44% by Shareholder D, directly owned as to approximately 1.44% by Shareholder E and directly owned as to approximately 1.44% by Shareholder F. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy; while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively. As such, the Merged Enterprise will become a connected subsidiary of the Company under the Listing Rules and the transactions contemplated under the Second Financial Services Agreement will continue to be continuing connected transactions of the Company under Chapter 14A of the Agreement.

---

## LETTER FROM THE BOARD

---

*(i) Deposit services*

As the highest applicable percentage ratio with respect to the proposed annual caps in relation to the provision of deposit services under the Second Financial Services Agreement is more than 5% but less than 25%, such transactions, together with the proposed annual caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Such transactions also constitute a discloseable transaction of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

*(ii) Comprehensive credit facility services*

As the provision of comprehensive credit facility services under the Second Financial Services Agreement is on normal commercial terms, and no security over the assets of the Group is or will be granted in respect of such services, the comprehensive credit facility services to be provided by Shandong Energy Finance Company to the Group are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

*(iii) Miscellaneous financial services*

As all of the relevant applicable percentage ratios with respect to the proposed annual caps in relation to the provision of miscellaneous financial services under the Second Financial Services Agreement are less than 0.1%, such transactions are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

## V. GENERAL INFORMATION

As Mr. Li Wei is a director of Shandong Energy and Mr. Liu Jian and Mr. Zhu Qingrui are senior management of Shandong Energy, they are regarded as having material interests in the transactions contemplated under the Absorption and Merger Agreement, the First Financial Services Agreement and the Second Financial Services Agreement, and have abstained from voting on the relevant resolutions of the Board for approving the Absorption and Merger Agreement, the First Financial Services Agreement and the Second Financial Services Agreement, the transactions contemplated thereunder and the relevant proposed annual caps. Save as disclosed above, none of the other Directors has a material interest in such transactions.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the (i) the Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of the comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; and (iii) the provision of the deposit services under the Second Financial Services Agreement and the proposed annual caps, after taking into account the recommendations of the Independent Financial Adviser.

---

## LETTER FROM THE BOARD

---

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of the comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; and (iii) the provision of the deposit services under the Second Financial Services Agreement and the proposed annual caps.

### VI. EGM

The notice convening the EGM was published on 5 October 2022.

**The following resolutions will be proposed to the Shareholders at the EGM:**

**As ordinary resolutions:**

1. To consider and approve the entering into of the Absorption and Merger Agreement and to approve the discloseable and connected transaction contemplated thereunder.
- 2.01 To consider and approve the entering into of the First Financial Services Agreement between Shandong Energy Finance Company and Shandong Energy and to approve the major and continuing connected transactions contemplated thereunder and their annual caps.
- 2.02 To consider and approve the entering into of the Second Financial Services Agreement between Shandong Energy Finance Company and the Company and to approve the discloseable and continuing connected transactions contemplated thereunder and their annual caps.

Whether or not you are able to attend the meeting in person, you are strongly advised to complete and sign the form of proxy dated 5 October 2022 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 meeting or any adjourned meeting should you so wish.

As at the Latest Practicable Date, Shandong Energy controlled or was entitled to exercise control over the voting rights in respect of 2,263,047,288 A Shares and 454,989,000 H Shares in the Company, representing, in aggregate, approximately 54.92% of the entire issued share capital of the Company. By virtue of its relationship with Shandong Energy Finance Company, Shandong Energy and its associates will abstain from voting at the EGM on the ordinary resolutions approving the Absorption

---

## LETTER FROM THE BOARD

---

and Merger Agreement, the First Financial Services Agreement, the Second Financial Services Agreement, the transactions contemplated thereunder and the relevant proposed annual caps, 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, no other Shareholder is required to abstain from voting on the aforesaid ordinary resolutions at the EGM.

As at the Latest Practicable Date, Shandong Energy pledged its 120,000,000 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, 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.

### **VII. CLOSURE OF H SHARE REGISTER OF MEMBERS OF THE COMPANY**

The H Share register of members of the Company will be closed from Thursday, 20 October 2022 to Friday, 28 October 2022 (both days inclusive), during which period no transfer of the Company's H Shares will be registered for the purpose of ascertaining the eligibility of Shareholders to attend the EGM. In order to attend the 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 19 October 2022 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, 19 October 2022 will be eligible to attend the EGM.



---

## LETTER FROM THE BOARD

---

### VIII. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 47 to 48 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser set out on pages 49 to 93 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 the proposals relating to (i) the discloseable and connected transaction in relation to the Absorption and Merger; (ii) the major and continuing connected transaction – provision of financial services to Shandong Energy; and (iii) the discloseable and continuing connected transaction – provision of financial services to the Company are (i) on normal commercial terms or better; (ii) fair and reasonable; and (iii) in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that all Independent Shareholders to vote in favour of the aforesaid resolutions at the EGM.

### IX. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the other sections and Appendices 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, Dah Sing Financial Center  
248 Queen's Road East  
Wanchai  
Hong Kong

12 October 2022

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN  
RELATION TO THE ABSORPTION AND MERGER;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL SERVICES TO SHANDONG ENERGY;  
AND  
(3) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL SERVICES TO THE COMPANY**

We refer to the circular of the Company dated 12 October 2022 (“**Circular**”) to the Shareholders, 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 Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; (iii) the provision of deposit services under the Second Financial Services Agreement and the proposed annual caps are fair and reasonable in so far as the Independent Shareholders are concerned.

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of (i) the Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; (iii) the provision of deposit services under the Second Financial Services Agreement and the proposed annual caps. The letter from the Independent Financial Adviser, which contains its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 49 to 93 of this Circular.

Your attention is also drawn to the “Letter from the Board” set out on pages 7 to 46 of this Circular and the additional information set out in the appendices to this Circular. Having taken into account (i) the terms of the Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the terms of the First Financial Services Agreement in relation to the provision of comprehensive credit facility services and the proposed annual caps; and (iii) the terms of the Second Financial Services Agreement in relation to the provision of deposit services and the proposed annual caps, and having considered the interests of the Independent Shareholders and the advice from the Independent Financial Adviser, we consider that (a) the terms of the Absorption and Merger Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole even though they are not conducted in the ordinary and usual course of business of the Group; and (b) the provision of comprehensive credit facility services under the First Financial Services Agreement, the provision of deposit services under the Second Financial Services Agreement and the respective proposed annual caps are on normal commercial terms and in the ordinary and usual course of business, fair and reasonable and 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 Absorption and Merger Agreement and the transactions contemplated thereunder; (ii) the provision of comprehensive credit facility services under the First Financial Services Agreement and the proposed annual caps; (iii) the provision of deposit services under the Second Financial Services Agreement and the proposed annual caps.

Yours faithfully,  
**Yankuang Energy Group Company Limited\***  
**Tian Hui, Zhu Limin**  
**Cai Chang, Poon Chiu Kwok**  
*Independent Board Committee*

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*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

12 October 2022

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

Dear Sir/Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN  
RELATION TO THE ABSORPTION AND MERGER;  
(2) MAJOR AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF COMPREHENSIVE CREDIT FACILITY SERVICES  
TO SHANDONG ENERGY;  
AND  
(3) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF DEPOSIT SERVICES TO THE COMPANY**

### 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 absorption and merger of Yankuang Finance Company by Shandong Energy Finance Company under the Absorption and Merger Agreement; (ii) the provision of the comprehensive credit facility services to the Shandong Energy Members under the First Financial Services Agreement (the “**Provision of Comprehensive Credit Facility Services**”); and (iii) the provision of the deposit services to the Group under the Second Financial Services Agreement (the “**Provision of Deposit Services**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 October 2022 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 THE INDEPENDENT FINANCIAL ADVISER

---

As disclosed in the Letter from the Board:

- (i) on 8 September 2022, Shandong Energy Finance Company and Yankuang Finance Company entered into the Absorption and Merger Agreement, pursuant to which Yankuang Finance Company shall be merged and absorbed by Shandong Energy Finance Company at nil consideration. The Merged Enterprise will be the surviving company upon the Completion. It will continue to use its existing name (i.e., Shandong Energy Finance Company) and become the owner of all the assets, liabilities, operations, personnel, contracts, and all other rights and obligations of Yankuang Finance Company;
- (ii) on 26 August 2022, Shandong Energy Finance Company entered into the First Financial Services Agreement with Shandong Energy to provide, among other things, comprehensive credit facility services for the three years ending 31 December 2025 to the Shandong Energy Members in replacement of Yankuang Finance Company; and
- (iii) on 26 August 2022, Shandong Energy Finance Company entered into the Second Financial Services Agreement with the Company to provide, among other things, deposit services for the three years ending 31 December 2025 to the Group.

As at the Latest Practicable Date, Shandong Energy is a controlling shareholder of the Company holding, directly and indirectly, approximately 54.92% of the issued share capital of the Company. Shandong Energy holds approximately 66.67% equity interest in Shandong Energy Finance Company. Therefore, Shandong Energy Finance Company is a connected person of the Company and hence the Absorption and Merger constitutes a connected transaction. As the highest percentage ratio of the Absorption and Merger exceeds 5% but is less than 25%, the Absorption and Merger is subject to reporting, announcement, and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, since Shandong Energy is a controlling shareholder of the Company and the Shandong Energy Members are the associates of Shandong Energy, the Shandong Energy Members are the connected persons of the Company. Therefore, the Provision of Comprehensive Credit Facility Services constitutes continuing connected transactions. As the highest percentage ratio of the proposed annual cap contemplated under the Provision of Comprehensive Credit Facility Services (the "**Proposed Annual Cap A**") exceeds 25% but is less than 100%, the Provision of Comprehensive Credit Facility Services and the Proposed Annual Cap A are subject to reporting, announcement, and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Upon the Completion, the Merged Enterprise (i.e., Shandong Energy Finance Company) is a connected person of the Company. Accordingly, the Provision of Deposit Services constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Upon the Completion, the Merged Enterprise will be directly owned as to approximately 53.92% by the Company and directly owned as to approximately 31.67% by Shandong Energy. As such, the Merged Enterprise will become a connected subsidiary of the Company under the Listing Rules. Therefore, the Provision of Deposit Services constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest percentage ratio of the proposed annual cap contemplated under the Provision of Deposit Services (the “**Proposed Annual Cap B**”) (together with the Proposed Annual Cap A, the “**Proposed Annual Caps**”) exceeds 5% but is less than 25%, the Provision of Deposit Services and the Proposed Annual Cap B are subject to reporting, announcement, and Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang and Mr. Poon Chiu Kwok, has been established to advise the Independent Shareholders on (i) whether the terms of the Absorption and Merger Agreement, the First Financial Services Agreement and the Second Financial Services 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; (ii) whether the Absorption and Merger, the Provision of Comprehensive Credit Facility Services, the Provision of Deposit Services, and the Proposed Annual Caps (collectively, the “**Transactions**”) are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (iii) how the Independent Shareholders should vote in respect to the relevant resolution(s) to approve the Transactions. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 Transactions. 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 THE INDEPENDENT FINANCIAL ADVISER

---

### 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:

- (a) the discloseable and connected transaction in relation to the entering into of the capital increase agreement with Yankuang Group Company Limited (presently known as Shandong Energy), Taizhong Property, Huaneng Fuel and Hainan Intelligent Logistics, details of which are set out in the circular of the Company dated 16 November 2020;
- (b) the major and connected transaction in relation to the acquisition of a series of target companies and target assets, details of which are set out in the circular of the Company dated 16 November 2020;
- (c) the continuing connected transaction regarding the entering into of the Proposed Yankuang Continuing Connected Transaction Agreements with Shandong Energy relating to the renewal of certain Existing Yankuang Continuing Connected Transaction Agreements, details of which are set out in the circular of the Company dated 13 January 2021;
- (d) 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; and
- (e) the discloseable and continuing connected transaction in relation to the provision of financial services to Shandong Energy under the 2023 Financial Services Agreement dated 29 April 2022, and the revision of annual caps for the provision of products, materials, and asset leasing under the Provision of Products, Materials and Asset Leasing Agreement to Shandong Energy dated 9 December 2020, details of which are set out in the circular of the Company dated 10 June 2022 (collectively, the “**Previous Engagements**”).

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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 entering into of the capital increase agreement and the capital increase contemplated thereunder; (ii) the acquisition of a series of target companies and target assets; (iii) the continuing connected transactions between the Group and Shandong Energy; (iv) the grant of restricted A Shares to the connected participants; and (v) the provision of financial services to Shandong Energy and the revision of annual caps for the provision of products, materials, and asset leasing. Apart from the independent financial adviser roles in connection with the Transactions and the Previous Engagements, we have not acted in any capacity of the Group in the past two years immediately preceding the Latest Practicable Date. Considering that:

- (i) other than the business acquaintances in the Previous Engagements and the Transactions, our directors do not have any close personal relationships with any of the directors and senior management of the Company and its associates; and
- (ii) the management of the Group who directs the Transactions is different from those who directed the Previous Engagements,

we are of the view that our independence will not be affected.

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 Transactions. 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 consider that we have received sufficient information to enable us to reach an informed view, and have performed all the necessary steps as required under Rule 13.80(2) of the Listing Rules to justify our reliance on the information, opinions and representations provided or made to us so as to form a reasonable basis for our opinion and recommendation, including, among other things:

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (i) reviewing the annual report for the year ended 31 December 2021 (“**FY2021**”) of the Company (the “**2021 Annual Report**”) as published on the website of the Stock Exchange and Shanghai Stock Exchange;
- (ii) reviewing the interim report for the six months ended 30 June 2021 and 2022 of the Company as published on the website of the Stock Exchange and Shanghai Stock Exchange;
- (iii) reviewing the (a) unaudited balance sheets as at 31 July 2022 of Yankuang Finance Company; (b) unaudited profits or loss statement for the seven months ended 31 July 2022 of Yankuang Finance Company; and (c) audited financial statements for FY2021 of Yankuang Finance Company;
- (iv) reviewing the (a) unaudited balance sheets as at 31 July 2022 of Shandong Energy Finance Company; (b) unaudited profits or loss statement for the seven months ended 31 July 2022 of Shandong Energy Finance Company; and (c) audited financial statements for FY2021 of Shandong Energy Finance Company; and
- (v) discussing with the Directors and management of the Company in respect of, among other things, the reasons for and benefits of the Transactions.

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.

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 Transactions, 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.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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 their consideration of the Transactions, 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

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

#### A. Background information of the parties

##### 1. Yankuang Finance Company

Yankuang Finance Company is a subsidiary of the Company registered and established in Shandong Province on 13 September 2010. As at the Latest Practicable Date, Yankuang Finance Company is held as to 95% by the Company and 5% by Shandong Energy. The principal business of Yankuang Finance Company includes provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; provision of loans and finance leasing to members. Yankuang Finance Company is a non-banking financial institution established with the approval of CBIRC. Yankuang Finance Company holds a finance license granted by the CBIRC.

The tables below set forth a summary of the key financial information of Yankuang Finance Company, which is prepared in accordance with PRC accounting standard, for the year ended 31 December 2020 (“FY2020”), 31 December 2021 (“FY2021”), for the seven months ended 31 July 2021 (“7M2021”), and seven months ended 31 July 2022 (“7M2022”):

	<b>FY2021</b>	<b>FY2020</b>	<b>7M2022</b>	<b>7M2021</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Net interest income	520	387	317	315
Net profit	336	204	246	216

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

	<b>31 July 2022</b>	<b>As at 31 December 2021</b>	<b>31 December 2020</b>
	<i>RMB million</i> (Unaudited)	<i>RMB million</i> (Audited)	<i>RMB million</i> (Audited)
Total assets	27,597	43,602	25,513
Total liabilities	21,650	37,900	22,160
Net assets	5,947	5,702	3,353

### *Net interest income*

The net interest income of Yankuang Finance Company increased from approximately RMB387 million for FY2020 to RMB520 million for FY2021, which is mainly attributable to the increase in the interest income derived from deposits with banks and other financial institutions.

The net interest income of Yankuang Finance Company slightly increased from approximately RMB315 million for the 7M2021 to RMB317 million for 7M2022.

### *Net profit*

The net profit of Yankuang Finance Company increased from approximately RMB204 million for FY2020 to RMB336 million for FY2021, which is mainly attributable to the increase in the net interest income.

The net profit of Yankuang Finance Company increased from approximately RMB216 million for 7M2021 to RMB246 million for 7M2022, which was mainly due to the decrease of expected credit loss as a result of the decrease in the amount of loans and deposits with banks and other financial institutions.

### *Total assets*

The total assets of Yankuang Finance Company increased from approximately RMB25,513 million as at 31 December 2020 to approximately RMB43,602 million as at 31 December 2021, which is mainly due to the increase in the deposits with banks and other financial institutions. The deposits with banks and other financial institutions were mainly derived from the deposits received from the Shandong Energy Members and the Company.

The total assets of Yankuang Finance Company decreased from approximately RMB43,602 million as at 31 December 2021 to approximately RMB27,597 as at 31 July 2022, which is mainly due to the decrease in the deposits with banks and other financial institutions. Such decrease was mainly attributable to the decrease in deposits from the Shandong Energy Members and the Company as a result of the development of the construction projects and the distribution of the cash dividends.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Total liabilities*

The total liabilities of Yankuang Finance Company increased from approximately RMB22,160 million as at 31 December 2020 to approximately RMB37,900 million as at 31 December 2021, which is mainly due to the increase in the deposits from the Shandong Energy Members and the Company as a result of the increase in the net profit and cashflow of the above companies in FY2021. Such increase was mainly attributable to the increase in the price of the coal during FY2021.

The total liabilities of Yankuang Finance Company decreased from approximately RMB37,900 million as at 31 December 2021 to approximately RMB21,650 million as at 31 July 2022, which is mainly due to the decrease in the deposits from (i) Shandong Energy since it withdrew its cash to develop the construction projects; and (ii) the Company as a result of distribution of the cash dividends.

As a financial institution regulated by the CBIRC, Yankuang Finance Company is required to operate in compliance with Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) (the “**Measures**”) to prevent possible financial risk, including credit risk. Pursuant to the Measures, it requires the following:

- (i) in the event that Yankuang Finance Company falls into financial difficulty, Shandong Energy undertook that they would provide financial support to Yankuang Finance Company to satisfy its capital need, such as injected additional capital into Yankuang Finance Company, to restore its financial position; and
- (ii) Yankuang Finance Company is required to comply with certain financial ratio requirements set by the CBIRC from time to time. As provided by the Company, the below table sets out the key financial ratios of Yankuang Finance Company as at 31 December 2021 and 31 July 2022 respectively:

<b>Financial ratios</b>	<b>Requirements of the CBIRC</b>	<b>As at 31 July 2022</b>	<b>As at 31 December 2021</b>
Capital adequacy ratio	Not less than 10%	28.77%	22.45%
Inter-bank borrowing balance to total capital ratio	Not more than 100%	8.06%	Nil

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

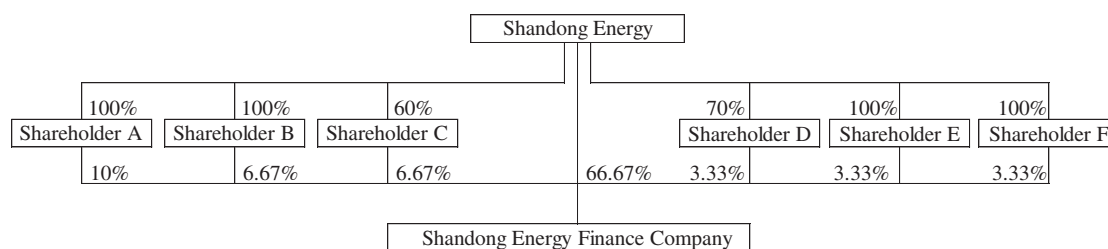
Financial ratios	Requirements of the CBIRC	As at 31 July 2022	As at 31 December 2021
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	54.31%	73.48%
Total amount of investment to total capital ratio	Not more than 70%	0.02%	2.50%
Self-owned fixed assets to total capital ratio	Not more than 20%	0.06%	0.04%

As set out in the table above, Yankuang Finance Company complied with the key financial ratio requirements set by CBIRC as at 31 December 2021 and 31 July 2022. As such, we are of the view that the Measures would mitigate the credit risk exposed to the Company when Yankuang Finance Company provides deposit services to the Group.

### 2. *Shandong Energy Finance Company*

Shandong Energy Finance Company is a subsidiary of Shandong Energy registered and established in Shandong Province on 30 December 2013. The principal business of Shandong Energy Finance Company includes provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; and provision of loans and finance leasing to members. Shandong Energy Finance Company is a non-banking financial institution established with the approval of CBIRC.

The following chart sets forth the shareholding structure of Shandong Energy Finance Company as at the Latest Practicable Date:



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As at the Latest Practicable Date, Shandong Energy Finance Company is owned as to approximately 66.67% by Shandong Energy, as to approximately 10.00% by Shareholder A, as to approximately 6.67% by Shareholder B, as to approximately 6.67% by Shareholder C, as to approximately 3.33% by Shareholder D, as to approximately 3.33% by Shareholder E and as to approximately 3.33% by Shareholder F. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy, while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively.

The tables below set forth a summary of the key financial information of Shandong Energy Finance Company, which is prepared in accordance with PRC accounting standard, for FY2020, FY2021, 7M2021, and 7M2022:

	<b>FY2021</b>	<b>FY2020</b>	<b>7M2022</b>	<b>7M2021</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Net interest income	390	503	244	225
Net profit	253	321	51	146

	<b>As at</b>		
	<b>31 July</b>	<b>31 December</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Audited)	(Audited)
Total assets	21,893	31,392	19,584
Total liabilities	17,367	26,765	15,025
Net assets	4,526	4,627	4,559

### *Net interest income*

The net interest income of Shandong Energy Finance Company decreased from approximately RMB503 million for FY2020 to RMB390 million for FY2021, which is mainly attributable to the decrease in the interest income generated from loans due to the decrease in the loan interest rate charged by Shandong Energy Finance Company as a result of the decrease in loan prime rate in FY2021.

The net interest income of Shandong Energy Finance Company increased from approximately RMB225 million for 7M2021 to RMB244 million for 7M2022, which is mainly attributable to the increase in the interest income generated from deposit with banks and other financial institutions as a result of the increase in daily average deposit with banks and other financial institutions.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Net profit*

The net profit of Shandong Energy Finance Company decreased from approximately RMB321 million for FY2020 to RMB253 million for FY2021, which is mainly attributable to the decrease in the net interest income.

The net profit of Shandong Energy Finance Company decreased from approximately RMB146 million for 7M2021 to RMB51 million for 7M2022, which was mainly due to the increase of expected credit loss as a result of the increase in the amount of loans and expected credit loss rate.

### *Total assets*

The total assets of Shandong Energy Finance Company increased from approximately RMB19,584 million as at 31 December 2020 to approximately RMB31,392 million as at 31 December 2021, which is mainly due to the increase in the deposits with banks and other financial institutions. The increase in the deposits with banks and other financial institutions was mainly due to the increase in the deposits received from Shandong Energy, Shareholder A and other Shandong Energy Members as a result of issuance of bonds during 2021.

The total assets of Shandong Energy Finance Company decreased from approximately RMB31,392 million as at 31 December 2021 to approximately RMB21,893 as at 31 July 2022, which is mainly due to the decrease in the deposits with banks and other financial institutions. Such decrease was mainly attributable to the decrease of deposits from Shareholder F as a result of the increase in its investment in the shares of a security company as an investee and the repayment of short-term financing of the Shandong Energy Members in 2022.

### *Total liabilities*

The total liabilities of Shandong Energy Finance Company increased from approximately RMB15,025 million as at 31 December 2020 to approximately RMB26,765 million as at 31 December 2021, which is mainly due to the increase in the deposits from the Shandong Energy Members as a result of the issuance of bonds during FY2021.

The total liabilities of Shandong Energy Finance Company decreased from approximately RMB26,765 million as at 31 December 2021 to approximately RMB17,367 million as at 31 July 2022, which is mainly due to the decrease in the deposits from Shareholder F as a result of the increase in its investment in the shares of a security company as an investee and the repayment of short-term financing of the Shandong Energy Members in 2022.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As a financial institution regulated by the CBIRC, Shandong Energy Finance Company is required to operate in compliance with Measures to prevent possible financial risk, including credit risk. Pursuant to the Measures, it requires the following:

- (i) in the event that Shandong Energy Finance Company falls into financial difficulty, Shandong Energy undertook that they would provide financial support to Shandong Energy Finance Company to satisfy its capital need, such as injected additional capital into Shandong Energy Finance Company, to restore its financial position; and
- (ii) Shandong Energy Finance Company is required to comply with certain financial ratio requirements set by the CBIRC from time to time. As provided by the Company, the below table sets out the key financial ratios of Shandong Energy Finance Company as at 31 December 2021 and 31 July 2022 respectively:

<b>Financial ratios</b>	<b>Requirements of the CBIRC</b>	<b>As at 31 July 2022</b>	<b>As at 31 December 2021</b>
Capital adequacy ratio	Not less than 10%	27.98%	26.01%
Inter-bank borrowing balance to total capital ratio	Not more than 100%	Nil	Nil
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	25.32%	51.91%
Total amount of investment to total capital ratio	Not more than 70%	0.42%	0.21%
Self-owned fixed assets to total capital ratio	Not more than 20%	0.19%	0.21%

As set out in the table above, Shandong Energy Finance Company complied with the key financial ratio requirements set by CBIRC as at 31 December 2021 and 31 July 2022. As such, we are of the view that the Measures would mitigate the credit risk exposed to the Company when Shandong Energy Finance Company provides deposit services to the Shandong Energy Members.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### B. The Absorption and Merger

#### 1. *Background*

On 8 September 2022, Shandong Energy Finance Company and Yankuang Finance Company entered into the Absorption and Merger Agreement, pursuant to which Yankuang Finance Company shall be merged and absorbed by Shandong Energy Finance Company at nil consideration. The Merged Enterprise will be the surviving company upon the Completion and continue to use its existing name (i.e., Shandong Energy Finance Company). The Merged Enterprise will become the owner of all the assets, liabilities, operations, personnel, contracts, and all other rights and obligations of Yankuang Finance Company. Yankuang Finance Company will be dissolved and deregistered upon the Completion.

#### 2. *Reasons for and benefits of the Absorption and Merger*

(1) *The Absorption and Merger is in compliance with the regulatory policy of CBIRC*

Both Shandong Energy Finance Company and Yankuang Finance Company are principally engaged in the provision of guarantee between members; provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and clearing planning to members; accepting deposits from members; and provision of loans and finance leasing to members.

Pursuant to Rule 14 of The Implementation Measures of the China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Non-Banking Financial Institutions (中國銀保監會非銀行金融機構行政許可事項實施辦法) (the “**Implementation Measures**”) issued by CBIRC, any group, consisting of a company and its subsidiaries, is allowed to establish only one finance company. In view of the above, Shandong Energy Finance Company shall absorb and merge with Yankuang Finance Company and the Merged Enterprise will be the surviving company. We noted that the Absorption and Merger complies with the requirements under the Implementation Measures.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

(2) *The Absorption and Merger will enhance the profitability of the Group*

Taking into account the factors that:

- (i) the loan interest income and the deposit interest income of the Merged Enterprise are expected to increase since the Merged Enterprise would provide financial services, including deposit services, comprehensive credit facility services, and miscellaneous financial services, to 609 Shandong Energy Members upon the Completion while Yankuang Finance Company could only provide financial services to 222 Shandong Energy Members prior to the Completion; and
- (ii) upon the Completion, the financial results of Shandong Energy Finance Company will be consolidated into the financial statements of the Group. The net profit of Shandong Energy Finance Company for 7M2022 amounted to approximately RMB51 million as disclosed under the section headed “PRINCIPAL FACTORS AND REASONS CONSIDERED – A. Background information of the parties – 2. Shandong Energy Finance Company”, representing approximately 20.7% of the net profit of Yankuang Finance Company for 7M2022. It is believed that the profitability of the Group will be enhanced upon the Completion,

we are of the view that the Absorption and Merger will improve the profitability of the Group.

### **3. *Principal terms of the Absorption and Merger Agreement***

*Date*

8 September 2022

*Parties*

- (i) Shandong Energy Finance Company; and
- (ii) Yankuang Finance Company

*Consideration*

Nil

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Registered capital*

The following table sets out the registered capital of Shandong Energy Finance Company and Yankuang Finance Company prior to the Completion:

	<b>Shandong Energy Finance Company</b> <i>RMB million</i>	<b>Yankuang Finance Company</b> <i>RMB million</i>
Registered capital	3,000	4,000

The registered capital and total investment of each of Shandong Energy Finance Company and Yankuang Finance Company have been fully paid up and no additional payment is required pursuant to the Absorption and Merger Agreement.

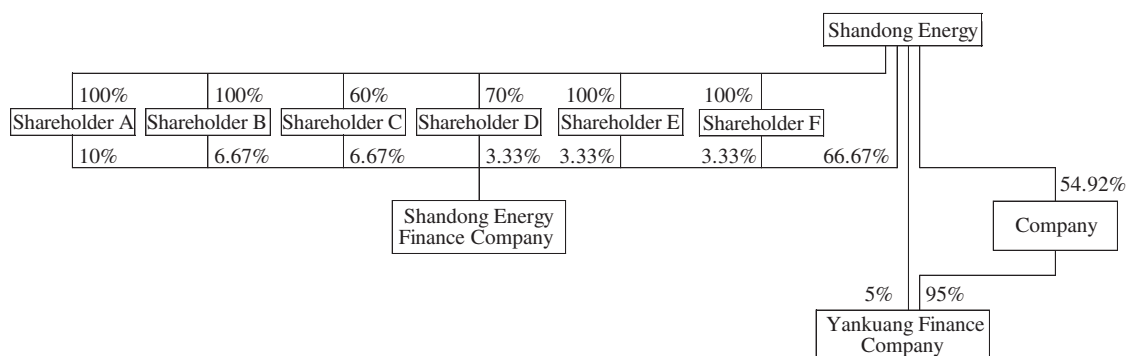
The following table sets out the registered capital of the Merged Enterprise upon the Completion:

	<b>Merged Enterprise</b> <i>RMB million</i>
Registered capital	7,000

The registered capital of the Merged Enterprise will be the aggregate of the registered capital of Shandong Energy Finance Company and Yankuang Finance Company prior to the Completion (i.e., RMB7,000,000,000).

### *Shareholding structure of Yankuang Finance Company, Shandong Energy Finance Company, and the Merged Enterprise*

The following chart sets out the shareholding structure of the relevant parties as at the Latest Practicable Date:

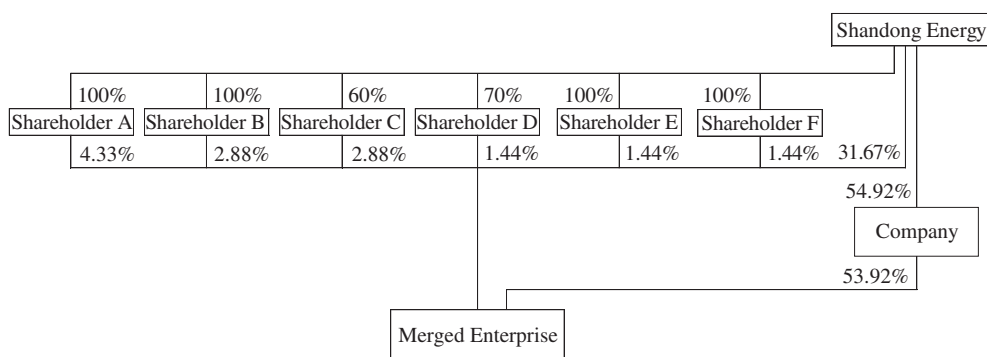


## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Shandong Energy Finance Company is owned as to approximately 66.67% by Shandong Energy, as to approximately 10.00% by Shareholder A, as to approximately 6.67% by Shareholder B, as to approximately 6.67% by Shareholder C, as to approximately 3.33% by Shareholder D, as to approximately 3.33% by Shareholder E and as to approximately 3.33% by Shareholder F. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy, while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively.

As at the Latest Practicable Date, Yankuang Finance Company is owned as to 95% and 5% by the Company and Shandong Energy, respectively.

The following chart sets out the shareholding structure of the relevant parties upon the Completion (assuming there is no change to the shareholding held by Shandong Energy in the Company, Shareholder A, Shareholder B, Shareholder C, Shareholder D, Shareholder E and Shareholder F between the Latest Practicable Date and the Completion):



Upon the Completion, the Merged Enterprise will be directly owned as to approximately 53.92% by the Company, directly owned as to approximately 31.67% by Shandong Energy, directly owned as to approximately 4.33% by Shareholder A, directly owned as to approximately 2.88% by Shareholder B, directly owned as to approximately 2.88% by Shareholder C, directly owned as to approximately 1.44% by Shareholder D, directly owned as to approximately 1.44% by Shareholder E and directly owned as to approximately 1.44% by Shareholder F. Shareholder A, Shareholder B, Shareholder E and Shareholder F are in turn wholly-owned by Shandong Energy, while Shareholder C and Shareholder D are owned as to 60% and 70% by Shandong Energy, respectively.

Upon the Completion, Yankuang Finance Company will cease to be a subsidiary of the Company after its dissolution and deregistration. The Merged Enterprise will become a non-wholly owned subsidiary of the Company and its financial results will therefore be consolidated into the consolidated financial statements of the Group as determined in accordance with the relevant accounting standards and regulations.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Basis for determining the shareholding ratio in the Merged Enterprise upon Completion*

The shareholding ratio in the Merged Enterprise upon Completion was determined with references to (i) the capital contribution of the shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company; and (ii) the valuation of the market value of shareholders' equity of each of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 as set out in the Valuation Reports, being approximately RMB4,641.8 million and approximately RMB6,091.3 million, respectively. The table below illustrates the determination of the shareholding ratio in the Merged Enterprise upon the Completion:

Name of parties to the Absorption and Merger Agreement	Name of shareholder	Amount of capital contribution as at the Latest Practicable Date <i>RMB million</i>	Shareholding percentage in Shandong Energy Finance Company/ Yankuang Finance Company as at the Latest Practicable Date	Approximate value of shareholders' equity <i>(Note 1)</i> <i>RMB million</i>	Shareholding in the Merged Enterprise upon Completion <i>(Note 2)</i>
Shandong Energy Finance Company	Shandong Energy	2,000	66.67%	3,094.55	28.83% <i>(Note 3)</i>
	Shareholder A	300	10.00%	464.18	4.33%
	Shareholder B	200	6.67%	309.46	2.88%
	Shareholder C	200	6.67%	309.46	2.88%
	Shareholder D	100	3.33%	154.73	1.44%
	Shareholder E	100	3.33%	154.73	1.44%
	Shareholder F	100	3.33%	154.73	1.44%
	Subtotal	<u>3,000</u>		<u>4,641.84</u>	<u>43.24%</u>
Yankuang Finance Company	The Company	3,800	95%	5,786.72	53.92%
	Shandong Energy	200	5%	304.56	2.84% <i>(Note 3)</i>
	Subtotal	<u>4,000</u>		<u>6,091.28</u>	<u>56.76%</u>
<b>Total</b>		<u><u>7,000</u></u>		<u><u>10,733.12</u></u>	<u><u>100%</u></u>

*Notes:*

- The approximate value of equity interest of each shareholder of Shandong Energy Finance Company was calculated by (i) the appraised value of total shareholders' equity of Shandong Energy Finance Company as at 30 June 2022 (i.e., approximately RMB4,641.8 million); multiplied by (ii) the shareholding percentage of each shareholder of Shandong Energy Finance Company in Shandong Energy Finance Company prior to the Completion.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

The approximate value of equity interest of each shareholder of Yankuang Finance Company was calculated by (i) the appraised value of total shareholders' equity of Yankuang Finance Company as at 30 June 2022 (i.e., approximately RMB6,091.3 million); multiplied by (ii) the shareholding percentage of each shareholder of Yankuang Finance Company in Yankuang Finance Company prior to the Completion.

2. The shareholding of each shareholder in the Merged Enterprise upon the Completion was determined based on the approximate value of equity interest of each shareholder divided by the aggregated appraised value of total shareholders' equity of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 as set out in the Valuation Reports (i.e. RMB10,733.1 million).
3. In aggregate, Shandong Energy will directly hold 31.67% in the Merged Enterprise upon Completion.

In our assessment on the shareholding ratio in the Merged Enterprise upon the Completion, we have performed recalculation on the shareholding ratio based on the Valuation Reports and the information in relation to the shareholding structure of Yankuang Finance Company and Shandong Energy Finance Company before the Completion. Our result of the recalculation is the same as the shareholding ratio as shown in the above table. Accordingly, we are of the view that the shareholding ratio in the Merged Enterprise upon the Completion is fair and reasonable.

### *Effective conditions*

The Absorption and Merger Agreement shall be effective upon satisfaction of the following conditions:

- (i) the shareholders of each of Shandong Energy Finance Company and Yankuang Finance Company have approved the Absorption and Merger at their respective shareholders' meetings;
- (ii) the Company has obtained approval of the Absorption and Merger from the Independent Shareholders at the EGM in accordance with the Listing Rules and applicable laws and regulations in the PRC;
- (iii) approval for the Absorption and Merger has been obtained from CBIRC; and
- (iv) approval for the Absorption and Merger has been obtained from Shandong Energy.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 4. *Assessment on the Valuation Reports*

In assessing the fairness and reasonableness of the Valuation Reports, we have taken into the following factors:

(1) *The valuer*

The Company has engaged the Independent Valuer, China United Assets Appraisal Group Co., Ltd., to perform the valuations on Shandong Energy Finance Company and Yankuang Finance Company (collectively, the “**Valuations**”) and prepare the Valuation Reports.

We have reviewed the qualification of the Independent Valuer and noted that the Independent Valuer has obtained the qualification in relation to the asset valuation and is qualified to perform valuation for the listed companies. In view of the above, we considered that the Independent Valuer is certified with professional qualifications required to perform the Valuations.

In respect of the experience of the Independent Valuer, we have requested and obtained a list from the Independent Valuer demonstrating their track record of valuation in relation to the abortion and merger for the listed companies in the same businesses as those of Yankuang Finance Company and Shandong Energy Finance Company. Based on our review, we understand that the Independent Valuer has accumulated extensive experience in evaluating companies and/or assets similar to Shandong Energy Finance Company and Yankuang Finance Company. In light of the above, we are of the view that the Independent Valuer is competent to perform the Valuations.

In respect of the independence of the Independent Valuer, the Independent Valuer confirms that it is independent from the Company.

Based on the above, we are of the view that the Independent Valuer is qualified and competent to perform the Valuations and prepare the Valuation Reports.

(2) *Valuation methodology adopted for Yankuang Finance Company and Shandong Energy Finance Company*

We have reviewed the Valuation Reports and discussed with the Independent Valuer regarding the assumption made and methodology adopted for the Valuations. We understand that:

- (i) the Independent Valuer did not adopt market approach for the Valuations since there was no publicly available information in relation to development stage, business operation, and the scale of assets of the finance companies in the market;

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (ii) the Independent Valuer did not adopt asset-based approach for the Valuations since the valuation of individual tangible and intangible assets cannot reflect the enterprise value of Yankuang Finance Company or Shandong Energy Finance Company originated from the integration of the above assets; and
- (iii) the Independent Valuer has adopted income approach for the Valuations since the overall profitability of Yankuang Finance Company and Shandong Energy Finance Company shall be considered when valuing their value of total shareholders' equity.

After considering the reasons above, we are of the view that the valuation methodology adopted by the Independent Valuer is reasonable and acceptable for the Valuations.

### (3) *Valuation assumptions*

We noted that the Independent Valuer has made the following assumption for the Valuations, including:

#### *General assumptions*

##### (i) Transaction Assumption

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the Independent Valuer conducts valuation in a simulated market based on the trading conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

##### (ii) Open Market Assumption

The open market assumption is to assume that assets traded in the market or to be traded in the market, the transactions parties are equal to each other in asset transactions, and each has the opportunity and time to obtain sufficient market information to make rational judgments on the function, use and transaction price of the assets. The open market assumption is based on the fact that assets can be bought and sold publicly in the market.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

(iii) Business going-concern Assumption

The business going-concern assumption refers to a valuation assumption made by taking the whole assets of the enterprise as the object of evaluation. Namely, it is assumed that the enterprise as the operating entity operates continually in pursuit of its operation objectives under its external environment. The operators of the enterprise are responsible and capable of assuming liabilities; and the enterprise conducts lawful operation, and is able to earn appropriate profits to maintain its capability to operate as a going-concern.

*Special assumptions*

- (i) The macroeconomic policy, industrial policy and development policy of the countries and regions where Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) are located, except for those known to the public, does not change significantly after the Benchmark Date;
- (ii) There is no significant change in tax benchmarks, tax rates, and policy levy charges applicable to Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) after the Benchmark Date, except for those known to the public;
- (iii) The management of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) fulfil their duties on the Benchmark Date, and will continue to maintain the existing business management model for continuous operation;
- (iv) The accounting policies adopted by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) and the accounting policies and accounting methods adopted in the preparation of appraisal reports after the Benchmark Date shall be consistent in material aspects;
- (v) The acquisition and utilization methods of the production and business premises of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) will be consistent as they were as at the Benchmark Date without any change;
- (vi) The composition of income and cost and business strategy of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) will continue to operate in the future operating period in accordance with the business plan determined on the Benchmark Date. The profits and losses caused by changes in business types as a result of changes in management, business strategies and business environment in the future are not taken into account;



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (vii) It is assumed that in the future operating period, the various expenses of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) during the period will continue to be incurred according to the business plan and business needs as at the Benchmark Date;
- (viii) It is assumed that there are no other man-made irresistible factors and unforeseen factors during the forecast period which will cause significant adverse effects Shandong Energy Finance Company or Yankuang Finance Company (as the case may be);
- (ix) It is assumed that the basic information and financial information provided by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) are true, accurate and complete;
- (x) The scope of assessment is only based on the assessment declaration form provided by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be), without considering the contingent assets and contingent liabilities that may exist outside the list provided by Shandong Energy Finance Company or Yankuang Finance Company (as the case may be);
- (xi) It is assumed that operating cash inflows and cash outflows will occur evenly in the future earnings period of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be);
- (xii) All assets in this appraisal are premised on the actual stock on the Benchmark Date, and the current market price of the relevant assets is based on the effective domestic price on the Benchmark Date;
- (xiii) The main business income of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be) mainly comes from net interest income, handling fee and commission income and investment income, regardless of possible new business in the future; and
- (xiv) The future net profit will be distributed to the greatest extent possible after satisfying the business development and capital control of Shandong Energy Finance Company or Yankuang Finance Company (as the case may be).

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *(4) Valuation of Yankuang Finance Company*

Under the income approach, the appraisal value of Yankuang Finance Company represents the present value of future economic benefits expected to be generated from Yankuang Finance Company. The Independent Valuer has applied the discount cash flow method to estimate the net present value of the projected free cash flows to equity (“FCFE”) of Yankuang Finance Company at a discount rate to calculate its appraisal value.

In our assessment of the income approach valuation, we have reviewed the following key quantitative assumptions in the valuation report of Yankuang Finance Company:

#### *Forecasted revenue*

The revenue of Yankuang Finance Company consists of (i) interest income generated from loans, bills discounting, and deposit due from the central bank and other financial institutions; (ii) investment income; and (iii) commission income.

The following table sets out the basis of the forecast of the interest income of Yankuang Finance Company and our assessment on the reasonableness and fairness of the forecast:

<b>Items</b>	<b>Basis</b>	<b>Our assessment</b>
Interest income generated from loans	It is forecasted based on the estimated average daily loan balance multiplied by the estimated loan interest rate.	We noted that:  (i) the average daily loan balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected demand for the credit facilities by the Group; and  (ii) the loan interest rate of 3.40%, which is the interest rate for the six months ended 30 June 2022, is adopted to forecast the interest income generated from the loans throughout the forecast period.

Based on the above assessment, we are of the view that the forecast of the interest income generated from loans is fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Items	Basis	Our assessment
Interest income generated from bills discounting	It is forecasted based on the estimated average daily bills balance multiplied by the estimated bill discounting interest rate.	<p>We noted that:</p> <ul style="list-style-type: none"><li>(i) since the average balance of the bill discounting business is volatile for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022, the average balance for the six months ended 30 June 2022 is adopted to forecast the interest income generated from bills discounting to reflect the recent business scale of bill discounting business; and</li><li>(ii) the interest rate adopted for the forecast is the average interest rate of each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022.</li></ul> <p>Based on the above assessment, we are of the view that the forecast of the interest income generated from bills discounting is fair and reasonable.</p>
Interest income generated from deposit due from the central bank and other financial institutions	It is forecasted based on the estimated average daily deposit balance multiplied by the estimated deposit interest rate.	<p>We noted that:</p> <ul style="list-style-type: none"><li>(i) the average daily deposit balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected increase in the deposit; and</li><li>(ii) the deposit interest rate is determined based on the interest rate offered by the central bank (for deposit due from the central bank) and the interest rate offered by the financial institutions as at 30 June 2022 (for deposit due from other financial institutions).</li></ul> <p>Based on the above assessment, we are of the view that the forecast of the interest income generated from deposit due from the central bank and other financial institutions is fair and reasonable.</p>
Investment income	It is forecasted based on the estimated average daily balance multiplied by the estimated yield rates of bond fund and money market funds.	<p>We noted that:</p> <ul style="list-style-type: none"><li>(i) the average daily balance as at 30 June 2022 has been adopted for the forecast of the investment income during the forecast period; and</li><li>(ii) considering that the yield rates of the bond fund and money market funds are volatile, the yield rates during the forecast period were determined with reference to the average yield rates of the bond fund and money market funds for each of the two years ended 31 December 2020 and 2021 and the six months ended 30 June 2022.</li></ul> <p>Based on the above assessment, we are of the view that the forecast of the investment income is fair and reasonable.</p>

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Items	Basis	Our assessment
Fee and commission income	It is forecasted based on the fee charged for the financial services, including but not limited to the charges for the issuance of acceptance bills, letter of credit, and letter of guarantee.	Considering the demand for the financial services will be stable during the forecast period, the commission income is estimated based on the commission income for the six months ended 30 June 2022.  We are of the view that the forecast of the commission income is fair and reasonable.

Based on our above assessment, we are of the view that the forecast of the revenue of Yankuang Finance Company is fair and reasonable.

### *Forecasted cost of revenue*

The cost of revenue of Yankuang Finance Company consists of (i) interest expense paid to the depositors for the deposits; and (ii) commission charges. In assessing the fairness and reasonableness of the forecasted cost of revenue, we have reviewed the forecast of the cost of revenue and noted that:

- (i) the interest expense paid to the depositors for the deposits during the forecast period is calculated based on the estimated average daily deposit multiplied by the estimated interest rate. The above estimated average daily deposit is determined with reference to the actual average daily deposit for each of the two years ended 31 December 2020 and 2021 and the six months ended 30 June 2022 while the above estimated interest rate are determined with reference to the actual average interest rate during the three years ended 31 December 2021 and the six months ended 30 June 2022; and
- (ii) the commission charges during the forecast period are estimated based on the historical commission charges for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022.

Based on the above assessment, we are of the view that the forecast of the cost of revenue is fair and reasonable.

### *Discount rate*

According to the valuation report of Yankuang Finance Company, the discount rate was determined based on the cost of equity of Yankuang Finance Company since the appraisal value of Yankuang Finance Company was estimated based on the net present value of the projected FCFE of Yankuang Finance Company. Based on our review of the valuation report of Yankuang Finance Company and discussion with the Independent Valuer, we noticed that, when determining the cost of equity of Yankuang Finance Company:

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (i) the risk-free rate was determined with reference to the yield of PRC government bond which will be expired after 10 years from the Benchmark Date;
- (ii) the market risk premium was calculated based on the index rate of return of the Shanghai Stock Exchange Composite Index less the risk-free rate;
- (iii) the levered beta was determined based on the average levered beta of listed banks on Shanghai Stock Exchange whose businesses are similar to those of Yankuang Finance Company; and
- (iv) the specific risk premium was determined based on the risk factors of Yankuang Finance Company as compared to those of the comparable companies in terms of the following, including but not limited to the size of the company, enterprise development stage and core competitiveness.

*Our view on the valuation performed by the Independent Valuer*

Based on the factors above, we are of the view that the key quantitative assumptions adopted by the Independent Valuer in the valuation were fair and reasonable. Accordingly, we consider the calculation of net present value of the projected cash flow applied by the Independent Valuer is appropriate and the income approach has been properly applied in the valuation.

*Our view on the selection of valuation conclusions taken by the Independent Valuer*

We understand from the Independent Valuer that:

- (i) the appraised value of the entire equity of Yankuang Finance Company was not determined based on the asset-based approach since the valuation of individual tangible and intangible assets cannot reflect the enterprise value of Yankuang Finance Company originated from the integration of the above assets; and
- (ii) the appraised value of the entire equity of Yankuang Finance Company was determined based on the income approach since (a) the income approach has taken into account the integration effect of the individual tangible assets and intangible assets; and (b) the overall profitability of Yankuang Finance Company, which is the result of the integration of the above assets, shall be considered when valuing the market value of total shareholders' equity of Yankuang Finance Company.

Based on the above, we are of the view that the determination of the appraised value of Yankuang Finance Company is fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *(5) Valuation of Shandong Energy Finance Company*

Under the income approach, the appraisal value of Shandong Energy Finance Company represents the present value of future economic benefits expected to be generated from Shandong Energy Finance Company. The Independent Valuer has applied the discount cash flow method to estimate the net present value of the projected FCFE of Shandong Energy Finance Company at a discount rate to calculate its appraisal value.

In our assessment of the income approach valuation, we have reviewed the following key quantitative assumptions in the valuation report of Shandong Energy Finance Company:

#### *Forecasted revenue*

The revenue of Shandong Energy Finance Company consists of (i) interest income generated from loans and deposit due from the central bank and other financial institutions; and (ii) commission income.

The following table sets out the basis of the forecast of the interest income of Shandong Energy Finance Company and our assessment on the reasonableness and fairness of the forecast:

<b>Items</b>	<b>Basis</b>	<b>Our assessment</b>
Interest income generated from loans	It is forecasted based on the estimated average daily short-term and long-term loan balances multiplied by the estimated respective loan interest rates.	We noted that:  (i) the average daily loan balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected demand for the credit facilities by the Group; and  (ii) the loan interest rates, including long-term loan interest rate of 3.55% and short-term loan interest rate of 3.34%, which are the interest rates for the six months ended 30 June 2022, are adopted to forecast the interest income generated from the loans throughout the forecast period.

Based on the above assessment, we are of the view that the forecast of the interest income generated from loans is fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Items	Basis	Our assessment
Interest income generated from deposit due from the central bank and other financial institutions	It is forecasted based on the estimated average daily deposit balance multiplied by the estimated deposit interest rate.	<p>We noted that:</p> <ul style="list-style-type: none"><li>(i) the average daily deposit balance during the forecast period is estimated based on the historical balances for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 and the expected increase in the deposit; and</li><li>(ii) the deposit interest rate is determined based on the interest rate offered by the central bank (for deposit due from the central bank) and the interest rate offered by the financial institutions as at 30 June 2022 (for deposit due from other financial institutions).</li></ul> <p>Based on the above assessment, we are of the view that the forecast of the interest income generated from deposit due from the central bank and other financial institutions is fair and reasonable.</p>
Fee and commission income	It is forecasted based on the fee charged for the entrusted loans.	<p>Considering the demand for the entrusted loans will be stable during the forecast period, the commission income is estimated based on the fee charged for the entrusted loans for the six months ended 30 June 2022.</p> <p>We are of the view that the forecast of the commission income is fair and reasonable.</p>

Based on our above assessment, we are of the view that the forecast of the revenue of Shandong Energy Finance Company is fair and reasonable.

### *Forecasted cost of revenue*

The cost of revenue of Shandong Energy Finance Company consists of (i) interest expense paid to the depositors for the deposits; and (ii) commission charges. In assessing the fairness and reasonableness of the forecasted cost of revenue, we have reviewed the forecast of the cost of revenue and noted that:

- (i) the interest expense paid to the depositors for the deposits during the forecast period is calculated based on the estimated average daily deposit multiplied by the estimated interest rate. The above estimated average daily deposit is determined with reference to the actual average daily deposit for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022 while the above estimated interest rate is determined with reference to the actual average interest rate for each of the two years ended 31 December 2019 and 2020. The interest rates for the year ended 31 December 2021 and the six months ended 30 June 2022 were not considered when preparing the forecast of the cost of revenue because Shandong Energy Finance Company increased the interest rate granted to the depositors in order to reduce the impact of COVID-19 pandemic on the depositors. It is expected that Shandong Energy Finance Company will not offer such interest rates to the depositors during the forecast period; and

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (ii) the commission charges during the forecast period are estimated based on the historical commission charges for each of the three years ended 31 December 2019, 2020, and 2021 and the six months ended 30 June 2022.

Based on the above assessment, we are of the view that the forecast of the cost of revenue is fair and reasonable.

### *Discount rate*

According to the valuation report of Shandong Energy Finance Company, the discount rate was determined based on the cost of equity of Shandong Energy Finance Company since the appraisal value of Shandong Energy Finance Company was estimated based on the net present value of the projected FCFE of Shandong Energy Finance Company. Based on our review of the valuation report of Shandong Energy Finance Company and discussion with the Independent Valuer, we noticed that, when determining the cost of equity of Shandong Energy Finance Company:

- (i) the risk-free rate was determined with reference to the yield of PRC government bond which will be expired after 10 years from the Benchmark Date;
- (ii) the market risk premium was calculated based on the index rate of return of the Shanghai Stock Exchange Composite Index less the risk-free rate;
- (iii) the levered beta was determined based on the average levered beta of listed banks on Shanghai Stock Exchange whose businesses are similar to those of Shandong Energy Finance Company; and
- (iv) the specific risk premium was determined based on the risk factors of Shandong Energy Finance Company as compared to those of the comparable companies in terms of the following, including but not limited to the size of the company, enterprise development stage and the core competitiveness.

### *Our view on the valuation performed by the Independent Valuer*

Based on the factors above, we are of the view that the key quantitative assumptions adopted by the Independent Valuer in the valuation were fair and reasonable. Accordingly, we consider the calculation of net present value of the projected cash flow applied by the Independent Valuer is appropriate and the income approach has been properly applied in the valuation.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*Our view on the selection of valuation conclusions taken by the Independent Valuer*

We understand from the Independent Valuer that:

- (i) the appraised value of the entire equity of Shandong Energy Finance Company was not determined based on the asset-based approach since the valuation of individual tangible and intangible assets cannot reflect the enterprise value of Shandong Energy Finance Company originated from the integration of the above assets; and
- (ii) the appraised value of the entire equity of Shandong Energy Finance Company was determined based on the income approach since (a) the income approach has taken into account the integration effect of the individual tangible assets and intangible assets; and (b) the overall profitability of Shandong Energy Finance Company, which is the result of the integration of the above assets, shall be considered when valuing the market value of total shareholders' equity of Shandong Energy Finance Company.

Based on the above, we are of the view that the determination of the appraised value of Shandong Energy Finance Company is fair and reasonable.

### *(6) Conclusion*

As stated in the Valuation Reports, the valuation of Shandong Energy Finance Company and Yankuang Finance Company as at 30 June 2022 based on the income approach was approximately RMB4,641.8 million and RMB6,091.3 million.

Taking into account of the above, we consider that the Valuations are fair and reasonable so far as the Independent Shareholders are concerned.

### **5. *Financial impact of the Absorption and Merger to the Group***

Upon the Completion, Yankuang Finance Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated in the accounts of the Group. The financial results of the Merged Enterprise will be consolidated into the accounts of the Group upon the Completion. Upon the Completion, it is expected that the total assets and total liabilities of the Group will increase.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the Completion.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### C. Provision of Comprehensive Credit Facility Services

#### 1. *Background*

On 26 August 2022, Shandong Energy Finance Company entered into the First Financial Services Agreement with Shandong Energy, pursuant to which Shandong Energy Finance Company will provide financial services to the Shandong Energy Members, including but not limited to comprehensive credit facility services, for the three years ending 31 December 2025.

#### 2. *Reasons for and benefits of entering into the First Financial Services Agreement*

Upon the Completion, the number of the Shandong Energy Members to be provided with the financial services will increase such that Shandong Energy Finance Company would provide financial services to 609 Shandong Energy Members upon the Completion while Yankuang Finance Company could only provide financial services to 222 Shandong Energy Members prior to the Completion.

Considering that:

- (i) the financial services to be provided by Shandong Energy Finance Company will be extended to cover 609 Shandong Energy Members upon the Completion as stated above; and
- (ii) the annual cap of the provision of comprehensive credit facility services by Yankuang Finance Company to the Shandong Energy Members as disclosed in the Company's circular dated 10 June 2022 (the "**Annual Cap under the 2023 Financial Services Agreement**") was only sufficient to provide with comprehensive credit facility services to 17 Shandong Energy Members, and would not be sufficient for the provision of comprehensive credit facility services to 36 Shandong Energy Members by Shandong Energy Finance Company upon the Completion.

The Annual Cap under the 2023 Financial Services Agreement needs to be revised upwards to the Proposed Annual Cap A to accommodate the latest business needs of the Group.

#### 3. *Principal terms of the Provision of Comprehensive Credit Facility Services*

##### (a) *Principal terms*

The principal terms of the Provision of Comprehensive Credit Facility Services are set out below:

*Date*

26 August 2022

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Parties*

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

### *Effective Date and Conditions Precedent*

The First Financial Services Agreement shall become effective upon the satisfaction of the following conditions precedent, among others, with effect from 1 January 2023 and will expire on 31 December 2025:

- (i) Yankuang Finance Company and Shandong Energy Finance Company entered into an agreement in respect of the Absorption and Merger and such agreement came into effect;
- (ii) the completion of the internal approval process of the Merged Enterprise in respect of the First Financial Services Agreement;
- (iii) the Company obtained approval for the First Financial Services Agreement from its shareholders' meeting;
- (iv) all the Shandong Energy Members covered by the First Financial Services Agreement completed filing with the CBIRC;
- (v) the Merged Enterprise has met the regulatory requirements of the CBIRC in order to carry out the business covered by the First Financial Services Agreement, and the necessary business has been approved by CBIRC (if necessary);
- (vi) the contents of the First Financial Services Agreement are in compliance with the regulatory requirements of the CBIRC;
- (vii) all the changes of the Merged Enterprise are approved by the CBIRC and the change of business registration is completed; and
- (viii) Shandong Energy has completed the internal approval process and issued the approval document for the First Financial Services Agreement.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Major terms and pricing policy of the Provision of Comprehensive Credit Facility Services*

Shandong Energy Finance Company shall provide comprehensive credit facilities (including but not limited to loans, trade financing, bill acceptance and discounting, overdraft, factoring, guarantee, loan commitment, opening of letter of credit, etc.) to the Shandong Energy Members with a maximum daily balance (including accrued interests) of not exceeding RMB28 billion, RMB30 billion and RMB32 billion for each of the three years from 2023 to 2025 during the term of the First Financial Services Agreement.

The interest rate for the loan to be provided by Shandong Energy Finance Company to the Shandong Energy Members shall comply with relevant regulations of the PBOC and be determined on normal commercial terms with reference to the loan benchmark interest rate promulgated by the PBOC periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of loan services.

### *Undertaking by Shandong Energy*

In the event that the Shandong Energy Members have not repaid a loan and/or its interest upon the expiry of term of such loan, Shandong Energy Finance Company can convert the corresponding amounts of deposits of such Shandong Energy Members which is placed with Shandong Energy Finance Company as repayment of principal of such loan together with interest.

In the event that the Shandong Energy Members have funding difficulty and cannot repay the principal of the loan to Shandong Energy Finance Company or its interest, Shandong Energy shall assume the joint liability for repayment of the principal of such loan together with interest.

### *(b) Our assessment on the pricing policy of the Provision of Comprehensive Credit Facility Services*

We have reviewed the pricing policy of the Provision of Comprehensive Credit Facility Services and noted that the interest rate for the loans will be determined in compliance with the requirements of PBOC and based on the interest rate offered by General Commercial Banks for the provision of same type of loan services. As such, we are of the view that the pricing policy of the Provision of Comprehensive Credit Facility Services is fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*(c) Our assessment on the undertaking by Shandong Energy*

In our assessment on the undertaking by Shandong Energy, we have reviewed (i) the management account as at/for the eight months ended 31 August 2022 of Shandong Energy; (ii) the breakdown of the balance of bank credit facility of Shandong Energy as at 31 August 2022; and (iii) the credit rating report of Shandong Energy issued on 27 July 2022 by Dagong Global Credit Rating Co., Ltd., one of the major credit rating agencies approved by China Securities Regulatory Commission. We noted that:

- (i) the bank balances and cash as at 31 August 2022 amounted to approximately RMB9,202 million and the balance of bank credit facility as at 31 August 2022 amounted to approximately RMB147,645 million, the sum of which is sufficient to cover the maximum annual cap under the Proposed Annual Cap A (i.e., RMB32,000 million) for the three years ending 31 December 2025; and
- (ii) based on the aforementioned credit rating report, the corporate credit rating of Shandong Energy is “AAA”, indicating Shandong Energy has a strong capacity to meet financial commitments with a remote risk of default.

As such, we are of the view that Shandong Energy has the capacity to assume the joint liability for repayment of the principal and interest of the loans borrowed by the Shandong Energy Members in the event that they cannot repay the loan.

**4. *Historical maximum daily balance of the Provision of Comprehensive Credit Facility Services and its proposed annual cap***

The table below sets out the aggregate historical transaction amounts of the comprehensive credit facility services provided by Yankuang Finance Company and Shandong Energy Finance Company to the Shandong Energy Members for FY2020, FY2021, and six months ended 30 June 2022 (“6M2022”):

	<b>FY2020</b>	<b>FY2021</b>	<b>6M2022</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Maximum daily balance of comprehensive credit facility	22,133	24,290	23,504

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

The table below sets out (i) the comparison between the historical maximum daily balance of the Provision of Comprehensive Credit Facility Services by Yankuang Finance Company for FY2020, FY2021, and 6M2022 and the existing annual cap for FY2020, FY2021 and FY2022 under the financial services agreement entered into between Yankuang Finance Company and Yankuang Group (presently known as Shandong Energy) on 30 August 2019 (the “**2020 Financial Services Agreement**”); and (ii) the comparison between the existing annual cap under the 2023 Financial Services Agreement and the Proposed Annual Cap A for the three years ending 31 December 2025:

		For the year ended /ending 31 December								
		2020	2021	2022	2023		2024		2025	
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
					Previous	Proposed	Previous	Proposed	Previous	Proposed
Annual cap	<i>a</i>	9,400	9,800	10,100	15,000	28,000	16,000	30,000	17,000	32,000
					<i>(Note 3)</i>		<i>(Note 3)</i>		<i>(Note 3)</i>	
Maximum daily balance	<i>b</i>	9,335	9,700	9,852						
				<i>(Note 1)</i>						
Utilization rate	<i>c=b/a</i>	99.3%	99.0%	97.5%						
				<i>(Note 2)</i>						

*Notes:*

1. The amount of approximately RMB9,852 million represented the maximum daily balance for 6M2022.
2. The rate of approximately 97.5% represented the utilization rate for 6M2022.
3. The annual caps represented the annual caps contemplated under the 2023 Financial Services Agreement. Due to the Absorption and Merger, the 2023 Financial Services Agreement will be ceased upon the Completion and such annual caps will no longer be valid.

In order to assess the fairness and reasonableness of the Proposed Annual Cap A, we have reviewed the breakdown of the forecast for the Provision of Comprehensive Credit Facility Services. The Proposed Annual Cap A is determined with reference to the following:

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*RMB million*

The Annual Cap under the 2023 Financial Services Agreement for FY2023 ( <i>Note 1</i> )	15,000
Add: Additional credit facilities to be provided to additional 19 Shandong Energy Members in FY2023 ( <i>Note 2</i> )	13,000
<b>Total balance of the Provision of Comprehensive Credit Facility Services for FY2023</b>	<b>28,000</b>
The Annual Cap under the 2023 Financial Services Agreement for FY2024 ( <i>Note 3</i> )	16,000
Add: Additional credit facilities to be provided for the year ending 31 December 2024 (“FY2024”) ( <i>Note 4</i> )	14,000
<b>Total balance of the Provision of Comprehensive Credit Facility Services for FY2024</b>	<b>30,000</b>
The Annual Cap under the 2023 Financial Services Agreement for FY2025 ( <i>Note 5</i> )	17,000
Add: Additional credit facilities to be provided for the year ending 31 December 2025 (“FY2025”) ( <i>Note 6</i> )	15,000
<b>Total balance of the Provision of Comprehensive Credit Facility Services for FY2025</b>	<b>32,000</b>

*Notes:*

1. As disclosed in the Company’s circular dated 10 June 2022, the Annual Cap under the 2023 Financial Services Agreement for FY2023 was determined with reference to (i) the existing annual cap of the provision of comprehensive credit facility services for the year ending 31 December 2022 (“FY2022”) of RMB10,100 million; (ii) the intended use of proceeds for the development of three projects of approximately RMB4,400 million; and (iii) a buffer of credit facilities on trade financing for the Shandong Energy Members of approximately RMB500 million.
2. Save for the provision of comprehensive credit facility services to 17 Shandong Energy Members under the 2023 Financial Services Agreement in FY2023, Shandong Energy Finance Company will provide comprehensive credit facility services to additional 19 Shandong Energy Members at an aggregate amount of RMB13,000 million during the same period, details of which are set out as follows:

Use of comprehensive credit facilities	Number of the Shandong Energy Members involved	Amount <i>RMB million</i>
One new construction project in relation to coal mining	1	100
Trade financing	18	12,900
Total	<u>19</u>	<u>13,000</u>

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

3. As disclosed in the Company's circular dated 10 June 2022, the Annual Cap under the 2023 Financial Services Agreement for FY2024 was determined with reference to (i) the proposed annual cap of the provision of comprehensive credit facility services for FY2023 as mentioned in Note 1 above; and (ii) an additional amount of RMB700 million for FY2024 for the development of three projects.
4. The additional annual cap for FY2024 was determined with reference to (i) the annual cap of RMB13,000 million for FY2023 as mentioned in Note 2 above; and (ii) additional credit facilities of RMB50 million for the development of one new construction project in relation to coal mining in FY2024; and (iii) additional credit facilities of RMB950 million for trade financing for nine Shandong Energy Members.
5. As disclosed in the Company's circular dated 10 June 2022, the Annual Cap under the 2023 Financial Services Agreement for FY2025 was determined with reference to (i) the proposed annual cap of the provision of comprehensive credit facility services for FY2024 as mentioned in Note 3 above; and (ii) an additional amount of RMB500 million for FY2025 for the development of three projects.
6. The additional annual cap for FY2025 was determined with reference to (i) the annual cap of RMB14,000 million for FY2024 as mentioned in Note 4 above; and (ii) additional credit facilities of RMB50 million for the development of one new construction project in relation to coal mining in FY2025; and (iii) additional credit facilities of RMB950 million for trade financing for ten Shandong Energy Members.

In order to assess the fairness and reasonableness of the additional proposed annual cap due to the Absorption and Merger under Proposed Annual Cap A (the "**Additional Cap**"), we have reviewed the breakdown of the forecast for the Additional Cap as mentioned in notes 2, 4, and 6 above, including the intended use of proceeds for the development of one project and trade financing. We noted that the above breakdown is in line with the information provided by the Company as shown in notes 2, 4, and 6 above.

Considering the above, we are of the view that the Proposed Annual Cap A for the three years ending 31 December 2025 is fair and reasonable.

### **5. Assessment on the internal control procedures**

As stated in the Letter from the Board, the Company has adopted the internal control measures to monitor the continuing connected transactions to ensure they will be conducted on normal commercial terms and in compliance with the requirements under the First Financial Services Agreement. For details of the internal control procedures, please refer to the Letter from the Board.

Given that the Absorption and Merger has not completed as at the Latest Practicable Date, in assessing the internal control associate with the continuing connected transactions of the Provision of Comprehensive Credit Facility Services, we have carried out the following procedures to review the internal control regarding the 2020 Financial Services Agreement:



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (i) we noted from the 2021 Annual Report that the independent non-executive Directors have reviewed the Group's continuing connected transactions for FY2021 and confirmed that all the continuing connected transactions (a) were conducted in its ordinary and usual course of business, conducted on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties, and fair and reasonable and in the interests of the Shareholders as a whole; and (b) did not exceed the annual caps approved by the independent Shareholders and the Board;
- (ii) we noted from the 2021 Annual Report that the auditors of the Company confirmed that the continuing connected transactions (a) were approved by the Board; (b) were carried out in compliance with the Company's pricing policies and the terms of the agreements of the continuing connected transactions; and (c) did not exceed the annual caps approved by the independent Shareholders and the Board;
- (iii) we have reviewed the Company's announcements and financial reports published on the website of Shanghai Stock Exchange and / or the Stock Exchange, and noted that the Company has disclosed (a) the balance sheet of Yankuang Finance Company as at 31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021, 31 March 2022 and 30 June 2022; (b) the income statement of Yankuang Finance Company for the three months ended 31 March 2021, the six months ended 30 June 2021, the nine months ended 30 September 2021, FY2021, the three months ended 31 March 2022 and the six months ended 30 June 2022; and (c) the operating information, consisting of the balances of loans granted to and deposits received from the member companies as at 31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021, 31 March 2022 and 30 June 2022. The above disclosures are in compliance with the requirements under the internal control measures of the Company;
- (iv) we have randomly selected one sample in relation to the quarterly review on the approval procedure and provision of the comprehensive credit facility services between Yankuang Finance Company and the Shandong Energy Members by the audit committee of the Company for eight months ended 31 August 2022, and noted that the audit committee of the Company has conducted the above procedure;
- (v) we have randomly selected one sample in relation to the submission of the monthly financial statements and / or the data of key operating indicators by Yankuang Finance Company to CBIRC, PBOC, and China National Association of Finance Companies for eight months ended 31 August 2022, and noted that Yankuang Finance Company has complied the submission requirements of the above authorities in FY2022; and

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (vi) we have randomly selected one sample in relation to the grant of loan to the Shandong Energy Members by Yankuang Finance Company for eight months ended 31 August 2022, and noted that:
- (a) the credit review committee of Yankuang Finance Company has conducted prior review over the proposed comprehensive credit facilities amount and terms of the credit agreement before granting credit facilities to the Shandong Energy Members;
  - (b) the senior management of Yankuang Finance Company has re-examined the decision making and approval procedure of the credit approval committee of Shandong Energy Finance Company before providing comprehensive credit facility services to the Shandong Energy Members;
  - (c) Yankuang Finance Company has received monthly management accounts from the Shandong Energy Members immediately before granting loans to them;
  - (d) Yankuang Finance Company has received quarterly financial statements from the Shandong Energy Members; and
  - (e) the annual interest rate of the loan charged by Yankuang Finance Company to the Shandong Energy Members in this sample was 3.7%, which was (1) determined with reference to the loan benchmark interest rate promulgated by the PBOC of 4.35%; and (2) no less favorable than the interest rates offered by General Commercial Banks of 3.70%.

Taking into account the above, we are of the view that:

- (i) the continuing connected transactions in relation to the provision of comprehensive credit facility services contemplated under the 2020 Financial Services Agreement have complied with the requirements under the internal control measures of the Group. As such, it is expected that the continuing connected transactions of the Provision of Comprehensive Credit Facility Services for three years ending 31 December 2025 will be conducted on normal commercial terms or better and in compliance with the internal control measures of the Company; and
- (ii) there are adequate internal control policies and procedures in place to ensure that the Proposed Annual Cap A will not be exceeded and the relevant Listing Rules will be complied with from time to time.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### D. Provision of Deposit Services

#### 1. *Background*

On 26 August 2022, Shandong Energy Finance Company entered into the Second Financial Services Agreement with the Company, pursuant to which Shandong Energy Finance Company will provide financial services to the Group, including but not limited to the deposit services, for the three years ending 31 December 2025.

#### 2. *Reasons for and benefits of entering into the Second Financial Services Agreement*

Pursuant to the Absorption and Merger Agreement, Yankuang Finance Company shall be merged and absorbed by Shandong Energy Finance Company. Upon the Completion, Yankuang Finance Company will be dissolved and deregistered. Shandong Energy Finance Company will provide financial services to the Group in replacement of Yankuang Finance Company. Accordingly, the financial service agreement among Yankuang Finance Company and the Group will cease upon the dissolution and deregistration of Yankuang Finance Company.

Considering that (i) the Group has long-term business relationship with Yankuang Finance Company prior to the Absorption and Merger; and (ii) the operations of Yankuang Finance Company will be owned by Shandong Energy Finance Company after the Absorption and Merger, it is expected that Shandong Energy Finance Company will have a better understanding of the operations of the Group than the independent financial institutions do and therefore offers more convenient, efficient and flexible services to the Group than other independent financial institutions in the PRC. It also allows efficient allocation of funds as the Group can centralise their cash and potentially negotiate for better interest returns given the high deposit amount.

In addition, the credit risk, which the Company would be exposed to, associate with the deposit services of Shandong Energy Finance Company is the same as or lower than those of independent financial institutions in the PRC on the basis that:

- (i) the activities of Shandong Energy Finance Company are regulated by the CBIRC and it provides services within its approved scope in compliance with the relevant laws and regulations;
- (ii) given the key financial ratios of Shandong Energy Finance Company (as disclosed under the section headed “PRINCIPAL FACTORS AND REASONS CONSIDERED – A. Background information of the parties – 2. Shandong Energy Finance Company”) and Yankuang Finance Company (as disclosed under the section headed “PRINCIPAL FACTORS AND REASONS CONSIDERED – A. Background information of the parties – 1. Yankuang Finance Company”) indicated that their operations are in compliance with the CBIRC requirements, it is expected that Shandong Energy Finance Company (i.e., the Merged Enterprise), which will become the owner of all the assets, liabilities, operations, personnel, contracts, and all other rights and obligations of Yankuang Finance Company upon the Completion, will also operate in compliance with the CBIRC requirements; and

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (iii) according to the relevant laws and regulations promulgated by the CBIRC, it is expected that, in the event that the Merged Enterprise falls into financial difficulty, Shandong Energy undertakes that they will provide financial support to the Merged Enterprise to satisfy its capital need, such as injected additional capital into the Merged Enterprise, to restore its financial position.

### 3. *Principal terms of the Provision of Deposit Services*

#### (a) *Principal terms*

The principal terms of the Provision of Deposit Services are set out below:

##### *Date*

26 August 2022

##### *Parties*

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

##### *Effective Date and Term*

The Second Financial Services Agreement shall become effective upon the satisfaction of the following conditions precedent, among others, with effect from 1 January 2023 and will expire on 31 December 2025:

- (i) Shandong Energy Finance Company and Yankuang Finance Company entered into an agreement in respect of the Absorption and Merger and such agreement came into effect;
- (ii) the completion of the internal approval process of the Merged Enterprise in respect of the Second Financial Services Agreement;
- (iii) the Company obtained approval for the Second Financial Services Agreement from its shareholders' meeting;
- (iv) all Group members covered by the Second Financial Services Agreement completed filing with the CBIRC;
- (v) the Merged Enterprise has met the regulatory requirements of the CBIRC in order to carry out the business covered by the Second Financial Services Agreement, and the necessary business has been approved by CBIRC (if necessary);
- (vi) the contents of the Second Financial Services Agreement are in compliance with the regulatory requirements of the CBIRC;

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

(vii) all the changes of the Merged Enterprise are approved by the CBIRC and the change of business registration is completed.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

### *Major terms and pricing policy of the Provision of Deposit Services*

Shandong Energy Finance Company shall provide deposit services to the Group in accordance with normal commercial terms with a maximum daily balance (including accrued interests) of not exceeding RMB27 billion during the term of the Second Financial Services Agreement.

The interest rate for the Group's deposit with Shandong Energy Finance Company shall comply with relevant regulations of the PBOC and be determined on normal commercial terms with reference to the deposits benchmark interest rate promulgated by the PBOC periodically (if any), and the interest rate offered by the General Commercial Banks for the provision of same type of deposit services.

### *(b) Our assessment on the pricing policy of the Provision of Deposit Services*

We have reviewed the pricing policy of the Provision of Deposit Services and noted that the interest rate for the deposit will be determined in compliance with the requirements of PBOC and based on the deposits benchmark interest rate promulgated by the PBOC for the provision of same type of deposit services. As such, we are of the view that the pricing policy of the Provision of Deposit Services is fair and reasonable.

#### **4. The Proposed Annual Cap B**

The table below sets out the Proposed Annual Cap B for the three years ending 31 December 2025:

	For the year ending 31 December					
	2020	2021	2022	2023	2024	2025
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
The Proposed Annual Cap B	N/A	N/A	N/A	27,000	27,000	27,000
Maximum daily balance	12,602	12,974	26,229 (Note 1)			

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*Note:*

1. The amount of approximately RMB26,229 million represented the maximum daily balance for 6M2022. The maximum daily balance increased from approximately RMB12,974 million for FY2021 to approximately RMB26,229 million for 6M2022, which is mainly attributable to the increase in the deposit received from the Company as a result of the increase in the net profit and net cashflow for 6M2022 as compared with those for the six months ended 30 June 2021. Such increase in the net profit and net cashflow was mainly due to the increase in the unit price of the coal.

*(a) Our assessment on the basis of the determination of the Proposed Annual Cap B*

We are advised by the Company that the Proposed Annual Cap B is determined with reference to (i) the maximum daily balance of deposit received by Yankuang Finance from the Group for 6M2022 of approximately RMB26.3 billion; and (ii) the inflation rate of approximately 2.7% of the PRC in August 2022.

In order to assess the fairness and reasonableness of the proposed annual caps, we have performed the following works:

- (i) we have reviewed the breakdown of the maximum daily balance of deposit received by Yankuang Finance from the Group for 6M2022; and
- (ii) we have reviewed the inflation rate of the PRC in August 2022 and it amounted to 2.7%.

Based on the above, we are of the view that the Proposed Annual Cap B is fair and reasonable.

### RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that:

- (a) the terms of the Absorption and Merger are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole even though they are not conducted in the ordinary and usual course of business of the Group; and
- (b) the terms of the Provision of Comprehensive Credit Facility Services and the Provision of Deposit Services are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favor of the ordinary resolution(s) to be proposed at the EGM to approve the Transactions.

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 20 years of experience in corporate finance advisory.*

**1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP**

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the years ended 31 December 2021, 2020 and 2019 together with the accompanying notes to the financial statements of the Company, can be found on pages 193 to 347 of the annual report of the Company for the year ended 31 December 2021, pages 183 to 335 of the annual report of the Company for the year ended 31 December 2020 and 167 to 311 of the annual report of the Company for the year ended 31 December 2019. Please see below the hyperlinks to the aforesaid documents:

Annual report for the year ended 31 December 2021:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0422/2022042201322.pdf>

Annual report for the year ended 31 December 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0328/2021032800563.pdf>

Annual report for the year ended 31 December 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201328.pdf>

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2022 together with the accompanying notes to the financial statements, can be found on pages 107 to 144 of the interim report of the Company for the six months ended 30 June 2022. Please see below the hyperlink to the aforesaid document:

Interim report for the six months ended 30 June 2022:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0826/2022082601312.pdf>



**2. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP**

At the close of business on 31 August 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the date of this circular, the bank and other borrowings of the Enlarged Group comprise the following:

	<i>RMB'000</i>
Unsecured bank borrowings	30,073,139
Secured bank borrowings	26,886,338
Guaranteed notes	14,588,144
Corporate bonds	9,974,200
Other unsecured borrowing	4,140,471
Other secured borrowings	2,197,600
Lease liabilities	<u>404,813</u>
	<u>88,234,705</u>

Certain of the secured bank borrowings of the Enlarged Group were secured by the Enlarged Group's interests in certain overseas subsidiaries and joint operations and bank deposits.

**Contingent liabilities**

As at 31 August 2022, the Enlarged Group has provided guarantees with respect to the performance and operation of the Group, joint operations and related parties amounting to RMB4.23 billion.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as of 31 August 2022, the Enlarged Group did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or term loans (secured, unsecured, guaranteed or otherwise), other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

**3. SUFFICIENCY OF WORKING CAPITAL**

Taking into account the present internal resources and the available credit facilities of the Enlarged Group, and considering the effect of the Absorption and Merger and the transactions contemplated under the First Financial Services Agreement and the Second Financial Services Agreement, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirements, for the next 12 months from the date of this circular.

In accordance with Rule 14.66(12) of the Listing Rules, the Company obtained a report from its auditor prepared in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, that such facilities were either confirmed by the persons or institutions providing finance in writing or by appropriate alternative evidence.

#### 4. BUSINESS TREND AND FINANCIAL PROSPECTS OF THE GROUP

In the second half of 2022, the external environment is expected to remain complex and severe, and the macro economy will still face risks and challenges. Under the intensified control and regulation policies, the coal industry structure adjustment will speed up. Given such cases, the Group will actively practice new development concept, continuously optimize its industrial structure and regional development priorities, energize the vitality of business operation and management, improve the quality of economic operation and promote high-quality development.

**Accelerate strategic transformation and upgrading.** The Group will concentrate its advantageous resource elements on the "five pillar industries" and ensure that its industrial structure is being continuously optimized and competitive strength is being significantly enhanced. The mining industry will experience accelerated transformation and upgrading. The Group aims to build "four-type" mines that are safe, green, intelligent and highly-efficient, and strives to revamp and upgrade the demonstration intelligent mines at a quick pace. For mines in Shandong, the Group will stabilize production to fully tap their potentials. For mines in Shaanxi and Inner Mongolia, the Group will further increase their production and economic benefits, continuously acquire prime assets and strategic resources, and accelerate the release of advanced and advantageous production capacity of Jinjitan, Yingpanhao, Shilawusu and other coal mines. As for Australian mines, the Group aims to preserve quantity, improve quality, hedge against the impact of natural disasters and production reduction. The Group will prudently and scientifically promote the development of non-coal mineral resources. **For the high-end chemicals and new materials industry**, the Group will focus on high-end, fine and low-carbon development, strive to extend, complement and strengthen its industrial chains, and promote the clustered development of coal-based and amino-based new material industrial chain. The Group will boost the construction of caprolactam industry chain project by Lunan Chemicals, the 500,000 tons/year high temperature Fischer-Tropsch project of Future Energy, and the 100,000 tons/year DMMn project of Yulin Neng Hua so as to seek cluster development of fine chemicals. "Gaining momentum" is the focus of the new energy industry. Placing priorities to onshore wind power generation, photovoltaic power generation and the upstream and downstream of the photovoltaic industry, the Group will coordinate M&A and cooperative development to promote the intensive development of the industry. As for **the high-end equipment manufacturing industry**, the Group will accelerate the construction of Luxi intelligent manufacturing park, promote the joint venture projects and ensure that the joint venture will be put into operation by the end of March 2023. Orderly integrating resources is the key task of the smart logistics industry. The Group will accelerate the construction of Tai'an port, Sihekou port, Yingpanhao freight station and other logistics parks, promote the construction of railroad lines in Shaanxi and Mongolia mining areas, and strives to build a "five-in-one" modern logistics industry system that integrates railroads, highways, ports and aviation, parks and platforms.

**Further improve quality and efficiency of lean management.** The Group will integrate lean management and market-based reform, continuously to carry out “two increases, three decreases and three improvements” activities, and improve lean management and control in an all-round manner. **Control expenses, and reduce expenditure and costs.** The Group will further implement the comprehensive budget management, see the cost budget and per unit consumption indicators as the “red line”, strive to keep the per unit cost stable, and cut over 5% of unit cost for major products on a year-on-year basis. The Group actively promotes the reduction in leverage and debt, strictly controls financing costs, broaden financing channels, and reduces financial expenses by 5% as compared with the corresponding period of the previous year. **Further implement lean marketing.** The Group will strengthen its efforts in analyzing and judging the market trends, deeply implement the “clean coal + tailored coal” strategy, effectively improve the production rate of clean coal and ensure an annual sales volume of no less than 25 million tons of clean coal and an annual sales volume of no less than 2 million tons of tailored coal. **Optimize the supply system.** The Group will improve the lean material supply management system and use various means such as cooperative procurement and social storage to reduce the capital occupation of inventory.

**Consolidate high-quality development.** The Group will launch the creation of a model corporate governance enterprise, create a transparent, standardized and efficient corporate governance structure, and forge a unique governance system for listed companies. The Group will innovate the “resource + capital” model, use capital operation as a means to acquire a number of high-quality resources and target enterprises with good quality and efficiency, strong synergy and low investment cost, so as to achieve incremental growth. Besides, the Group will fully promote and implement the excellent performance management model, and steer the Group to transform into a quality and efficiency-oriented, cultural development-oriented and innovation-driven enterprise.

## 5. POSSIBLE RISKS OF THE GROUP

### Risks arising from safety management

The business segments of the Group, namely coal mining and coal chemicals, are of high hazardous nature and of complex uncertainties, thus the risk of safety management can easily arise.

Countermeasures: The Group has implemented a dual-prevention safety management system, and strengthened the comprehensive identification of risk and hazard factors to ensure that risks are controllable. The Group has also scientifically formulated planning for the governance of major disasters in the period of the “14th Five-Year Plan”, designed tailor-made policies for individual coal mines, established and improved the control and management system, made extra efforts to enhance governance efficiency for major disasters in a precise manner. The Group has adopted the innovative development model that features the integration of intelligent technology, digital advancement and modernization, realized the intelligent upgrading of production systems such as coal mining and roadway heading, improved the safety management system for operations of hazardous nature, which will develop into a standardized and ruled based management system with linear procedures.

**Environmental protection risks**

The national environmental protection policy is becoming more and more stringent, and the social awareness is also growing on environmental protection, which brings stricter constraints to the Group. And also the Company's coal business is subject to major impacts from China's commitment to realize "carbon peaking and carbon neutrality" to the world.

Countermeasures: The Group will strictly implement the requirements of environmental protection regulations, actively promote the upgrading of facilities and improve the operation and management of facilities to ensure that pollutants are discharged in accordance with the standards. The Group will implement strategic transformation, actively promote the transformation of traditional industries and the rise of new industries, and follow the path of green and low-carbon development. The Group will also promote the efficient and clean utilization of coal and continue to ensure the ballast role of coal in energy mix.

**Exchange rate risks**

As a multinational company, the Group sees that its overseas investment, overseas financing, international trade and other businesses are all subject to foreign exchange rate fluctuations, which causes many uncertainties to the Group's operation and strategic development.

Countermeasures: The Group has strengthened the study and analysis on how exchange rates fluctuate, and learn to comprehensively use multiple financial tools to reduce the risks of exchange rate fluctuation. According to the trend of fluctuation of the exchange rate of the transaction currency, an appropriate insured-value clause shall be sealed in the transaction contract. Besides, the Group must be able to flexibly draw on foreign exchange derivatives, and to sign forward foreign exchange swaps in order to lock exchange rate fluctuations.

**Risks arising from geopolitics**

The Group's businesses are distributed in different regions and countries, and its oversea business operation are subject to changes in local government policies, economies and international relations. If there is any material adverse change in these factors, the Group's business, financial position and operating results may be adversely affected.

Countermeasures: First, the Group will pay close attention to international developments, strengthen analysis of political and economic developments in the locations where the Group operate businesses, identify and anticipate geopolitical risks that the overseas business operations may face in a timely manner, and formulate countermeasures. Second, the Group will continue to adhere to the localization strategy, comply with local laws and regulations, and actively integrate into the local economic and social development.

**6. EFFECT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP**

Shandong Energy Finance Company in general offers interest rate no less than those offered by the other banks and financial institutions. The Company estimates that, if the maximum daily balance of comprehensive credit facilities to be provided by Shandong Energy Finance Company under the First Financial Services Agreement is RMB28 billion, RMB30 billion and RMB32 billion for each of the three years ending 31 December 2025, it is expected that the maximum amount of interests the Group will receive during the said period will be approximately RMB0.98 billion, RMB1.05 billion and RMB1.12 billion respectively, only representing a small proportion of the Group's profit and assets. Accordingly, the Company considers that the interest income to be derived from the provision of comprehensive credit facilities under the First Financial Services Agreement will not have a material impact on the Group's profit, assets and liabilities for the financial years ending 31 December 2023, 2024 and 2025, respectively.

*The following is the text of valuation report, prepared for the purpose of incorporation in this circular received from China United Assets Appraisal Group Co., Ltd.\*, an independent valuer, in connection with its valuation of Shandong Energy Finance Company as at 30 June 2022.*

**This asset valuation report is prepared in accordance with China Asset Valuation Standards**

Asset Valuation Report on the project of the value of total shareholders' equity of Shandong Energy Group Finance Co., Ltd. involved in the proposed implementation of integration of the assets by Yankuang Energy Group Company Limited

**Zhong Lian Ping Bao Zi [2022] No.2684**

**China United Assets Appraisal Group Co., Ltd.**

**15 August 2022**

**CONTENTS**

<b>DISCLAIMER</b> .....	II-3
<b>SUMMARY</b> .....	II-5
I.    OVERVIEW OF THE PRINCIPAL, THE APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT .....	II-7
II.   PURPOSE OF VALUATION .....	II-13
III.  SUBJECT AND SCOPE OF VALUATION .....	II-14
IV.   VALUE TYPE .....	II-16
V.    VALUATION REFERENCE DATE .....	II-16
VI.   BASIS OF VALUATION .....	II-16
VII.  VALUATION APPROACHES .....	II-21
VIII. IMPLEMENTATION OF VALUATION PROCEDURES .....	II-31
IX.   VALUATION ASSUMPTIONS .....	II-33
X.    VALUATION CONCLUSION .....	II-35
XI.   SPECIAL NOTES .....	II-38
XII.  LIMITATIONS ON THE USE OF THE ASSET VALUATION REPORT . . . .	II-41
XIII. DATE OF ASSET VALUATION REPORT .....	II-42
<b>APPENDIX OF ASSET VALUATION REPORT</b> .....	II-44

**DISCLAIMER**

- I. This asset valuation report is prepared in accordance with the Basic Rules for Asset Valuation issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Code of Ethics for Asset Valuation issued by China Appraisal Society.
- II. The principal or other users of the asset valuation report shall use the asset valuation report in accordance with the provisions of laws and administrative regulations and within the scope of use as specified herein. Where the principal or other users of the asset valuation report use this asset valuation report in violation of the above provisions, the asset appraisal agency and its asset valuers shall bear no liability.

This asset valuation report shall only be used by the principal, other users of the asset valuation report agreed in the asset valuation engagement contract, and users of asset valuation report as stipulated by laws and administrative regulations. Save for the above, no other agencies or individuals shall use this asset valuation report.

The asset appraisal agency and asset valuers remind the users of the asset valuation report that they should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation subject and should not be regarded as a guarantee for the realizable value of the valuation subject.

- III. The validity of the valuation conclusion is conditional upon the authenticity, legality and completeness of the information provided by the principal and other parties concerned. The list of assets and liabilities within the scope of valuation, as well as the predictive financial information, ownership certificates and other materials required for the valuation, have been reported and confirmed by seals or other means by the principal and the appraised entity.
- IV. The asset appraisal agency and our asset valuers have no interest in and are not expected to have any interest in the valuation subject in this asset valuation report. We do not have any existing or prospective interest in nor any bias against the parties concerned.
- V. Our asset valuers have carried out on-site inspection on the valuation subject and its assets involved in the asset valuation report, paid necessary attention to the legal titles of the valuation subject and its assets involved, verified the information related to the legal titles of the valuation subject and its assets involved, truthfully disclosed the issues identified in the process, and requested the principal and other parties concerned to remove title defects in order to meet the requirements for issuing an asset valuation report.



- VI. The analyses, judgments and results in the asset valuation report issued by the asset appraisal agency are subject to the assumptions and limitations set out in the asset valuation report. The users of the asset valuation report shall fully consider the assumptions, limitations and special notes set out herein and their impact on the valuation conclusion.
- VII. The asset appraisal agency and our asset valuers comply with the laws, administrative regulations and asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and take responsibility for the asset valuation report issued.

**ASSET VALUATION REPORT ON THE PROJECT OF THE VALUE OF TOTAL  
SHAREHOLDERS' EQUITY OF SHANDONG ENERGY GROUP FINANCE CO., LTD.  
INVOLVED IN THE PROPOSED IMPLEMENTATION OF INTEGRATION OF THE  
ASSETS BY YANKUANG ENERGY GROUP COMPANY LIMITED**

**Zhong Lian Ping Bao Zi [2022] No.2684**

**SUMMARY**

China United Assets Appraisal Group Co., Ltd. is engaged by Yankuang Energy Group Company Limited to appraise the market value of total shareholders' equity of Shandong Energy Group Finance Co., Ltd. involved in the proposed implementation of integration of the assets by Yankuang Energy Group Company Limited as at the Valuation Reference Date.

The valuation subject is the value of total shareholders' equity of Shandong Energy Group Finance Co., Ltd., and the scope of valuation covers all assets and liabilities of Shandong Energy Group Finance Co., Ltd..

The Valuation Reference Date is 30 June 2022.

The type of value under the valuation is market value.

This valuation is conducted on the premise of continued use and open market. Taking into account the actual conditions of the valuation subject and comprehensively considering various influencing factors, we conducted an overall evaluation of Shandong Energy Group Finance Co., Ltd. using the asset-based approach and the income approach respectively, and then reviewed and compared the valuation results. Given the applicable premise of the valuation approaches and the valuation purpose, the valuation conclusion under the income approach is selected as the final valuation conclusion.

Based on the judgment of the appraised entity and the management of the Target Company on its future development trend and its business plans and after the implementation of checking and verification, on-site inspection, market research and inquiry, assessment and estimation and other valuation procedures, the valuation conclusion of the value of total shareholders' equity of Shandong Energy Group Finance Co., Ltd. on the Valuation Reference Date of 30 June 2022 is as follows:

The book value of net assets is RMB4,505,562,600 and the appraised value amounts to RMB4,641,831,000, representing an increase of RMB136,268,400 with an appreciation rate of 3.02%.

The valuation did not take into consideration the premium or discount caused by factors such as controlling right and minority interest, nor the impact on the valuation conclusion arising from the liquidity of the equity interests.

**When using the valuation conclusion, the users of this report are hereby reminded to pay attention to the special notes and material subsequent events set out herein.**

According to the laws and regulations related to asset valuation, asset valuation reports involving valuation of business for legal compliance shall only be used upon the principal has performed the supervisory and administrative procedures regarding asset valuation as required by law and regulations. The valuation conclusions shall be effective from 30 June 2022 to 29 June 2023 for a term of one year.

**The above content is extracted from the full text of the asset valuation report. For details of the valuation and correct understanding of the valuation conclusion, please read the full text of the asset valuation report carefully.**

**ASSET VALUATION REPORT ON THE PROJECT OF THE VALUE OF TOTAL  
SHAREHOLDERS' EQUITY OF SHANDONG ENERGY GROUP FINANCE CO., LTD.  
INVOLVED IN THE PROPOSED IMPLEMENTATION OF INTEGRATION OF THE  
ASSETS BY YANKUANG ENERGY GROUP COMPANY LIMITED**

**Zhong Lian Ping Bao Zi [2022] No.2684**

**Yankuang Energy Group Company Limited:**

China United Assets Appraisal Group Co., Ltd. intends to be engaged by the Company to appraise the market value of the total shareholders' equity of Shandong Energy Group Finance Co., Ltd. involved in the proposed implementation of integration of the assets by Yankuang Energy Group Company Limited as at the Valuation Reference Date, i.e. 30 June 2022, by adopting the asset-based approach and income approach and carrying out necessary valuation procedures in accordance with the relevant laws, administrative regulations and asset valuation standards while adhering to the principles of independence, objectivity and impartiality. Details of the asset valuation are reported as follows:

**I. OVERVIEW OF THE PRINCIPAL, THE APPRAISED ENTITY AND OTHER  
USERS OF THE VALUATION REPORT AS AGREED IN THE ASSET  
VALUATION ENGAGEMENT CONTRACT**

**(I) Principal**

Name:	Yankuang Energy Group Company Limited
Type:	Joint stock company with limited liability (A joint venture with Hong Kong, Macau, Taiwan and domestic investment and listed)
Address:	No. 949, Fushan South Road, Zoucheng City, Jining City, Shandong Province
Legal representative:	Li Wei
Registered capital:	RMB4,860,000,000
Paid-in capital:	RMB4,860,000,000
Date of establishment:	25 September 1997
Duration of operation:	From 25 September 1997 to an indefinite period
Unified social credit code:	91370000166122374N

Scope of business: Coal mining; public railway transportation; road goods transportation (excluding hazardous goods); port operation; installation, upgrading and maintenance of special equipment; real estate development and operation; catering services; accommodation services; import and export of cargoes and technology; sewage water treatment and recycling; heat generation and supply; inspection and detection services; inspection and detection for safety production; projects construction; project pricing consultation. (Items which are subject to approvals required by the laws shall be approved by the relevant authorities, and approval documents or licenses from the relevant authorities shall be obtained for such specified items) General Items: investment activities using the Company's own funds; corporate management; social and economic consulting services; market research (not involving foreign-related investigations); manufacture of mining machinery; sale of mining machinery; machinery equipment leasing; general equipment repair; general machinery and equipment installation services; sale of metal material; sale of electrical machinery and equipment; sale of building materials; sale of timber; manufacture of specialized chemical product (excluding hazardous chemicals); sale of specialized chemical product (excluding hazardous chemicals); manufacture of daily chemical products; sale of coal and coal products; manufacture of coating (excluding hazardous chemicals); sale of coating (excluding hazardous chemicals); sale of lubricating oil; mineral washing and processing; sale of petroleum products (excluding hazardous chemicals); sale of chemical products (excluding licensed chemical products) ); technological services, technological development, technological consulting, technological exchanges, technology transfer, technology promotion; leasing of non-residential real estate; sale of metal ore; general cargo warehousing services (excluding storage of hazardous chemicals and other items requiring approval); landscaping project construction; scenic spot management; safety technical training for special operators; measurement services; social and economic consulting services;

planning of corporate image; sale of knitting textile; sale of plastic product; sale of instruments; sale of cement products; production of refractory material; sale of refractory material; sale of labor protection products; sale of office supplies; stationery retail; railway transportation auxiliary activities; production of fire-proof sealing materials; sale of fire-proof sealing materials; electronic specialized equipment manufacturing; sale of electronic specialized equipment; software development; network technical services; sale of network equipment; Internet data services; sale of radio and television transmission equipment; sale of communication equipment; repairs and maintenance of motor vehicle; property management; human resources service (excluding occupational intermediary activities and labor dispatch services). (Except for items subject to approvals required by the laws, business activities shall be conducted independently with the business license and in accordance with the laws)

## (II) The appraised entity

Name: Shandong Energy Group Finance Co., Ltd.

Address: 10/F, Shandong Energy Building, 10777 Jingshi Road, Jinan, Shandong

Legal Representative: Li Shipeng

Registered capital: RMB3,000,000,000

Type: Limited liability company (state-controlled)

Unified social credit code: 9137000008978789X0

Date of establishment: 30 December 2013

### 1. *History and development*

Shandong Energy Group Finance Co., Ltd. was established on 24 December 2013 with the approval from China Banking Regulatory Commission (Yin Jian Fu [2013] No. 664) with a registered capital of RMB2 billion on 30 December 2013. It is a non-banking financial institution aim for strengthening the centralized fund management of Shandong Energy Group and increase the efficiency of fund utilization and provide financial management service to members of the Shandong

Energy Group. At the beginning of the establishment of the Company, the names of the shareholders, their respective capital contribution and percentage of capital contribution are as follows:

**Names of the shareholders, capital contribution and  
percentage of capital contribution**

*Unit: RMB'0,000*

No.	Name of the shareholders	Registered capital	Registered capital contribution (%)	Paid-in capital	Paid-in capital contribution (%)
1	Shandong Energy Group Finance Co., Ltd.	140,000.00	70.00	140,000.00	70.00
2	Zibo Mining Group Co., Ltd.	10,000.00	5.00	10,000.00	5.00
3	Linyi Industrial Group Co., Ltd.	10,000.00	5.00	10,000.00	5.00
4	Shandong Xingulong Energy Co., Ltd.	10,000.00	5.00	10,000.00	5.00
5	Zao Zhuang Mining (Group) Co., Ltd.	10,000.00	5.00	10,000.00	5.00
6	Longkou Industrial Group Co., Ltd.	10,000.00	5.00	10,000.00	5.00
7	Shandong Dongyue Energy Co., Ltd.	10,000.00	5.00	10,000.00	5.00
Total		200,000.00	100.00	200,000.00	100.00

In 2019, after being approved at the shareholders' meeting and reported to CBRC and its resident agencies for approval, CBRC and its resident agencies approved the increase of registered capital of Shandong Energy Group Finance Co., Ltd. by RMB1 billion. On 5 July 2019, the Company increased its registered capital from RMB2 billion to RMB3 billion. On March 2021, Shandong Energy Group Company Limited and Yankuang Group Company Limited entered into the Merger Agreement between Shandong Energy Group Company Limited and Yankuang Group Company Limited. Yankuang Group Company Limited changed its name into Shandong Energy Group Company Limited as a surviving company and had completed the company information administration registration at the Administration for Market Regulation of Shandong Province on 31 March 2021 and received the business license issued by the Administration for Market Regulation of Shandong Province, Yankuang Group Company Limited, the shareholder of the Company changed its name to Shandong Energy Group

Company Limited. As of 30 June 2022, being the Valuation Reference Date, the names of shareholders, capital contribution and percentage of capital contribution are as follows:

**Names of the shareholders, capital contribution and  
percentage of capital contribution**

*Unit: RMB'0,000*

No.	Name of the shareholder	Registered capital	Registered capital contribution (%)	Paid-in capital	Paid-in capital contribution (%)
1	Shandong Energy Group Company Limited	200,000.00	66.67	200,000.00	66.67
2	Zibo Mining Group Co., Ltd.	30,000.00	10.00	30,000.00	10.00
3	Linyi Industrial Group Co., Ltd.	20,000.00	6.67	20,000.00	6.67
4	Shandong Xingulong Energy Co., Ltd.	20,000.00	6.67	20,000.00	6.67
5	Shandong Dongyue Energy Co., Ltd.	10,000.00	3.33	10,000.00	3.33
6	Zao Zhuang Mining (Group) Co., Ltd.	10,000.00	3.33	10,000.00	3.33
7	Longkou Industrial Group Co., Ltd.	10,000.00	3.33	10,000.00	3.33
	Total	300,000.00	100.00	300,000.00	100.00

**2. Scope of business**

Provision of financial and financing advisory, credit certification and related consultation and agency business to members; assist in the collection and payment of transaction; approved insurance agency business; provide guarantee to members; Provision of entrusted loans between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement and liquidation plan formulation to members; accepting deposits from members; provision of loans and finance leasing to members; provision of peers borrowing; investment of marketable securities (fixed-income). (The period of validity is determined by the license). (Pre-license).



3. *Assets, financial and operating conditions*

As of 30 June 2022, being the Valuation Reference Date, Shandong Energy Group Finance Co., Ltd. had book value of total assets of RMB23,634,639,700, liabilities of RMB19,129,077,100, net assets of RMB4,505,562,600. The decrease in assets and liabilities in June 2022 was mainly due to greater prepayment of loan and investment expenses, while the decrease in net assets was mainly due to the impact of the dividend from the finance company. It achieved operating income of RMB213,166,900, total profit of RMB34,513,600 and net profit of RMB25,771,700 for January to June 2022. The decrease in net profit was mainly due to an asset impairment loss of RMB161,172,600 in the current period. The assets, liabilities and financial condition of the Company for the past three years and as at the reference date are as follows:

**Assets, Liabilities and Financial Position***Unit: RMB'0,000*

<b>Item</b>	<b>As at 31 December 2019</b>	<b>As at 31 December 2020</b>	<b>As at 31 December 2021</b>	<b>As at 30 June 2022</b>
Total assets	1,809,384.71	1,958,381.79	3,139,182.85	2,363,463.97
Liabilities	1,366,019.47	1,505,096.20	2,676,045.45	1,912,907.71
Net assets	443,365.24	453,285.59	463,137.40	450,556.26
<b>Item</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>January to June 2022</b>
Operating income	50,676.01	50,383.47	39,025.77	21,316.69
Total profit	43,099.34	40,314.97	37,677.29	3,451.36
Net profit	32,369.05	30,090.97	28,363.92	2,577.17
<b>Item</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>January to June 2022</b>
Net cash flow from operating activities	-362,628.85	200,855.18	1,238,833.76	-971,119.04
Net cash flow from investing activities	-95.15	-1,117.48	-342.66	-1,058.65
Net cash flow from financing activities	134,187.01	-20,170.63	-18,512.10	-
Effect of exchange rate changes on cash	-	-	-	-
Net cash and cash equivalents	590,442.60	770,009.66	1,989,988.65	1,017,810.97
Auditor	Zhongxingcai Guanghua Certified Public Accountants LLP			

**(III) Relationship between the principal and the appraised entity**

Yankuang Energy Group Company Limited is the principal and Shandong Energy Group Finance Co., Ltd. is the appraised entity. Shandong Energy Group Finance Co., Ltd. is a shareholder of Yankuang Energy Group Company Limited and is intended to merge with Yankuang Group Finance Co., Ltd, a subsidiary of Yankuang Energy Group Company Limited.

**(IV) Users of this report**

Users of this valuation report refer to the principal and the relevant regulatory agencies filed in accordance with the provisions. Save for further provisions under the national laws and regulations, no institution or individual obtaining this valuation report but not confirmed by the valuer or the principal shall become user of this valuation report.

**II. PURPOSE OF VALUATION**

In accordance with the Minutes of the General Manager's Office Meeting of Shandong Energy Group Company Limited (2022 No.18), Yankuang Energy Group Company Limited proposes to implement integration of assets. For this purpose, an asset valuation of the value of the total shareholders' equity of Shandong Energy Group Finance Co., Ltd. is required to provide a value reference for the relevant economic activity.

## III. SUBJECT AND SCOPE OF VALUATION

## (1) Subject and scope of valuation

The valuation subject is the value of total shareholders' equity of Shandong Energy Group Finance Co., Ltd.. The scope of valuation covers all assets and related liabilities of Shandong Energy Group Finance Co., Ltd. as at the Valuation Reference Date, of which the book value of total asset amounted to RMB23,634,639,700, liabilities amounted to RMB19,129,077,100 and net assets amounted to RMB4,505,562,600. Specifically, it includes current assets of RMB11,410,966,600; non-current assets of RMB12,223,673,100; and current liabilities of RMB19,129,077,100. Details are as follows:

*Unit: RMB'0,000*

<b>Items</b>	<b>Book value as of 30 June 2022</b>
<b>Assets:</b>	
Cash and deposits with the central bank	95,040.67
Deposits at banks	1,017,810.97
Placements with other financial institutions	27,930.00
Prepayments	121.37
Other receivables	193.65
Loans and advances to customers	1,211,827.50
Held-to-maturity investments	2,018.11
Fixed assets	899.32
Intangible assets	65.58
Deferred tax assets	7,556.79
<b>Liabilities:</b>	
Customer deposits	1,894,622.19
Accounts payable	154.15
Salaries payable	6.88
Taxes payable	2,677.13
Other payables	15,447.35

The data regarding the abovementioned assets and liabilities was extracted from the unqualified audit report of Zhongxingcai Guanghua Shen Kuai Zi (2022) No. 316070 issued by Zhongxingcai Guanghua Certified Public Accountants LLP, based on which the business valuation was conducted.

The entrusted appraised target and scope of valuation are consistent with the appraised target and scope of valuation involved in economic activities.

The main assets included in the scope of valuation are cash and deposits with the central bank of RMB950,406,700, representing 4.02% of the total assets; deposits at banks of RMB10,178,109,700, representing 43.06% of the total assets; placements with other financial institutions of RMB279,300,000, representing 1.18% of the total assets; prepayments of RMB1,213,700, representing 0.01% of the total assets; other receivables of RMB1,936,500, representing 0.01% of the total assets; loans and advances to customers of RMB12,118,275,000, representing 51.27% of the total assets; bond investments of RMB20,181,100, representing 0.09% of the total assets; fixed assets of RMB8,993,200, representing 0.04% of the total assets; intangible assets of RMB655,800, representing 0.003% of the total assets; and deferred tax assets of RMB75,567,900, representing 0.32% of the total assets. Cash and deposits with the central bank mainly represent reserves with the central bank; placements with other financial institutions mainly represent funds held with various banks; loans and advances to customers mainly represent financial credit facilities provided by Yankuang Group Finance Co., Ltd. to members of Shandong Energy Group Company Limited; and intangible assets represent four purchased software declared by the enterprise, including two virtualization software, one database software and one Windows operating system.

## **(2) Distribution and characteristics of physical assets**

The carrying amount of physical assets included in the valuation was RMB8,993,200, representing 0.04% of total assets within the scope of the valuation. These assets are mainly electronic devices with the following characteristics:

1. The distribution of physical assets mainly concentrated in the office area of Shandong Energy Group Company Limited. Shandong Energy Group Company Limited leased by Yankuang Group Finance Co., Ltd. is located on 10/F, Shandong Energy Building, 10777 Jingshi Road, Jinan, with a building area of 2,851.55 square meters and the lease contract is signed at the beginning of each year.
2. Electronic equipment: mainly include computer, printers, safes, virtualization platforms, information security reinforcement platforms, financial company networks and hardware platforms. As of the Valuation Reference Date, the electronic equipment is used, maintained and managed properly, and is in good economic and technical condition.

## **(3) The recorded or non-recorded intangible assets declared by the enterprise**

As of 30 June 2022, being the Valuation Reference Date, the recorded intangible assets declared by the appraised entity are four purchased software declared by the enterprise, including two virtualization software, one database software and one Windows operating system.

As of 30 June 2022, being the Valuation Reference Date, other than the assets mentioned above, the appraised entity does not have undeclared or unrecorded intangible assets.

**(4) Types and quantities of off-balance sheet assets declared by the enterprise**

As of the Valuation Reference Date, the appraised entity does not have undeclared off-balance sheet assets.

**(5) Type, quantity and book value of assets involved in making reference to the conclusions of reports issued by other institutions (or appraised value)**

The book value of various assets and liabilities on the Valuation Reference Date in this valuation report is the audit result issued by Zhongxingcai Guanghua Certified Public Accountants LLP. Save for the above, there is no reference to the reports from other organizations.

**IV. VALUE TYPE**

Based on the purpose of this valuation, the value type of this valuation is defined as market value.

Market value refers to the estimated amount of the value of normal and fair transactions of the assets on the Valuation Reference Date when the willing buyer and the willing seller act rationally without any coercion.

**V. VALUATION REFERENCE DATE**

The Valuation Reference Date for the asset of this project is 30 June 2022.

This reference date is determined by the principal taking into consideration the amount of assets, workload, estimated time required for valuation, compliance and other factors of the appraised entity after comprehensively negotiating with various intermediaries.

**VI. BASIS OF VALUATION**

**(1) Basis of economic activity**

1. Minutes of the General Manager's Office Meeting of Shandong Energy Group Company Limited (2022 No.18).

**(2) Basis of law and regulations**

1. The Asset Valuation Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);

2. The Company Law of the People's Republic of China (amended at the 6th session of the 13th Standing Committee of the National People's Congress on 26 October 2018);
3. The Civil Code of the People's Republic of China (passed at the 3rd session of the 13th Standing Committee of the National People's Congress on 28 May 2020);
4. The Securities Law of the People's Republic of China (amended and adopted at the 15th session of the 13th Standing Committee of the National People's Congress on 28 December 2019);
5. The Enterprise Income Tax Law of the People's Republic of China (passed at the 7th session of the 13th Standing Committee of the National People's Congress on 29 December 2018);
6. The Law on State-owned Assets of Enterprises of the People's Republic of China (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);
7. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council on 1 September 2005);
8. The Administrative Measures for Valuation of State-owned Assets (Order No. 732 of the State Council in 2020);
9. The Interim Regulations for the Supervision and Administration of Enterprise State-owned Assets (Order No. 709 of the State Council, amended on 2 March 2019);
10. The Supervisory and Administrative Measures of the Transactions of State-owned Assets of Enterprises) (Order No. 32 of SASAC and the Ministry of Finance in 2016);
11. The Guiding Opinions on Regulating the Assets Management Business of Financial Institutions (Yin Fa [2018] No. 106 on 27 April 2018);
12. The Implementation Rules of Interim Regulations on Value-added Tax of the People's Republic of China (Order No. 691 of the State Council) (Revision passed at the 191st executive meeting of the State Council on 30 October 2017);
13. The Circular of Taxation on Launching the Pilot Program of Reforming from Business Tax to VAT in an All-round Way (Cai Shui [2016] No. 36);

14. The Circular of the Ministry of Finance and the State Administration of Taxation regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46);
15. The Announcement of the State Administration of Taxation on Matters relating to Tax Levying and Administration concerning the Comprehensive Promotion of the Pilot Collection of Value-added Tax in lieu of Business Tax (the State Administration of Taxation Announcement 2016 No. 23);
16. The Circular of the State Administration of Taxation on Clarification of Several Collection and Administration Issues in Pilot Program of Replacing Business Tax with Value-added Tax (the State Administration of Taxation Announcement 2016 No. 26);
17. The Administrative Measures of Finance Companies of Enterprise Groups (Order No. 5 of 2004, issued by the China Banking Regulatory Commission on 27 July 2004 amended according to Decision of the China Banking Regulatory Commission on the Amendment to the Administrative Measures of Finance Companies of Enterprise Groups issued on 28 December 2006);
18. The Circular on the Policies in relation to Deepening Value-added Tax Reform (No. 39 of 2019 of the Ministry of Finance, State Administration of Taxation and General Administration of Customs on 20 March 2019);
19. Notice of the Shandong Provincial State-owned Assets Supervision and Administration Commission on Further Regulation of State-owned Assets Transactions of Enterprises(Lu Guo Zi [2020] No. 2)
20. Notice of the Shandong Provincial State-owned Assets Supervision and Administration Commission on Further Regulation of the Transfer of Assets of Provincial Enterprises (Lu Guo Zi Ban [2021] No. 6);
21. Other laws, regulations, rules, and systems related to the valuation.

**(3) Basis of valuation criteria**

1. Asset Valuation Standards – Basic Standards (Cai Zi [2017] No. 43);
2. Code of Ethics for Assets Assessment (CAS [2017] No. 30);
3. Asset Valuation Practicing Standards – Asset Valuation Procedures (CAS [2018] No. 36);
4. Asset Valuation Practicing Standards – Asset Valuation Report (CAS [2018] No. 35);

5. Asset Valuation Practicing Standards – Asset Valuation Methods (CAS [2019] No. 35);
6. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (CAS [2017] No. 33);
7. Asset Valuation Practicing Standards – Asset Valuation Files (CAS [2018] No. 37);
8. Practicing Standards for Asset Valuation – Engagement of Experts and Relevant Reports (CAS [2017] No. 35);
9. Asset Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38);
10. Asset Valuation Practicing Standards – Intangible Assets (CAS [2017] No. 37);
11. Asset Valuation Practicing Standards – Machinery and Equipment (CAS [2017] No. 39);
12. Guidelines for the Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 42);
13. Guidelines for the Financial Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 43);
14. Guidelines for Business Quality Control of Asset Valuation Institutions (CAS [2017] No. 46);
15. Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);
16. Guidance on Legal Ownership of Asset Valuation Object (CAS [2017] No. 48);
17. Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);
18. Other standards related to the valuation.

**(4) Basis of ownership**

1. Purchase contracts or evidences of material assets;
2. Other property rights documents.



**(5) Pricing basis**

1. Loan prime rate (LPR) announcement authorized to be published by the National Interbank Funding Centre as at the Reference Date, which was published by the People's Bank of China;
2. Requirements on Impairment Allowance for Financial Enterprises (Cai Jin [2012] No. 20);
3. Shandong Energy Group Finance Co., Ltd. Administrative Measure for Financial Assets Risk Categorization (Shanneng Caisi Fa [2022] No. 3);
4. Data from Price Information Database of China United Assets Appraisal Group Co., Ltd.;
5. Statistical analysis of the national macro-economy, the industry, the regional market and the enterprise;
6. zol.com.cn and PConline etc.

**(6) Other reference information**

1. Financial statements and auditor's reports for 2019-2021 and as at the Valuation Reference Date of Shandong Energy Group Finance Co., Ltd.;
2. Financial data terminal by RoyalFlush iFIND;
3. Investment Valuation. ([US] by Damodaran, [Canada] Translated by Lin Qian, Tsinghua University Press);
4. Valuation: Measuring and Managing the Value of Companies (3rd Edition) ([US] by Copeland, T. and etc., translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);
5. Handbook of Commonly Used Data and Parameters for Asset Valuation (Mechanical Industry Press, 2011 Edition);
6. Accounting Standards for Business Enterprises – General Standards (Decree No. 33 of the Ministry of Finance, announced by the Ministry of Finance on 15 February 2006 and amended in July 2014);
7. Asset Valuation Expert Guide No. 1 – Financial Regulatory Indicators that Should Be Paid Attention to in the Appraisal of Financial Enterprises (CAS [2015] No. 62);
8. Asset Valuation Expert Guide No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises (CAS [2015] No. 64);

9. Asset Appraisal Expert Guidance No. 8 – Verification in Asset Appraisal (CAS [2019] No. 39);
10. Guiding Opinions No. 12 for Asset Valuation Expert – Projection of Discount Rates in the Valuation of Enterprise Values Using Income Approach (CAS [2020] No. 38);
11. Relevant information on the websites of China Securities Regulatory Commission, Beijing Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange;
12. Other reference information.

## **VII. VALUATION APPROACHES**

According to the requirements of the Assets Valuation Practicing Standards – Enterprise Value, when performing the valuation for enterprise value, the asset valuer shall, based on the purpose of valuation, the target of valuation, type of value, information collected and other relevant conditions to analyze the applicability of the three basic approaches, namely income approach, market approach and asset-based approach, and select one or more basic asset valuation method(s).

The income approach in the valuation for enterprise value refers to the valuation method of determining the value of the target of valuation by capitalizing or discounting the expected income. The professional valuer shall consider the applicability of the income approach appropriately after taking into account a combination of the nature of business, asset size, historical operating conditions, the predictability of future earnings, and the adequacy of the valuation data obtained.

The market approach in the valuation for enterprise value refers to the valuation method of determining the value of the target of valuation by comparing the target of valuation with comparable listed enterprises or comparable transactions. The professional valuer shall consider the applicability of the market approach based on the adequacy and reliability of the operating and financial information available of the comparable enterprises, and the number of comparable enterprises that can be collected.

The asset-based approach in the valuation for enterprise value refers to the method of determining the value of the target of valuation by reasonably appraising the value of each on-balance sheet and identifiable off-balance-sheet asset and liability of the enterprise based on the balance sheet of the appraised entity on the Valuation Reference Date.

The valuation is carried out for the purpose of the proposed integration of assets of Yankuang Energy Group Company Limited.

Based on the purpose of this valuation, as the assets-based method reflects an enterprise's value by putting business acquisition and construction into perspective, and serves as the basis for enterprise operation, management and assessment after the economic activity, the assets-based method is used for this valuation.

The income approach is built on the theory of expected utility in economics, which means that for investors, the value of a business lies in the income the business is expected to generate in the future. Although the income approach does not use directly reference available in the market to demonstrate the present fair market value of the assessed subject, it appraises assets by expected profitability of the assets, which determines the present fair market value of the assets. It can reflect the overall value and the conclusion is reliable and convincing. From the perspective of the applicable criteria of income approach, given the enterprise has its own profitability and with the profit forecast data provided by the management of the appraised entity for the coming years, the enterprise's future profitability can be reasonable estimated according to the historical operational data of the enterprise by reference to the internal and external operation environment. Therefore, the income approach is applicable for this valuation.

The market approach determines the prevailing fair market value of the appraised entity by referring to comparables in the market. There is no listed finance company, it is hard to adopt listed companies as comparables. As the operation purpose of the finance company is to serve the Group and its subsidiaries, external business will not be conducted. And as it is in the development stage, the operating conditions, and size of assets are mainly subject to its Group, the operating conditions of the corresponding groups of different financial companies have great differences. It is difficult to find in the open market three or above comparables which are similar to the developmental stage, operational position and asset size of the appraised entity and their financial operation information and data can be fully obtained. Accordingly, market approach is not adopted for valuation as it is difficult to adopt the transaction approach for this time.

In conclusion, the asset-based approach and income approach are adopted in this valuation.

#### **(1) Asset-based approach**

The asset-based approach is to take the investment amount required for rebuilding an enterprise or an independent profitable entity which is identical to the valuation target at the Valuation Reference Date as the basis for determining its overall assets value, that is, the method of calculating an enterprise's value by adding up the appraisal value of assets which are the various elements that constitute the enterprise and deducting the appraisal value of liabilities.

Set forth below are the valuation methods for various assets and liabilities:

***1. Current assets***

Current assets include cash and deposits with central bank, deposits with banks, loans and advances, prepayments and other receivables.

*(1) Cash and deposits with central bank*

Cash and deposits with central bank are deposits with central bank. The valuers checked the reply to confirmation request in relation to the deposits with central bank, verified the authenticity of the deposits with central bank, checked central bank deposit accounts and bank balance reconciliation statements, and checked whether there are deposits with central bank in transit and any further deposits after the Valuation Reference Date. For RMB accounts, the appraised value shall be determined with the verified book value.

*(2) Deposits with banks*

The valuers checked the reply to confirmation request in relation to the deposits with banks, verified the authenticity of the deposits with banks, checked the banks deposit accounts and bank balance reconciliation statements, and checked whether there are deposits with banks in transit and any further deposits after the Valuation Reference Date. For RMB accounts, the appraised value shall be determined with the verified book value.

*(3) Loans and advances to banks and non-bank financial institutions*

The valuers verified the book records, and randomly checked the contracts and original vouchers and other relevant information to verify the authenticity, aging, business contents and amounts of transactions. Related confirmation letters and documents are also checked to verify there are no discrepancies in the amounts recorded in the accounts, statements and bills.

Risk classification is carried out for loans and advances to banks and non-bank financial institutions and assessment for loss provision is made depending on the extent of loss on such loans and advances. Assessment for the proportion of provision of loss to be made is determined reasonably on the risk level and possibility of recovery. The asset risk classification is based on the definition of credit asset risk classification in Article 13 of the “Administrative Measures for Financial Assets Risk Classification of Shandong Energy Group Finance Co., Ltd.” (Shan Neng Cai Si Fa [2022] No.3) as amended by Shandong Energy Group Finance Co., Ltd. as follows: Pass: the counterparty can honor the terms of the contract, and there is no reason to doubt its ability to repay principal and interest in full and on a timely basis. Special-mention: although the counterparty is still able to

service the loan currently, the repayment might be adversely affected by some factors. Sub-standard: the counterparty's ability to service loan is apparently in question and cannot depend on its normal business revenue to pay back the principal and interest and certain losses might incur even when guarantees are executed. Doubtful: the counterparty cannot pay back principal and interest of loan in full and significant losses will incur even when guarantees are executed. Loss: principal and interest of loan cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures. For the "pass" risk assets, provision is made at 2.5% of its asset balance; for "special-mention" risk assets, provision is made at 3% of its asset balance; for "sub-standard" risk assets, provision is made at 30% of its asset balance; for "doubtful" risks assets, provision is made at 60% of its asset balance; for "loss" risk assets, 100% provision is made of its asset balance. Through communication with relevant management, the valuers learned that loans and advances in the amount of RMB200 million were made on 28 February 2022 and RMB200 million on 2 March 2022, to be repayable by 7 March 2022 and 9 March 2022 respectively. After the due date, GMK Finance Co., Ltd. repaid RMB1 million on time. As of the Valuation Reference Date, principal amount of RMB399 million was still outstanding. As the amount involved litigation, the amount was classified as sub-standard risk asset in accordance with the above classification. For sub-standard risk asset, the provision for risk loss is made at 30% of its asset balance. The appraised value of the banks and non-bank financial institutions is determined by deducting the book balance of the loans and advances to banks and non-bank financial institutions by the principal after risk loss assessment.

(4) *Prepayments*

The valuers verified the accounts record, and randomly checked the contracts, original vouchers and other relevant information to verify the aging, business content and amount of the transactions, and checked the related confirmation letters and documents to verify there are no discrepancies in the amounts recorded in the accounts, statement and bill. The appraised value is determined by the verified carrying amount based on the value of recoverable goods or ownership rights of the prepayments.

(5) *Other receivables*

The valuers verified the accounts record, randomly checked the civil mediation, original vouchers and other relevant information to verify the aging, business content and amount of the transactions, and to check the related confirmation letters and documents to verify there are no discrepancies in the amounts recorded in the accounts, statement and bills. As the amount involved litigation, the appraised entity, being the plaintiff, initiated legal action against GMK Finance Co., Ltd. with regard to interbank lending. As the parties reached a voluntary settlement during the

trial of the case, for the receivables, the valuers made provision for the risk loss in accordance with the specific identification method. The appraised value of other receivables is determined by deducting the assessed risk loss from the carrying amount of other receivables.

## 2. *Non-current assets*

### (1) *Loans and advances granted*

The Valuers collected relevant loan information, exchanged information with the company personnel, understood the credit status, financial position, solvency, cash flow status and guarantee status, and take into account the degree of impact of operational risk, management risk and other various aspects on loan repayment.

Upon classification of loans and advances by risk, loans and advances granted were assessed for risk losses based on the degree of loss on loans and advances granted. The provision ratio of risk loss assessment is reasonably determined based on the degree of risks and the recoverability of loan and advances granted. Pursuant to Rule 13 of the “Administrative Measure for Financial Assets Risk Classification of Shandong Energy Group Finance Co., Ltd.” (Shan Neng Cai Si Fa [2022] No.3) as amended by Shandong Energy Group Finance Co., Ltd., the risk classification of credit assets is defined as: Pass: the counterparty can honor the terms of the contract, and there is no reason to doubt its ability to repay principal and interest in full and on a timely basis. Special-mention: although the counterparty is still able to service the loan currently, the repayment might be adversely affected by some factors. Sub-standard: the counterparty’s ability to service loan is apparently in question and cannot depend on its normal business revenue to pay back the principal and interest and certain losses might incur even when guarantees are executed. Doubtful: the counterparty cannot pay back principal and interest of loan in full and significant losses will incur even when guarantees are executed. Loss: principal and interest of loan cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures. For the “pass” risk assets, provision is made at 2.5% of its asset balance; for “special-mention” risk assets, provision is made at 3% of its asset balance; for “sub-standard” risk assets, provision is made at 30% of its asset balance; for “doubtful” risks assets, provision is made at 60% of its asset balance; for “loss” risk assets, 100% provision is made of its asset balance, the valuers will conduct analysis and make judgment on the recoverability of each loan. For the “pass” risk assets, risk losses are assessed at 2.5% of the asset balance. The appraised value of loans and advances granted is determined by reducing book balance by estimated risk losses.

(2) *Bond investment*

At first, the valuers collected evidence and verified the carrying amount and actual situation of the bond investment, and checked the distribution agreement and relevant accounting records to determine the truthfulness and completeness of the bond investment. After verification, the book record and interest provision of the appraised entity are correct. In this valuation, the market value derived from the market approach is used as the appraised value.

(3) *Fixed assets – equipment*

For the purpose of this valuation, applying the principle of continuity and based on the market price, in combination with the features of the equipment and the information collected, the equipment assets mainly include electronic equipment, virtual platform and information security reinforcement platform. For the equipment assets, according to the standards for asset valuation, the asset valuers perform their valuation work, analyze the applicability of three basic approaches, namely the cost approach, the market approach and the income approach and select the appraisal method properly with record to the purpose of valuation, subject of valuation, type of value, information collection and other relevant factors. The assets included in this valuation are calculators, printers and safes. As the assets themselves do not have profit-making capabilities, income approach is not applicable in this valuation. Market approach is also not applicable as it is difficult to find comparable transactions in the market for such equipment. For the purpose of this valuation and applying the principle of continuity and based on the market price, in combination with the features of the equipment and the information collected, the replacement cost approach is mainly adopted. The market price exclusive of tax on the Valuation Reference Date is used for determining the appraised value of the virtual platform, information security reinforcement platform, financial company network and hardware platform.

Appraised value = replacement cost x residual ratio

1) Confirmation of replacement cost

Based on the domestic market information, and the current market price set out on zol.com.cn and PConline, the purchase price of electronic equipment on the Valuation Reference Date is determined. Generally, the manufacturers of such equipment provide free transportation, installation and debugging.

As the appraised entity is an ordinary taxpayer of value-added tax, the replacement price (tax exclusive) of electronic equipment is applied in this valuation.

Replacement cost = replacement price (tax exclusive)

In addition, for some electronic equipment that has not been sold in the market for a long period of time, valuation is made with reference to the market price of the second-hand equipment.

2) Determination of comprehensive residual ratio

Residual ratio = [remaining useful life ÷ (serviced life + remaining useful life)] x 100%

3) Determination of appraised value

Appraised value = replacement cost x residual ratio

(4) *Intangible assets – Others*

For the software included in the scope of this valuation, the valuers first checked the various contracts and invoices for software purchased by the appraised entity to verify the legality, reasonableness, authenticity and validity in the acquisition of software, then they had an understanding of the use of technology and software from the financial personnel and technician to verify its existence and determine its remaining useful life. The market approach is adopted in this valuation to determine its appraised value. Taking into account that the software is purchased close to the Valuation Reference Date, there is only a slight difference between the market price and the book value. In this valuation, the original book value verified is taken as the appraised value.

(5) *Deferred income tax assets*

Deferred income tax assets are assets generated for the deductible temporary differences arisen from the bad debt provision and loan loss provision. As the enterprise accounting policy is inconsistent with the tax laws, the deductible temporary differences arisen between the carrying amount and tax base amount of assets and liabilities represent the taxation right of the enterprise in future which will not change as a result of the asset appraisal.



For the provision for loan losses, the deferred income tax assets arose from loans and advances to banks and non-bank financial institutions and provision for bad debts, the valuers obtain the calculation information of deferred income tax of the enterprise, verify the calculation process and the calculation basis, and check the consistency between the actual income tax rate of the enterprise and the tax rate calculated. For items with differences between carrying amounts and tax basis, the tax basis and taxable temporary differences or deductible temporary differences are calculated item by item. With reference to the calculated deductible temporary differences and taxable temporary differences and tax rate applicable to the enterprise, deferred income tax assets will be recalculated and verified with the carrying amount, the value shall be determined by the audited carrying amount.

### **3. *Liabilities***

The valuers check and verify the actual debtors and amounts of various liabilities after the valuation purpose is fulfilled, and determine the appraised value based on the actual items and amounts of liabilities to be borne by the appraised entity after the valuation purpose is fulfilled.

## **(2) Introduction of the income approach**

Pursuant to the Asset Valuation Practicing Standards – Enterprise Value, the income approach for valuation of enterprise value, also known as the discounted cash flow method, is a method used to estimate the asset value by discounting the future expected net cash flow of the enterprise to the present value. The basic idea of the income approach is to derive the appraised value by estimating the future expected net cash flow of the assets which are then discounted to the present value with an appropriate discount rate. The basic conditions for applying the income approach are: the enterprise has the foundations and conditions to continue as a going concern; there is a stable corresponding relation between its operation and income; and the future income and risk can be forecasted and quantified.

### **1. *Basic valuation concept***

According to the due diligence results and the asset composition and characteristics of principal operations of the appraised entity, the value of the equity capital of the appraised entity is estimated based on its financial statements. The basic concept for the valuation is as follows:

- (1) In respects of assets and principal businesses included in the scope of the financial statements, their net cash flows are projected based on the trend of historical operating conditions and the types of businesses of the appraised entity, and are discounted to obtain the value of the operating assets;

- (2) Surplus monetary funds, current assets (liabilities) such as receivables (payables) and non-current assets (liabilities) such as obsolete or idle equipment recorded as at the Valuation Reference Date that are included in the scope of the financial statements but not taken into account in the forecast of net cash flow, were defined as surplus or non-operational assets (liabilities) existing as at the Valuation Reference Date, and their values were forecast separately;
- (3) The enterprise value of the appraised entity was derived by adding up the values of the above assets and liabilities. The value of interest-bearing debts was then deducted from the enterprise value to arrive at the value of the total shareholders' equity of the appraised entity.

In determining the value of the total shareholders' equity, the premium or discount caused by such factors as controlling interest and minority interest and impact of the liquidity of the equity interests on the valuation conclusions are not considered in this valuation.

## 2. Valuation model

### (1) Basic model

Basic model

$$E = P + C \quad (1)$$

E: Value of the total shareholders' equity interests in the appraised target;

P: Value of the operating assets of the appraised target;

C: Value of surplus or non-operational assets (liabilities) of the appraised target as at the Valuation Reference Date.

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{(1+r)^n \times (r-g)} \quad (2)$$

R<sub>i</sub>: Expected income of the appraised target in year i in the future (free cash flow of equity);

r: Discount rate;

g: Endogenous growth rate;

n: Forecast period of the appraised target;

C: Value of surplus or non-operating assets (liabilities) existing on the Valuation Reference Date of the appraised entity;  $C=C1+C2$  (3)

C1: Value of current surplus or non-operating assets (liabilities) on the Valuation Reference Date;

C2: Value of non-current surplus or non-operating assets (liabilities) on the Valuation Reference Date.

(2) *Income indicators*

In this valuation, the free cash flow of equity is used as an income indicator of the appraised entity's operating assets. Its basic definition is as follows:

$$R = \text{net profit} - \text{increase in equity} + \text{other comprehensive gains}$$

The expected free cash flow of equity of the appraised target in the future is estimated according to its operation history, market development in the future and etc., and the free cash flow of equity in the future operation term is then discounted and added up to work out the value of the shareholders' equity.

(3) *Discount rate*

In this valuation, the capital asset pricing model (CAPM) is used to determine the discount rate  $r_e$ :

$$r_e = r_f + \beta_e \times (r_m - r_f) + \epsilon \quad (4)$$

Where:

$r_f$ : Risk-free return rate;

$r_m$ : Expected market yield;

$\beta_e$ : Expected beta of equity capital;

$\epsilon$ : Specific risk-adjusted factor.

*(4) Determination of operating period*

According to the articles of association of the appraised entity, the enterprise has a long operating term and the appraised entity was under normal operation as at the Valuation Reference Date. There are no limitations on the useful life of the core assets that affect the enterprise's operation as a going concern and on the production and operation period of the enterprise and the duration of investor's ownership, or such limitations can be released and to achieve sustainable use by way of extension. Therefore, this valuation assumes that the appraised entity operates as a going concern after the Valuation Reference Date and the corresponding income period is indefinite. Based on the future development of the appraised entity, it is expected a stable period will be reached by 2030 and subsequent to which will be the perpetual period.

**VIII. IMPLEMENTATION OF VALUATION PROCEDURES**

The overall valuation work was performed in four stages:

**(1) Preparation phase of the valuation**

1. In late July 2022, we and the appraised entity reached an agreement on the purpose, Valuation Reference Date, scope of the valuation and worked out an asset appraisal work plan.
2. To cooperate with the appraised entity in conducting asset inventories and filling in the "Detailed Asset Appraisal Form" and others, the personnel of the valuation team went on site to have an initial understanding of the assets to be appraised, assisted in the reporting of the assets to be appraised and collection of documents and information required for the assets valuation.

**(2) On-site**

The project team's on-site appraisal phase is from 21 July 2022 to 2 August 2022. The main work covers the follows:

1. To listen to the introduction of the general situation of the enterprise and the history and current status of the appraised assets by the principal and the relevant personnel of the appraised entity, and to understand the financial system, operating conditions, technological content of the fixed assets of the enterprise.

2. To audit and identify the Detailed Asset Appraisal Declaration Forms provided by the enterprise, check with the relevant financial record data of the enterprise, and assist the enterprise in making adjustments to the problems identified. Discussions with the management of the enterprise on future development plan and profit forecast and other information for reporting was conducted to reach agreement on future development trend.
3. Through site investigation, visits and special forum to investigate and review conditions of the appraised target including the current status of its operational assets, operating condition and capabilities, historical operating conditions, net interest income, service charge and net commission income, business and management fee of the appraised entity. In particular, items affecting the pricing of the valuation including the charging standards and related costs of its main businesses have been investigated in detail and financial data including relevant accounts statements and books have been examined.
4. The operating conditions and other matters of the enterprise are comprehended through communication with the management and financial staff of the enterprise. Market investigation and research in addition to the gathering of macro information of relevant industries as well as financial information and market data of comparable companies are further developed on the basis of asset verification and due diligence.
5. A comprehensive inspection and verification on fixed assets is carried out based on the detailed list of assets inspection for valuation.
6. The title certificates of the assets to be appraised are collected and reviewed, with inspection and verification on ownership information provided by the enterprise.
7. Specific models and methods for asset valuation are determined according to the actual status and features of the assets to be appraised. And preliminary appraisals and estimates of the assets and liabilities within the scope of valuation are made on the basis of inventory verification.

### **(3) Summary phase of valuation**

The preliminary conclusions of the valuation on various types of assets and liabilities were analyzed and consolidated, and necessary adjustments, amendments and improvements were made to the valuation conclusions from 3 August 2022 to 8 August 2022. Repeated revisions and modifications were made on the appraised results according to the triple examination system and procedures of the internal assets valuation report of the valuation agency.

**(4) Report submission phase**

On the basis of the above work, we will preliminarily draft the asset valuation report and after the preliminary review, exchange opinions with the principal on the valuation results. After independently analysis of the relevant opinions, revise and adjust the report according to the report review system and procedures of the internal assets valuation report of the valuation agency, and finally issue our formal asset valuation report.

**(5) Compilation of valuation materials for filing**

Within 90 days after the date of the valuation report, the working papers, asset valuation report and other relevant information will be compiled to form asset valuation documents for filing.

**IX. VALUATION ASSUMPTIONS**

The valuers adopted the following assumptions in this valuation:

**(I) Basic Assumptions****1. Transaction assumption**

The transaction assumption is that all assets to be appraised are in the process of transaction, and the valuers will conduct valuation in a simulated market according to the transaction conditions of assets to be appraised. The transaction assumption is the most fundamental assumption for the further implementation of the asset valuation.

**2. Open market assumption**

In the open market assumption, it is assumed that for assets to be traded or intended to be traded in the market, the parties to an asset transaction shall have equal ranking, and have the same opportunity and time to gain sufficient market information, so as to make rational judgment on the functions, purpose and trading prices of the assets. The open market assumption is based on the fact that assets can be publicly traded on the market.

**3. Going concern assumption**

The going concern assumption is to take the assets in their entirety as the subject of appraisal. As a business entity, the enterprise will continue to operate as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the enterprise operates according to the law, makes reasonable profits, and its operation is sustainable.

**(II) SPECIAL ASSUMPTIONS**

1. There would be no significant change, other than those as known to the public, in the macroeconomic, industrial and regional development policies of the countries where the appraised enterprise is located after the Valuation Reference Date;
2. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the appraised enterprise after the Valuation Reference Date;
3. The management of the appraised entity as at the Valuation Reference Date is performing with due diligence and will maintain the existing management model as a going concern;
4. The accounting policies and accounting methods adopted by the appraised enterprise after the Valuation Reference Date would be consistent with those used in the preparation of the valuation report in all material aspects;
5. The acquisition and utilization methods of the premises for production and business operation of the appraised entity remain in line with those as at the Valuation Reference Date without changes;
6. The composition of income and costs and the operating strategy of the enterprise for future operating periods will continue in accordance with the operating plan established at the Valuation Reference Date, without taking into account any incomes and losses brought by changes in business type arising from the changes in management, business policy and business environment;
7. The costs of the appraised entity will be incurred on an ongoing basis over the future operating period in accordance with the operating plan and business needs as at the Valuation Reference Date;
8. There are no other force majeure and unforeseen factors that would have a material adverse impact on the appraised enterprise during the projection period;
9. The basic information and financial information provided by the appraised enterprise for the valuation are true, accurate and complete;
10. The scope of the valuation is only based on the valuation return provided by the appraised enterprise, without taking into account the possible existence of contingent assets and contingent liabilities outside the list provided by the appraised enterprise;

11. The operating cash inflows and cash outflows of the enterprise over the future earnings period will be balanced;
12. Each asset under this valuation is based on the actual stock level on the Valuation Reference Date, and the current market price of the relevant asset is based on the domestic effective price on the Valuation Reference Date;
13. The income from the principal business activities of the enterprise is mainly derived from net interest income, fee and commission income and investment income, without taking into account possible new business in the future;
14. Future net profits will be distributed to the maximum extent possible after satisfying the operational development and capital regulations of the enterprise.

This valuation conclusion will generally be invalid when events inconsistent with the aforementioned assumptions occur.

## **X. VALUATION CONCLUSION**

In accordance with the national laws, regulations, rules and valuation standards on asset valuation, and in line with the principles of independence, impartiality and objectivity, we carried out the statutory and necessary procedures for asset valuation. We conducted a valuation on the value of the entire shareholders' equity of Shandong Energy Group Finance Co., Ltd. on the Valuation Reference Date (30 June 2022) based on the asset-based approach and income approach and necessary valuation procedures.

### **(I) Valuation Conclusion with Asset-based Approach**

The book value of assets is RMB 23,634,639,700, the appraised value is RMB23,642,955,900, representing an increase of RMB8,316,200, with an increment of 0.04%.

The book value of liabilities is RMB19,129,077,100, the appraised value is RMB19,129,077,100, without depreciation.



The book value of net assets is RMB4,505,562,600, the appraised value is RMB4,513,878,800, representing an increase of RMB8,316,200, with an increment of 0.18%. Details are as follows:

## Summary sheet of asset valuation results

Appraised entity: Shandong Energy Group Finance Co., Ltd.

Valuation Reference Date: 30 June 2022

Amount unit: RMB0'000

Items	Book value B	Appraised value C	Increase or decrease in value D=C-B	Appreciation rate % E=D/B×100%
1 Current assets	1,141,096.66	1,141,078.76	-17.90	-0.00
2 Non-current assets	1,222,367.31	1,223,216.83	849.52	0.07
3 Of which:	-	-	-	
Long-term equity investments				
4 Investment properties	-	-	-	
5 Fixed assets	899.32	1,734.04	834.72	92.82
6 Construction in Progress	-	-	-	
7 Intangible assets	65.58	78.70	13.12	20.01
8 Of which: Land use rights	-	-	-	
9 Other assets	-	-	-	
10 <b>Total assets</b>	<b>2,363,463.97</b>	<b>2,364,295.59</b>	<b>831.62</b>	<b>0.04</b>
11 Current liabilities	1,912,907.71	1,912,907.71	-	-
12 Non-current liabilities	-	-	-	
13 <b>Total liabilities</b>	<b>1,912,907.71</b>	<b>1,912,907.71</b>	<b>-</b>	<b>-</b>
14 <b>Net assets (Equity of owners)</b>	<b>450,556.26</b>	<b>451,387.88</b>	<b>831.62</b>	<b>0.18</b>

For the details of the valuation conclusion with asset-based approach, please refer to the valuation list.

The increase in the appraised value of net assets of Shandong Energy Group Finance Co., Ltd. was RMB8,316,200, an increment of 0.18%. Among them, the increase in the appraised value of fixed assets was RMB8,347,200, representing an appreciation rate of 92.82%; the increase in intangible assets valuation was RMB131,200, representing an appreciation rate of 20.01%. The specific valuation of value-added items and the main reasons for appreciation in value are described in the assets valuation statement and will not be described here.

**(II) Valuation Conclusion of Income Approach**

After implementation of valuation procedures including checking verification, on-site inspection, market research and inquiry, assessment and estimation, the discounted cash flow method (DCF) approach is adopted to conduct valuation of the value of the enterprise's total shareholders' equity. On 30 June 2022, being the Valuation Reference Date, the book value of the net assets of Shandong Energy Group Finance Co., Ltd. is RMB4,505,562,600, and the value of total shareholders' equity upon valuation is RMB4,641,831,000, representing an increase of RMB136,268,400, or an increment of 3.02%.

**(III) Analysis of the difference between the valuation conclusions and selection of final conclusions****1. Analysis of the difference between the valuation conclusions**

The value of total shareholders' equity calculated by income approach in this valuation was RMB4,641,831,000, which was RMB127,952,200 higher than the value of total shareholders' equity calculated by the asset-based approach of RMB4,513,878,800. The difference between the two valuation methods was mainly due to:

- (1) The value derived from the asset-based approach is based on cost replacement, reflecting the necessary social labors expended on capital investment, i.e. the purchase and construction costs, which usually vary with the national economy;
- (2) The value derived from the income approach is based on the expected return on the asset, reflecting the magnitude of the asset's operating capacity (profitability), and such profitability will usually be influenced by a variety of conditions such as macroeconomics, government control and effective use of the assets.

Based on the above, difference is generated between the two valuation methods.

**2. Selection of valuation conclusions**

The asset-based approach conducts valuation from an asset reconstruction perspective. The income approach, on the other hand, regards judging the profitability of the enterprise as its core, which reflects the value of an enterprise and the value of shareholders' equity more objectively.

In addition to tangible resources such as fixed assets, the main value of the enterprise also includes the contribution of important intangible resources such as various preferential policies, business network, talent team and brand advantages enjoyed by the enterprise. The asset-based approach only assesses individual

tangible and intangible assets and does not fully capture the contribution of each individual portfolio of asset as a group to the company as a whole, nor does it fully measure the possible integration effect of the individual assets with each other and the organic combination of factors. As the overall profitability of a company is the result of a combination of all the environmental factors and internal conditions of the company, the valuation result of the income approach is therefore taken as the final valuation conclusion in this valuation.

This results in the market value of total shareholders' equity of Shandong Energy Group Finance Co., Ltd. as at the Valuation Reference Date of RMB4,641,831,000.

## XI. SPECIAL NOTES

### (1) Defects in property rights

As of the Valuation Reference Date, there was no defects in property rights.

### (2) Security and guarantees

As of the Valuation Reference Date, there was no encumbrance on the assets.

### (3) Uncertainties including unresolved matters and legal disputes

According to the civil mediation document No. (2022) Lu 0102 Min Chu 3308 ((2022)魯0102民初3308號) issued by Lixia District People's Court in Jinan City, Shandong Province: the appraised entity, being the plaintiff, took legal action against GMK Finance Co., Ltd. with regard to interbank lending and gave rise to related litigation. The parties reached the following agreement during the trial of the case:

1. GMK Finance Co., Ltd., the defendant, shall repay the principal amount of RMB399 million to Shandong Energy Group Finance Co., Ltd., the plaintiff before 25 June 2022.
2. GMK Finance Co., Ltd., the defendant, shall repay the interest, default interest (based on the outstanding principal of RMB399 million and at an interest rate of not exceeding 24% per annum) to Shandong Energy Group Finance Co., Ltd., the plaintiff before 25 June 2022, among which:
  - 1) For the RMB200 million capital borrowed on 28 February 2022, the interest payable during the lending period was RMB159,400, the default interest was RMB34,200 for one day overdue on 8 March 2022. Starting from 9 March 2022, the outstanding amount shall be RMB199 million (the sum of principal and interest) on which default interest is calculated at 6.15% per annum until the settlement of the loan.

- 2) For the RMB 200 million capital borrowed on 2 March 2022, the interest payable during the lending period was RMB159,400. Starting from 10 March 2022, the outstanding amount shall be RMB200 million (sum of principal and interest) on which default interest is calculated at 6.15% per annum until the settlement of the loan.
3. The Defendants, GMK Holdings Co., Ltd., Shandong Xiangguang Group Co., Ltd., Shandong Fengxiang (Group) Co., Ltd., Xinfengxiang Energy Development Co., Ltd., Shandong Fengxiang Investment Co., Ltd., Mr. Liu Xuejing, Ms. Zhang Xiuying shall be jointly and severally liable for the above-mentioned debts of the Defendant, GMK Finance Co., Ltd..

Though communication with the appraised entity, as of 30 June 2022, the Valuation Reference Date, the principal amount of the loan has been reflected on the carrying amount of the loans and advances, and no interest has been accrued. The appraisal value is determined based on the carrying amount of the loans and advances less the assessed risk loss.

#### **(4) Events after the Valuation Reference Date**

As of the Valuation Reference Date, there is no defects in property rights.

#### **(5) Other matters requiring explanation**

1. The valuers and appraisal agency assume the legal responsibility for making professional judgment on the value of the assets under the appraisal purpose described in this report, but do not bear the legal responsibility for making any judgment on any economic activity for the appraisal purposes described in this report. The valuation largely depends on the information provided by the principal and the appraised entity. Therefore, the appraisal is based on the premise of the truthfulness and lawfulness of the relevant legal documents provided by the principal and the appraised entity, such as the economic activity documents, the documents of ownership of the assets, certificates and accounting vouchers.
2. The principal and the appraised target are held responsible for the authenticity and completeness of the data, statements and the relevant information which are provided by the appraised target and were used within the scope of this valuation.
3. The principal and the appraised target are held responsible for the authenticity and legality of the title documentary proof and relevant information which are provided by the appraised target and referred to in the valuation report.

4. In the event that any changes in the quantity and the pricing standard of assets occurred within the term of validity after the Valuation Reference Date, the principles set out below shall be followed:
  - (1) In the event that the quantity of assets changes, corresponding adjustments shall be made to the quantity of assets according to the original valuation method;
  - (2) In the event that the pricing standard of the assets changes and imposes obvious impacts on the asset valuation results, the principal shall timely employ qualified asset valuation agency to redetermine the appraised value;
  - (3) After the Valuation Reference Date, the principal shall give due consideration to changes in the quantity and the pricing standard of assets and make corresponding adjustment when determining prices.
5. The objectives of the valuers conducting the asset valuation are to estimate the value of the appraised target and to express professional advice thereof, and accept no responsibilities for the decision of the relevant party. The valuation conclusion should not be regarded as a guarantee for the realizable value of the appraised target.
6. The profit forecast of the appraised enterprise obtained by the appraisal agency is the basis of the income approach used in this valuation report. The valuer has carried out the necessary investigation, analysis and judgement on the profit forecast of the appraised enterprise. After a number of discussions with the management of the appraised enterprise and its substantial shareholders and the subsequent further revision and improvement by the appraised enterprise, the appraisal agency adopted the relevant data of the profit forecast provided by the appraised enterprise. Using the profit forecast of the appraised enterprise by the appraisal agency does not guarantee the future profitability of the appraised enterprise.
7. The valuation conclusion is based on the accurate judgement on the macro-economy and industry development trend in the future, and the effective implementation of its business plans by the enterprise. In the event that there are changes in economic environment and obstacles in industry development, the enterprise fails to take effective measures in a timely manner to make adjustments to the implementation of the plans, so as to meet the implementation of existing business plans, the profit forecast data may change significantly, resulting in a significant deviation to the valuation conclusion from the actual business situation. The client shall re-appoint a appraisal agency to appraise the enterprise depending on the actual situation. We would like to draw attention of the clients and the users of the report to the above matters.

8. Shandong Energy Group Company Limited leased from Yankuang Group Finance Co., Ltd. is located on 10/F, Shandong Energy Building, 10777 Jingshi Road, Jinan, with a building area of 2,851.55 square meters and the lease contract is signed at the beginning of each year.

**XII. LIMITATIONS ON THE USE OF THE ASSET VALUATION REPORT**

1. This valuation report may only be used according to the objectives and purposes as stated herein. Meanwhile, the valuation conclusion reflects the prevailing fair market value under the valuation purpose based on the open market principle, without considering the impact of mortgages and guarantees that the appraised target may be subject to in the future, nor the impact of additional price which may be paid by trading parties with special interest. Meanwhile, the effects of changes in national macro-economic policies, natural forces and other force majeure on the price of assets are not taken into account. In general, if the aforesaid conditions and other situations such as going concern basis change, the valuation conclusion will become invalid. The appraisal agency is not liable for the invalidity of the valuation conclusion due to changes of such conditions.
2. This valuation report is only valid when the economic activity complies with the state laws and regulations and the valuation report is approved by relevant departments.
3. The valuation report may only be used by users expressly stated herein. The right to use this report is vested in the principal. The valuation agency will not make the report public without the approval of the principal.
4. The asset appraisal agency and its valuers shall not bear responsibilities if the principal or other users of the asset valuation report fail(s) to use the asset valuation report in accordance with the provisions of laws and administrative regulations or within scope of use specified in the asset valuation report.
5. Except for the principal, other users of this asset valuation report designed in the asset valuation entrustment contract and asset valuation users of this report stipulated by laws and administrative regulations, any other firms or individuals shall not become asset valuation users of this report.
6. Save as required by laws and regulations or otherwise agreed upon by relevant parties concerned, the extraction, reference or disclosure of the whole or any part of the contents of this valuation report in any public media shall be subject to approval and review of such contents by the appraisal agency.
7. The valuation report can only be used after the state-owned assets management procedures have been completed and is to be used in conjunction with the filing or approval documents of the state-owned assets management department.

8. Validity period of the valuation conclusion: According to relevant laws and regulations on asset valuation, the asset valuation report involving statutory valuation business must be used by the principal after performing the asset valuation supervision and management procedures in accordance with the requirements of relevant laws and regulations. The valuation results shall be valid for a term of one year from 30 June 2022, the Valuation Reference Date, to 29 June 2023. Revaluation is necessary after one year.

**XIII.DATE OF ASSET VALUATION REPORT**

This asset valuation report is dated 15 August 2022.

(There is no text on this page.)

**China United Assets Appraisal Group Co., Ltd.**

**Signature of the Asset Valuer: Tian Desui**

**Signature of the Asset Valuer: Wang Mouhua**

15 August 2022



**APPENDIX OF ASSET VALUATION REPORT**

1. Economic behavior documents (photocopy);
2. Audit report as at the Valuation Reference Date (photocopy);
3. Business licenses of the principal and the appraised entity (photocopy);
4. Financial business license and approval documents of the appraised entity;
5. Letter of undertaking of the principal and the appraised entity;
6. Letter of undertaking of signing asset appraisers;
7. Notice of filing of asset valuation of China United Assets Appraisal Group Co., Ltd. (photocopy);
8. Corporate business license of China United Assets Appraisal Group Co., Ltd. (photocopy);
9. Qualification Certificate of the Signing Asset Appraiser (photocopy);
10. The Asset Valuation Engagement Contract (photocopy).

## DISCOUNTED CASH FLOW ANALYSIS

The table below illustrates the valuation model of Shandong Energy Finance Company based on the income approach, whereby the appraised value is derived by estimating the future expected net cash flow of the assets which are then discounted to the present value with an appropriate discount rate.

Monetary Unit: RMB ('000)

Items	From July to December 2022	2023	2024	2025	2026	2027	2028	2029	From 2030 onwards
<b>I. Operating income</b>	<b>224,920.3</b>	<b>498,583.3</b>	<b>541,942.8</b>	<b>579,699.5</b>	<b>611,843.9</b>	<b>638,366.1</b>	<b>659,601.3</b>	<b>675,119.2</b>	<b>684,885.9</b>
Net interest income	224,670.6	498,287.4	541,640.9	579,392.1	611,531.5	638,049.7	659,281.7	674,797.4	684,562.9
Interest income	315,202.5	706,510.8	773,828.6	832,348.9	882,062.2	922,958.9	955,374.3	978,878.1	993,436.5
Less: interest expense	(90,531.9)	(208,223.4)	(232,187.7)	(252,956.8)	(270,530.6)	(284,909.2)	(296,092.6)	(304,080.7)	(308,873.6)
Net fee and commission income	39.8	86.1	92.1	97.6	102.5	106.6	109.8	112.0	113.1
Fee and Commission income	56.6	122.3	130.8	138.7	145.6	151.4	156.0	159.1	160.7
Less: fee and commission expenses	(16.8)	(36.2)	(38.7)	(41.0)	(43.1)	(44.8)	(46.2)	(47.1)	(47.6)
Investment income	209.8	209.8	209.8	209.8	209.8	209.8	209.8	209.8	209.8
<b>II. Operating costs</b>	<b>5,176.8</b>	<b>71,481.8</b>	<b>68,731.3</b>	<b>65,914.0</b>	<b>63,032.2</b>	<b>60,087.8</b>	<b>57,086.5</b>	<b>54,026.6</b>	<b>50,911.4</b>
Tax and surcharge	1,746.7	3,942.4	4,338.5	4,681.6	4,971.7	5,208.8	5,392.9	5,524.0	5,602.1
Business and management fees	14,155.2	29,289.4	30,642.8	31,982.5	33,310.5	34,629.0	35,943.7	37,252.6	38,559.3
Impairment loss of assets/(Reversal of impairment loss)	(10,725.0)	38,250.0	33,750.0	29,250.0	24,750.0	20,250.0	15,750.0	11,250.0	6,750.0
<b>III. Operating profits</b>	<b>219,743.5</b>	<b>427,101.5</b>	<b>473,211.5</b>	<b>513,785.5</b>	<b>548,811.7</b>	<b>578,278.3</b>	<b>602,514.8</b>	<b>621,092.6</b>	<b>633,974.5</b>
Income tax expenses	54,883.4	106,722.9	118,250.4	128,393.9	137,150.5	144,517.1	150,576.2	155,220.7	158,441.2
<b>IV. Net profits</b>	<b>164,860.1</b>	<b>320,378.6</b>	<b>354,961.1</b>	<b>385,391.6</b>	<b>411,661.3</b>	<b>433,761.2</b>	<b>451,938.5</b>	<b>465,871.9</b>	<b>475,533.3</b>
<b>V. Cash flow to equity</b>	<b>148,379.9</b>	<b>288,331.4</b>	<b>319,455.7</b>	<b>346,843.1</b>	<b>370,485.8</b>	<b>390,375.8</b>	<b>391,720.0</b>	<b>407,587.1</b>	<b>420,659.1</b>
<b>VI. Discount period</b>	<b>0.25</b>	<b>1.00</b>	<b>2.00</b>	<b>3.00</b>	<b>4.00</b>	<b>5.00</b>	<b>6.00</b>	<b>7.00</b>	<b>8.00</b>
Discount rate	9.08%								
<b>VII. Discount factor</b>	<b>0.9785</b>	<b>0.9168</b>	<b>0.8404</b>	<b>0.7705</b>	<b>0.7063</b>	<b>0.6476</b>	<b>0.5936</b>	<b>0.5442</b>	<b>0.4989</b>
<b>VIII. Present value of cash flow to equity</b>	<b>145,190.7</b>	<b>264,330.2</b>	<b>268,485.2</b>	<b>267,237.7</b>	<b>261,692.4</b>	<b>252,788.4</b>	<b>232,543.9</b>	<b>221,821.9</b>	<b>2,879,407.8</b>
<b>IX. Value of operating assets</b>					4,793,498.3				
<b>X. Value of surplus</b>					(15,166.73)				
<b>XI. Appraisal value of total shareholders' equity</b>					<b>4,641,831.0</b>				

*Note:* all the numerical figures in the above table are rounded to one decimal place. Any discrepancy in between totals and sums of individual amounts listed in the above table is due to rounding. Accordingly, figures shown as totals in the above table may not be an arithmetic aggregation of the figures preceding them.

The projected net profit before tax and after tax slightly deviates from the historical net profit before tax and after tax due to the following reasons:

- (i) the estimated interest rates granted to the depositors for deposits during the forecast period will be lower than those for the year ended 31 December 2021 and the six months ended 30 June 2022 since Shandong Energy Finance Company increased the interest rates granted to the depositors during the aforesaid period in order to reduce the impact of COVID-19 pandemic on the depositors and it is expected that Shandong Energy Finance Company will not offer such increased interest rates to the depositors during the forecast period; and

- (ii) the estimated impairment loss of assets during the forecast period is lower than that for the six months ended 30 June 2022 since Shandong Energy Finance Company has increased the expected credit loss rate for the borrowings to a borrower which is independent of Shandong Energy Finance Company for the six months ended 30 June 2022. It is expected that no independent borrower will raise debts from Shandong Energy Finance Company and such expected credit loss rates will not be considered to determine the impairment loss of assets during the forecast period.

Other than the abovementioned difference, there are no other deviations from the historical financial amounts for the beginning of the projections and no material year-on-year fluctuations in projections of Shandong Energy Finance Company.

---

**APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY**

---

*The following is the text of valuation report, prepared for the purpose of incorporation in this circular received from China United Assets Appraisal Group Co., Ltd.\*, an independent valuer, in connection with its valuation of Yankuang Finance Company as at 30 June 2022.*

**This asset valuation report is prepared in accordance with China Asset Valuation Standards**

Asset Valuation Report on the project of the value of total shareholders' equity of Yankuang Group Finance Co., Ltd. involved in the proposed implementation of integration of the assets by Yankuang Energy Group Company Limited

**Zhong Lian Ping Bao Zi [2022] No.2685**

**China United Assets Appraisal Group Co., Ltd.**

**15 August 2022**

**CONTENTS**

<b>DISCLAIMER</b> .....	III-3
<b>SUMMARY</b> .....	III-5
I. PROFILE OF THE PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT .....	III-7
II. PURPOSE OF VALUATION .....	III-13
III. SUBJECT AND SCOPE OF VALUATION .....	III-14
IV. TYPE OF VALUE AND DEFINITION .....	III-16
V. VALUATION REFERENCE DATE .....	III-16
VI. BASIS OF VALUATION .....	III-16
VII. VALUATION APPROACHES .....	III-21
VIII. IMPLEMENTATION OF VALUATION PROCEDURES .....	III-30
IX. VALUATION ASSUMPTIONS .....	III-32
X. VALUATION CONCLUSION .....	III-34
XI. SPECIAL NOTES .....	III-37
XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT .....	III-39
XIII. DATE OF VALUATION REPORT .....	III-40
<b>APPENDIX</b> .....	III-42

**DISCLAIMER**

- I. This asset valuation report is prepared in accordance with the Basic Rules for Asset Valuation issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Code of Ethics for Asset Valuation issued by China Appraisal Society.
- II. The principal or other users of the asset valuation report shall use the asset valuation report in accordance with the provisions of laws and administrative regulations and within the scope of use as specified herein. Where the principal or other users of the asset valuation report use this asset valuation report in violation of the above provisions, the asset appraisal agency and its asset valuation professionals shall bear no liability.

This asset valuation report shall only be used by the principal, other users of the asset valuation report agreed in the asset valuation engagement contract, and users of asset valuation report as stipulated by laws and administrative regulations. Save for the above, no other agencies or individuals shall use this asset valuation report.

The asset appraisal agency and asset valuers remind the users of the asset valuation report that they should correctly interpret and use the valuation conclusion, which is not equivalent to the realisable value of the valuation subject and should not be regarded as a guarantee for the realisable value of the valuation subject.

- III. The validity of the valuation conclusion is conditional upon the authenticity, legality and completeness of the information provided by the principal and other parties concerned. The list of assets and liabilities within the scope of valuation, as well as the predictive financial information, ownership certificates and other materials required for the valuation, have been reported and confirmed by seals or other means by the principal and the appraised entity.
- IV. The asset appraisal agency and our asset valuers have no interest in and are not expected to have any interest in the valuation subject in this asset valuation report. We do not have any existing or prospective interest in nor any bias against the parties concerned.
- V. Our asset valuers have carried out on-site inspection on the valuation subject and its assets involved in the asset valuation report, paid necessary attention to the legal titles of the valuation subject and its assets involved, verified the information related to the legal titles of the valuation subject and its assets involved, truthfully disclosed the issues identified in the process, and requested the principal and other parties concerned to remove title defects in order to meet the requirements for issuing an asset valuation report.

---

**APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY**

---

- VI. The analyses, judgments and results in the asset valuation report issued by the asset appraisal agency are subject to the assumptions and limitations set out in the asset valuation report. The users of the asset valuation report shall fully consider the assumptions, limitations and special notes set out herein and their impact on the valuation conclusion.
- VII. The asset appraisal agency and our asset valuers comply with the laws, administrative regulations and asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and take responsibility for the asset valuation report issued.

**ASSET VALUATION REPORT ON THE PROJECT OF THE VALUE OF TOTAL SHAREHOLDERS' EQUITY OF YANKUANG GROUP FINANCE CO., LTD. INVOLVED IN THE PROPOSED IMPLEMENTATION OF INTEGRATION OF THE ASSETS BY YANKUANG ENERGY GROUP COMPANY LIMITED**

**Zhong Lian Ping Bao Zi [2022] No.2685**

**SUMMARY**

China United Assets Appraisal Group Co., Ltd. is engaged by Yankuang Energy Group Company Limited to appraise the market value of total shareholders' equity of Yankuang Group Finance Co., Ltd. involved in the proposed implementation of integration of the assets by Yankuang Energy Group Company Limited as at the Valuation Reference Date.

The valuation subject is the value of total shareholders' equity of Yankuang Group Finance Co., Ltd., and the scope of valuation covers all assets and liabilities of Yankuang Group Finance Co., Ltd..

The Valuation Reference Date is 30 June 2022.

The type of value under the valuation is market value.

This valuation is conducted on the premise of continued use and open market. Taking into account the actual conditions of the valuation subject and comprehensively considering various influencing factors, we conducted an overall evaluation of Yankuang Group Finance Co., Ltd. using the asset-based approach and the income approach respectively, and then reviewed and compared the valuation results. Given the applicable premise of the valuation approaches and the valuation purpose, the valuation conclusion under the income approach is selected as the final valuation conclusion.

Based on the judgment of the appraised entity and the management of the Target Company on its future development trend and its business plans and after the implementation of checking and verification, on-site inspection, market research and inquiry, assessment and estimation and other valuation procedures, the valuation conclusion of the value of total shareholders' equity of Yankuang Group Finance Co., Ltd. on the Valuation Reference Date of 30 June 2022 is as follows:

The book value of net assets is RMB5,904,632,300 and the appraised value amounts to RMB6,091,288,200, representing an increase of RMB186,655,800 with an appreciation rate of 3.16%.

The valuation did not take into consideration the premium or discount caused by factors such as controlling right and minority interest, nor the impact on the valuation conclusion arising from the liquidity of the equity interests.

When using the valuation conclusion, the users of this report are hereby reminded to pay attention to the special notes and material subsequent events set out herein.



---

## APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY

---

According to the laws and regulations related to asset valuation, asset valuation reports involving valuation of business for legal compliance shall only be used upon the principal has performed the supervisory and administrative procedures regarding asset valuation as required by law and regulations. The valuation conclusions shall be effective from 30 June 2022 to 29 June 2023 for a term of one year.

**The above content is extracted from the full text of the asset valuation report. For details of the valuation and reasonable understanding of the valuation conclusion, please refer to the full text of the asset valuation report.**

**ASSET VALUATION REPORT ON THE PROJECT OF THE VALUE OF TOTAL  
SHAREHOLDERS' EQUITY OF YANKUANG GROUP FINANCE CO., LTD.  
INVOLVED IN THE PROPOSED IMPLEMENTATION OF INTEGRATION OF THE  
ASSETS BY YANKUANG ENERGY GROUP COMPANY LIMITED**

**Zhong Lian Ping Bao Zi[2022]No.2685**

**Yankuang Energy Group Company Limited:**

China United Assets Appraisal Group Co., Ltd. was engaged by the Company to appraise the market value of the total shareholders' equity of Yankuang Group Finance Co., Ltd. involved in the proposed implementation of integration of the assets by Yankuang Energy Group Company Limited as at the Valuation Reference Date, i.e. 30 June 2022, by adopting the asset-based approach and income approach and carrying out necessary valuation procedures in accordance with the relevant laws, administrative regulations and asset valuation standards while adhering to the principles of independence, objectivity and impartiality. Details of the asset valuation are reported as follows:

**I. OVERVIEW OF THE PRINCIPAL, THE APPRAISED ENTITY AND OTHER  
USERS OF THE VALUATION REPORT AS AGREED IN THE ASSET  
VALUATION ENGAGEMENT CONTRACT**

The principal of this asset valuation is Yankuang Energy Group Company Limited and the appraised entity is Yankuang Group Finance Co., Ltd.

**(I) Overview of the principal**

Name:	Yankuang Energy Group Company Limited
Type:	Joint stock company with limited liability (A joint Venture with Hong Kong, Macau, Taiwan and domestic investment and listed)
Address:	No. 949, Fushan South Road, Zoucheng City, Jining City, Shandong Province
Legal representative:	Li Wei
Registered capital:	RMB4,860,000,000
Paid-in capital:	RMB4,860,000,000
Date of establishment:	25 September 1997
Duration of operation:	From 25 September 1997 to an indefinite period
Unified social credit code:	91370000166122374N

---

**APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY**

---

Scope of business: Coal mining; public railway transportation; road goods transportation (excluding hazardous goods); port operation; installation, upgrading and maintenance of special equipment; real estate development and operation; catering services; accommodation services; import and export of cargoes and technology; sewage water treatment and recycling; heat generation and supply; inspection and detection services; inspection and detection for safety production; projects construction; project pricing consultation. (Items which are subject to approvals required by the laws shall be approved by the relevant authorities, and approval documents or licenses from the relevant authorities shall be obtained for such specified items) General Items: investment activities using the Company's own funds; corporate management; social and economic consulting services; market research (not involving foreign-related investigations); manufacture of mining machinery; sale of mining machinery; machinery equipment leasing; general equipment repair; general machinery and equipment installation services; sale of metal material; sale of electrical machinery and equipment; sale of building materials; sale of timber; manufacture of specialized chemical product (excluding hazardous chemicals); sale of specialized chemical product (excluding hazardous chemicals); manufacture of daily chemical products;

sale of coal and coal products; manufacture of coating (excluding hazardous chemicals); sale of coating (excluding hazardous chemicals); sale of lubricating oil; mineral washing and processing; sale of petroleum products (excluding hazardous chemicals); sale of chemical products (excluding licensed chemical products) ); technological services, technological development, technological consulting, technological exchanges, technology transfer, technology promotion; leasing of non-residential real estate; sale of metal ore; general cargo warehousing services (excluding storage of hazardous chemicals and other items requiring approval); landscaping project construction; scenic spot management; safety technical training for special operators; measurement services; social and economic consulting services; planning of corporate image; sale of knitting textile; sale of plastic product; sale of instruments; sale of cement products; production of refractory material; sale of refractory material; sale of labour protection products; sale of office supplies; stationery retail; railway transportation auxiliary activities; production of fire-proof sealing materials; sale of fire-proof sealing materials; electronic specialized equipment manufacturing; sale of electronic specialized equipment; software development; network technical services; sale of network equipment; Internet data services; sale of radio and television transmission equipment; sale of communication equipment; repairs and maintenance of motor vehicle; property management; human resources service (excluding occupational intermediary activities and labour dispatch services). (Except for items subject to approvals required by the laws, business activities shall be conducted independently with the business license and in accordance with the laws)

**(II) Overview of the appraised entity****1. Basic company information**

Name:	Yankuang Group Finance Co., Ltd.
Type:	Other limited liability company
Address:	No. 329, Fushan South Road, Zoucheng, Jining City
Legal Representative:	Zhang Baocai
Registered capital:	RMB4,000,000,000
Date of establishment:	13 September 2010
Duration of operation:	13 September 2010 to an indefinite period
Unified social credit code:	91370000562509626T
Scope of business:	Subject to those listed in the approval document. (validity period subject to license). (Items which are subject to approvals required by the laws shall be approved by the relevant authorities).

**2. Shareholding structure**

Yankuang Group Finance Co., Ltd. (the “**Company**”) obtained the “approval from China Banking Regulatory Commission on the Opening of Yankuang Group Finance Co., Ltd.” Yin Jian Fu(2010)No. 400 on 25 August 2010, was established on 12 November 2010 with a registered capital of RMB500 million (including US\$10 million) and was jointly funded by Yankuang Group Corporation Ltd (“**Yankuang Group**”), Yanzhou Coal Mining Company Limited (“**Yanzhou Coal Mining**”) and China Credit Trust Co., Ltd. (“**China Credit Trust**”) in the proportion of 70%, 25% and 5%.

In June 2014, the registered capital was increased by RMB500 million and contributed by each shareholder in proportion to their respective shareholding.

In September 2017, Yanzhou Coal Mining acquired 65% equity interest in the Company held by Yankuang Group and the proportion of shareholding of Yankuang Group, Yanzhou and China Credit Trust was adjusted to 5%, 90% and 5%.

---

**APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY**

---

In July 2019, with the approval of Shandong Office of China Banking and Insurance Regulatory Commission, it was agreed that Yanzhou Coal Mining Company Limited acquires 5% equity interest in Yankuang Group Finance Co., Ltd. held by China Credit Trust Co., Ltd. and the proportion of shareholders of Yankuang Group and Yanzhou was adjusted to 5% and 95%.

In August 2019, with the approval of Shandong Office of China Banking and Insurance Regulatory Commission, the Company increased its registered capital to RMB2.5 billion (including US\$10 million), the capital increase was contributed by Yankuang Group and Yanzhou Coal Mining in the same proportion as their existing shareholdings, with the shareholding ratio remaining unchanged after the capital increase.

In 2021, Yankuang Group Corporation Ltd changed its name to Shandong Energy Group Company Limited and Yanzhou Coal Mining Company Limited changed its name to Yankuang Energy Group Company Limited.

In August 2021, with the approval of Shandong Office of China Banking and Insurance Regulatory Commission, the Company increased its registered capital to RMB4 billion (including US\$10 million), the capital increase was contributed by Shandong Energy Group (formerly Yankuang Group) and Yankuang Energy Group (formerly Yanzhou Coal Mining) in the same proportion as their existing shareholdings, with the shareholding ratio remaining unchanged after the capital increase.

As of the Valuation Reference Date, the names of the shareholders of Yankuang Group Finance Co., Ltd., the amount of capital contribution and the proportion of capital contribution are as follows:

**Amount of capital contribution and proportion of capital contribution**

<b>Name of Shareholder</b>	<b>Amount of capital contribution</b> <i>RMB'0,000</i>	<b>Paid-in capital</b> <i>RMB'0,000</i>	<b>Shareholding percentage</b> %
Yankuang Energy Group Company Limited	380,000.00	380,000.00	95%
Shandong Energy Group Company Limited	<u>20,000.00</u>	<u>20,000.00</u>	<u>5%</u>
Total	<u><u>400,000.00</u></u>	<u><u>400,000.00</u></u>	<u><u>100%</u></u>

## APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY

### 3. Assets, financial and operating conditions

As of the Valuation Reference Date, i.e. 30 June 2022, according to its financial statements, Yankuang Group Finance Co., Ltd. had total assets of RMB41,529,766,200, liabilities of RMB35,625,133,900 and net assets of RMB5,904,632,300. It achieved operating income of RMB278,784,700, total profit of RMB270,048,400 and net profit of RMB202,091,800 for the period from January to June 2022.

The following table sets forth the assets and financial position of Yankuang Group Finance Co., Ltd. for the past three years:

#### Assets, Liabilities and Financial Position

*Unit: RMB'0,000*

Item	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 June 2022
Total assets	2,469,438.48	2,552,506.17	4,360,223.94	4,152,976.62
Liabilities	2,154,525.37	2,217,150.54	3,790,037.28	3,562,513.39
Net assets	314,913.11	335,355.64	570,186.66	590,463.23
<b>Item</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>January to June 2022</b>
Operating income	33,796.26	39,011.83	52,537.14	27,878.47
Total profit	23,013.31	27,289.52	44,824.92	27,004.84
Net profit	17,231.66	20,442.53	33,621.03	20,209.18
<b>Item</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>January to June 2022</b>
Net cash flow from operating activities	-172,441.40	1,425,640.03	-324,045.44	-306,495.41
Net cash flow from investing activities	15,096.90	-10,216.79	-1,764.46	-3,510.27
Net cash flow from financing activities	-56.20	201,091.94	-125.62	148,770.37
Effect of exchange rate changes on cash	231.47	-94.39	-274.99	68.19
Net cash and cash equivalents	-157,169.23	1,616,420.81	-326,210.51	-161,167.12
Auditor	Zhongxingcai Guanghai Certified Public Accountants LLP			

**(III) Relationship Between the Principal and the Appraised Entity**

In this asset valuation, Yankuang Energy Group Company Limited is the principal and Yankuang Group Finance Co., Ltd. is the appraised entity. The principal holds 95% equity interest in the appraised entity, and is the controlling shareholder of the appraised entity.

**(IV) Users of this valuation report**

Users of this valuation report refer to the principal and the relevant regulatory agencies filed in accordance with the provisions. Save for further provisions under the national laws and regulations, no institution or individual obtaining this valuation report but not confirmed by the valuer or the principal shall become user of this valuation report.

**II. PURPOSE OF VALUATION**

In accordance with the Minutes of the General Manager's Office Meeting of Shandong Energy Group Company Limited(2022 No.18), Yankuang Energy Group Company Limited proposes to implement integration of assets.

For this purpose, an asset valuation of the value of the total shareholders' equity of Yankuang Group Finance Co., Ltd. is required as to provide reference on the value for the relevant economic activity.



**III. SUBJECT AND SCOPE OF VALUATION**

The valuation subject is the value of total shareholders' equity of Yankuang Group Finance Co., Ltd.. The scope of valuation covers all assets and liabilities of Yankuang Group Finance Co., Ltd.. According to its financial statements, as of the Valuation Reference Date, i.e. 30 June 2022, Yankuang Group Finance Co., Ltd. had total asset of RMB 41,529,766,200, liabilities of RMB35,625,133,900 and net assets of RMB 5,904,632,300. The specific details are as follows.

*Unit: RMB'0,000*

<b>Items</b>	<b>Book value as of 30 June 2022</b>
<b>Assets:</b>	
Deposits with the central bank	174,256.99
Deposits with banks	2,424,834.60
Held-for-trading financial assets	100.43
Other receivables	0.39
Loans and advances to customers	1,547,051.00
Fixed assets	393.22
Construction in progress	261.48
Right-of-use assets	128.23
Deferred tax assets	5,950.28
<b>Liabilities:</b>	
Accounts Payable	20.98
Salaries payable	10.53
Taxes payable	4,343.64
Other payables	1,045.38
Non-current liabilities due within one year	98.42
Customer deposits	3,556,945.22
Lease liabilities	49.21

The data regarding the abovementioned assets and liabilities was extracted from the standard unqualified audit report of Zhongxingcai Guanghua Shen Kuai Zi (2022) No. 316071 issued by Zhongxingcai Guanghua Certified Public Accountants LLP, based on which the business valuation was conducted and was consistent with the audited data.

The entrusted appraised target and scope of valuation are consistent with the appraised target and scope of valuation involved in economic activities.

**(1) Information on major assets**

As of the Valuation Reference Date, the reported total assets of Yankuang Group Finance Co., Ltd. amounted to RMB41,529,766,200, with major assets including deposits with the central bank amounting to RMB1,742,569,900, representing 4.2% of the total assets, which were mainly the statutory deposit reserves required to be placed with the central bank by the appraised entity; deposits with banks amounting to RMB 24,248,346,000, representing 58.39% of the total assets, which were mainly deposits with other banks, including US dollars, Hong Kong dollars and Renminbi; held-for-trading financial assets amounted to RMB1,004,300, representing 0.002% of the total assets, which were mainly the monetary funds issued by Hotland Innovation Asset Management Co., Ltd. and purchased by the appraised entity; loans and advances issued of RMB15,470,510,000, representing 37.25% of the total assets, which were mainly loans and discounted assets granted by the appraised entity, all of which are ordinary assets, and the provision for loss on loans and discounted assets was RMB396,685,200; fixed assets amounted to RMB3,932,200 and construction in progress amounted to RMB2,614,800, representing 0.01% of the total assets respectively, which were mainly software information supporting systems and equipment and equipment required for the daily operation of the appraised entity and information system equipment under installation; deferred income tax assets amounted to RMB59,502,800, representing 0.14% of the total assets, which were mainly deferred income tax assets arising from the provision for losses on loans and advances.

**(2) Distribution and characteristics of physical assets**

The carrying amount of physical assets included in the valuation was RMB6,547,000, representing 0.02% of total assets within the scope of the valuation. These assets are mainly electronic devices with the following characteristics:

1. The distribution of assets is relatively concentrated: the physical assets included in the Company's valuation are located at the Company's place of incorporation.
2. Electronic equipment assets are mainly software system supporting equipment. The enterprise has a strict system for the use, maintenance and repair of equipment and is effectively implemented, all of which can be used normally and can meet the needs of production and operation of the enterprise.
3. Construction in progress are mainly software systems that have not yet been completed and accepted, namely iSoftStone Funds Management Software System (Phase II) and iSoftStone Invoice Management System, which are under installation as at the Valuation Reference Date and are expected to be completed by the end of 2022.

**(3) The recorded or non-recorded intangible assets declared by the enterprise**

As of the Valuation Reference Date, there are no non-recorded intangible assets in the scope of reporting of the enterprise.

**(4) Types and quantities of off-balance sheet assets declared by the enterprise**

All of the assets reported by the enterprise for valuation are assets recorded in the books of the enterprise and there are no off-balance sheet assets.

**(5) Type, quantity and book value of assets involved in making reference to the conclusions of reports issued by other institutions**

The book value of various assets and liabilities on the Valuation Reference Date in this valuation report is cited from the standard unqualified audit report of Zhongxingcai Guanghua Shen Kuai Zi(2022) No. 316071 issued by Zhongxingcai Guanghua Certified Public Accountants LLP. Save for the above, there is no reference to the reports from other organisations.

**IV. VALUE TYPE AND ITS DEFINITION**

Based on the purpose of this valuation, the value type of this valuation is defined as market value.

Market value refers to the estimated amount of the value of normal and fair transactions of the appraised target on the Valuation Reference Date when the willing buyer and willing seller act rationally without any coercion.

**V. VALUATION REFERENCE DATE**

The reference date for the asset valuation of this project is 30 June 2022.

This reference date is determined by the principal taking into consideration the amount of assets, workload, estimated time required, compliance and other factors of the appraised entity.

**VI. BASIS OF VALUATION**

The basis of valuation on which this asset valuation was conducted mainly includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership, as well as the pricing basis and other reference information, as follows:

**(1) Basis of economic activity**

1. Minutes of the General Manager's Office Meeting of Shandong Energy Group Company Limited (2022 No.18).

**(2) Basis of laws and regulations**

1. The Asset Valuation Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);
2. The Company Law of the People's Republic of China (amended at the 6th session of the 13th Standing Committee of the National People's Congress on 26 October 2018);
3. The Civil Code of the People's Republic of China (passed at the 3rd session of the 13th Standing Committee of the National People's Congress on 28 May 2020);
4. The Enterprise Income Tax Law of the People's Republic of China (passed at the 7<sup>th</sup> session of the 13th Standing Committee of the National People's Congress on 29 December 2018);
5. The Law on State-owned Assets of Enterprises of the People's Republic of China (passed at the 5th session of the 11<sup>th</sup> Standing Committee of the National People's Congress on 28 October 2008);
6. The Securities Law of the People's Republic of China (amended and adopted at the 15th session of the 13th Standing Committee of the National People's Congress on 28 December 2019);
7. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
8. The Administrative Measures for Valuation of State-owned Assets (Order No. 732 of the State Council in 2020);
9. The Interim Regulations for the Supervision and Administration of Enterprise State-owned Assets (Order No. 709 of the State Council, amended on 2 March 2019);
10. The Supervisory and Administrative Measures of the Transactions of State-owned Assets of Enterprises) (Order No. 32 of SASAC and the Ministry of Finance on 1 September 2005);
11. Measures for the Administration of the Takeover of Listed Companies (The fifth revision of Decision on Amendments to Certain Securities and Futures Regulations (Order No. 166 of CSRC) on 20 March 2020);

---

## APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY

---

12. Notice of the Shandong Provincial State-owned Assets Supervision and Administration Commission on Further Regulation of State-owned Assets Transactions of Enterprises(Lu Guo Zi[2020] No.2);
13. Notice of the Shandong Provincial State-owned Assets Supervision and Administration Commission on Further Regulation of the Transfer of Assets of Provincial Enterprises(Lu Guo Zi Ban[2021] No.6);
14. The Guiding Opinions on Regulating the Assets Management Business of Financial Institutions (Yin Fa [2018] No. 106 on 27 April 2018);
15. The Implementation Rules of Interim Regulations on Value-added Tax of the People's Republic of China (Order No. 691 of the State Council) (Revision passed at the 191st executive meeting of the State Council on 30 October 2017);
16. The Circular on the Policies in relation to Deepening Value-added Tax Reform (No. 39 of 2019 of the Ministry of Finance, State Administration of Taxation and General Administration of Customs);
17. The Circular of the Ministry of Finance and the State Administration of Taxation regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46);
18. The Circular of the Ministry of Finance and the State Administration of Taxation on Launching the Pilot Program of Reforming from Business Tax to VAT in an All-round Way (Cai Shui [2016] No. 36);
19. The Announcement of the State Administration of Taxation on Matters relating to Tax Levying and Administration concerning the Comprehensive Promotion of the Pilot Collection of Value-added Tax in lieu of Business Tax (the State Administration of Taxation Announcement 2016 No. 23);
20. The Circular of the State Administration of Taxation on Clarification of Several Collection and Administration Issues in Pilot Program of Replacing Business Tax with Value-added Tax (the State Administration of Taxation Announcement 2016 No. 26);
21. The Administrative Measures of Finance Companies of Enterprise Groups ( Order No.5 of 2004 issued by the China Banking Regulatory Commission on 27 July 2004, amended according to Decision of the China Banking Regulatory Commission on the Amendment to the Administrative Measures of Finance Companies of Enterprise Groups issued on 28 December 2006);
22. Other laws, regulations, rules, and systems related to the valuation.

**(3) Basis of valuation criteria**

1. Asset Valuation Standards – Basic Standards (Cai Zi [2017] No. 43);
2. Code of Ethics for Assets Assessment (CAS [2017] No. 30);
3. Asset Valuation Practicing Standards – Asset Valuation Procedures (CAS [2018] No. 36);
4. Asset Valuation Practicing Standards – Asset Valuation Methods (CAS [2019] No. 35);
5. Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);
6. Asset Valuation Practicing Standards – Asset Valuation Report (CAS [2018] No. 35);
7. Asset Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38);
8. Asset Valuation Practicing Standards – Machinery and Equipment (CAS [2017] No. 39);
9. Asset Valuation Practicing Standards – Intangible Assets (CAS [2017] No. 37);
10. Guidelines for the Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 42);
11. Guidelines for the Financial Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 43);
12. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (CAS [2017] No. 33);
13. Asset Valuation Practicing Standards – Asset Valuation Files (CAS [2018] No. 37);
14. Guidelines for Business Quality Control of Asset Valuation Institutions (CAS [2017] No. 46);
15. Guidance on Legal Ownership of Asset Valuation Object (CAS [2017] No. 48);
16. Practicing Standards for Asset Valuation – Engagement of Experts and Relevant Reports (CAS [2017] No. 35);

17. Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);
18. Other standards related to the valuation.

**(4) Basis of asset ownership**

1. Purchase contracts or evidences of material assets;
2. Other reference information.

**(5) Pricing basis**

1. RMB exchange base rate issued by State Administration of Foreign Exchange as at the Reference Date;
2. Loan prime rate (LPR) announcement authorised to be published by the National Interbank Funding Centre as at the Reference Date, which was published by The People's Bank of China;
3. Requirements on Impairment Allowance for Financial Enterprises (Cai Jin [2012] No. 20);
4. Data from Price Information Database of China United Assets Appraisal Group Co., Ltd.;
5. Contracts and information of significant businesses;
6. Other reference information.

**(6) Other reference information**

1. Financial data terminal by HiThink RoyalFlush Information Network Co., Ltd;
2. Standard unqualified audit report by Zhongxingcai Guanhua Shen Kuai Zi(2022) No. 316071 issued by Zhongxingcai Guanhua Certified Public Accountants LLP;
3. Investment Valuation. ([US] by Damodaran, [Canada] Translated by Lin Qian, Tsinghua University Press);
4. Valuation: Measuring and Managing the Value of Companies (3rd Edition) ([US] by Copeland, T. and etc., translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);
5. Handbook of Commonly Used Data and Parameters for Asset Valuation (Mechanical Industry Press, 2011 Edition);

6. 41 specific standards, including Accounting Standards for Business Enterprises – General Standards (Decree No. 33 of the Ministry of Finance, announced by the Ministry of Finance on 15 February 2006 and amended in July 2014) and Accounting Standards for Business Enterprises 1 – Inventory;
7. Asset Valuation Expert Guide No. 1 – Financial Regulatory Indicators that Should Be Paid Attention to in the Appraisal of Financial Enterprises (CAS [2015] No. 62);
8. Asset Valuation Expert Guide No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises (CAS [2015] No. 64);
9. Asset Appraisal Expert Guidance No. 8 – Verification in Asset Appraisal (CAS [2019] No. 39);
10. Guiding Opinions No. 12 for Asset Valuation Expert – Projection of Discount Rates in the Valuation of Enterprise Values Using Income Approach (CAS [2020] No. 38);
11. Relevant information on the websites of China Securities Regulatory Commission, Beijing Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange;
12. Other reference information.

## **VII. VALUATION APPROACHES**

According to the requirements of the Assets Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38) and Assets Valuation Practicing Standards – Assets Valuation Method (CAS [2019] No. 35), when performing the valuation for enterprise value, the valuer shall, based on the purpose of valuation, the target of valuation, type of value, the conditions for the application of the valuation method, and the quality and quantity of the data on which the valuation method is based on, analyze the applicability of the three basic approaches, namely income approach, market approach and asset-based approach, and select the method of valuation.

The income approach in the valuation for enterprise value refers to the valuation method of determining the value of the target of valuation by capitalizing or discounting the expected income. The professional valuer shall consider the applicability of the income approach appropriately after taking into account a combination of the nature of business, asset size, historical operating conditions, the predictability of future earnings, and the adequacy of the valuation data obtained.



---

## APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY

---

The market approach in the valuation for enterprise value refers to the valuation method of determining the value of the target of valuation by comparing the target of valuation with comparable listed enterprises or comparable transactions. The professional valuer shall consider the applicability of the market approach based on the adequacy and reliability of the operating and financial information available of the comparable enterprises, and the number of comparable enterprises that can be collected.

The asset-based approach in the valuation for enterprise value refers to the method of determining the value of the target of valuation by reasonably appraising the value of each on-balance sheet and identifiable off-balance-sheet asset and liability of the enterprise based on the balance sheet of the appraised entity on the Valuation Reference Date.

The valuation is carried out for the purpose of the proposed integration of assets of Yankuang Energy Group Company Limited.

Based on the purpose of this valuation, as the assets-based method reflects an enterprise's value by putting business acquisition and construction into perspective, and serves as the basis for enterprise operation, management and assessment after the economic activity, the assets-based method is used for this valuation.

The income approach is built on the theory of expected utility in economics, which means that for investors, the value of a business lies in the income the business is expected to generate in the future. Although the income approach does not use directly reference available in the market to demonstrate the present fair market value of the assessed subject, it appraises assets by expected profitability of the assets, which determines the present fair market value of the assets. It can reflect the overall value and the conclusion is reliable and convincing. From the perspective of the applicable criteria of income approach, given the enterprise has its own profitability and with the profit forecast data provided by the management of the appraised entity for the coming years, the enterprise's future profitability can be reasonable estimated according to the historical operational data of the enterprise by reference to the internal and external operation environment. Therefore, the income approach is applicable for this valuation.

The market approach determines the prevailing fair market value of the appraised entity by referring to comparables in the market. There is no listed finance company, it is hard to adopt listed companies as comparables. As the operation purpose of the finance company is to serve the Group and its subsidiaries, external business will not be conducted. And as it is in the development stage, the operating conditions, and size of assets are mainly subject to its Group, the operating conditions of the corresponding groups of different financial companies have great differences. It is difficult to find in the open market three or above comparables which are similar to the developmental stage, operational position and asset size of the appraised entity and their financial operation information and data can be fully obtained. Accordingly, market approach is not adopted for valuation as it is difficult to adopt the transaction approach for this time.

In conclusion, the asset-based approach and income approach are adopted in this valuation.

**(1) Asset-based approach**

The asset-based approach refers to the valuation method whereby the value of the valuation target is determined by reasonable valuation of identifiable on- and off-balance sheet assets and liabilities on the basis of the balance sheet of the appraised entity on the Valuation Reference Date.

Set forth below are the valuation methods for various assets and liabilities:

**1. Current assets***(1) Deposits with central bank*

The valuers checked the reply to confirmation request in relation to the deposits with central bank, verified the authenticity of the deposits with central bank, checked central bank deposit accounts and bank balance reconciliation statements, and checked whether there are deposits with central bank in transit and the deposit recognition after the Valuation Reference Date. For the RMB account, the appraised value shall be determined with the verified book value; for the foreign currency account, the appraised value is calculated by multiplying the verified original amount of foreign currency by the foreign currency exchange rate at the Valuation Reference Date.

*(2) Deposits with banks*

The valuers checked the reply to confirmation request in relation to the deposits with banks, verified the authenticity of the deposits with banks, checked the banks deposit accounts and bank balance reconciliation statements, and checked whether there are deposits with banks in transit and the deposit recognition after valuation benchmark date. For a RMB account, the appraised value shall be determined with the verified book value; for a foreign currency account, the appraised value is calculated by multiplying the verified original amount of foreign currency by the foreign currency exchange rate at the Valuation Reference Date.

*(3) Financial assets held for trading*

For the financial assets held for trading, the valuers verified the book records, and checked some original vouchers and other relevant information by sampling to verify the authenticity of the business contents and amounts of transactions. The verification results of the accounts, statement and bills shall match the amounts, and the verified carry amount shall correspond to the share held and the net fund are consistent with the information of the account balance at the Valuation Reference Date. The appraised value in this valuation is determined by the audited carrying amount.

(4) *Other receivables*

The valuers checked the accounts record, and checked some original vouchers and other relevant information by sampling to verify the authenticity of the business contents and amounts of transaction, and checked the reply to confirmation request to verify the results of accounts, statement and bill are consistent.

The valuers, on the basis of verifying the correctness of the receivables, analyzed the amount, the duration and reasons of arrears, the recovery of payments, the funds, credit, operation and management conditions of debtors, by reference to historical data and through on-site investigation.

The valuers, on the basis of verifying the correctness of the receivables, analyzed the amount, the duration and reasons of arrears, the recovery of payments, the funds, credit, operation and management conditions of debtors, by reference to historical data and through on-site investigation. The individual identification method and aging analysis are used for estimating the risk losses of other receivables

The appraised value is calculated by reducing verified carry amount by the estimated risk losses.

**2. *Non-current asset***

(1) *Loans and advances granted*

The Valuers collected relevant loan information, exchanged information with the company personnel, understood the credit status, financial position, solvency, cash flow status and guarantee status, and take into account the degree of impact of operational risk, management risk and other various aspects on loan repayment. Upon classification of loans and advances by risk, loans and advances granted were assessed for risk losses based on the degree of loss on loans and advances granted. The provision ratio of risk loss assessment is reasonably determined based on the degree of risks and the recoverability of loan and advances granted. Pursuant to Rule 11 of the “Yanzhou Coal Mining Company Limited Administrative Measure for Assets Risk Classification”, the risk classification of credit assets is defined as: Pass: the counterparty can honor the terms of the contract, and there is no reason to doubt its ability to repay principal and interest in full and on a timely basis. Special-mention: although the counterparty is still able to service the loan currently, the repayment might be adversely affected by some factors. Sub-standard: the counterparty’s ability to service loan is apparently in question and cannot depend on its normal business revenue to pay back the principal and interest and certain losses might incur even when guarantees are executed. Doubtful: the counterparty cannot pay back principal and interest of loan in full and significant losses will incur even when guarantees are executed. Loss: principal and interest of loan cannot be

recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures. For the “pass” risk assets, provision is made at 2.5% of its asset balance; for “special-mention” risk assets, provision is made at 3% of its asset balance; for “sub-standard” risk assets, provision is made at 30% of its asset balance; for “doubtful” risks assets, provision is made at 60% of its asset balance; for “loss” risk assets, 100% provision is made of its asset balance, the valuers will conduct analysis and make judgment on the recoverability of each loan. For the “pass” risk assets, risk losses are assessed at 2.5% of the asset balance. The appraised value of loans and advances granted is determined by reducing book balance by estimated risk losses.

(2) *Fixed assets*

For the purpose of this valuation and subject to the principle of continuity and market price, in combination with the features of the equipment and the information collected, the equipment assets, according to the standards for asset valuation, the asset valuers perform the valuation work, analyzes the applicability of three basis approaches, namely the cost approach, the market approach and the income approach and select the appraisal method properly in term of the purpose of valuation, subject of valuation, type of value, information collection and other related factors. Income approach is not applicable for this valuation as the assets included in this appraisal scope are scanning instruments which by themselves cannot generate profit. Market approach is also not applicable as it is difficult to find comparable transactions for such equipment in the market. Therefore, the replacement cost approach is adopted, and the after tax market price on the Valuation Reference Date is used to determine the appraised value of the software information system.

1) *Electronic equipment*

Based on the domestic market information, and the current market price set out on zol.com.cn and PConline, the purchase price of electronic equipment on the Valuation Reference Date is determined. Generally, the manufacturers of such equipment provide free transportation, installation and debugging. As the appraised entity is an ordinary taxpayer of value-added tax, the replacement price (value-added tax exclusive) of electronic equipment is applied in this valuation:

$$\text{Full replacement cost} = \text{pre-tax purchase price} \div (1 + 13\%)$$

The residual ratio is determined in consideration of the estimated economic useful life, and the estimated useful life of the equipment predicted in field survey, the formula is:

Residual ratio = remaining useful life ÷ (serviced life + remaining useful life) x 100%

Appraised value = full replacement cost x residual ratio

2) Software information system

The valuers understand the main functions and characteristics of the intangible assets, check the purchase contract, invoice, payment vouchers of the intangible assets, and review the original amount, amortization period and amortization amount of each period, and in the view that the recorded amount is reasonable.

The valuers understand the functions and available for use of the intangibles by interviews and site-investigation to analyze the three basic valuation approaches and their applicability. After comprehensive consideration, the valuers determined the appraised value shall be based on the market price excluding tax on the Valuation Reference Date by making enquiries with software suppliers.

(3) *Construction in progress*

The projects under construction of the appraised entity are mainly software system that have not been completed or accepted, namely the Softbank Fund Management Software System (Phase 2), and Softbank Bill Management System. The valuers collect and verify the compliance documents of the projects under construction and get hold of the commencement time, expected completion time and payment progress. The valuers judge the reasonability of its carrying amount comprehensively through site-investigation and checking of original documents like order contracts and payment vouchers. As the carrying amount does not include capital cost, the appraised value is determined by the audited carrying amount plus reasonable capital cost in this valuation.

(4) *Right-of-use assets*

The right-of-use assets of the appraised entity are the ancillaries of capital management system of the finance lease of Zhongyin Financial Leasing Company Limited. The valuers check and verify the right-of-use assets, understand the land registration status, rights status and utilization status through checking and verification, and verify the existence, integrity, and completeness of the right-of-use assets. They get hold of the carrying amount of the right-of-use assets and their composition through random checking of vouchers and verifying its related payment contracts and

invoices and ensure matching with the accounts and the account entry is reasonable. The appraised value of the right-of-use assets is determined by the audited carrying amount.

(5) *Deferred income tax assets*

Deferred income tax assets are the deferred income tax assets generated from provision for loss of loans. As the enterprise accounting policy is inconsistent with the tax laws, deductible temporary differences arise from the differences between the carrying amount of assets and liabilities and their tax base, and form the taxation rights (or obligations) for the enterprise in future, such rights (or obligations) will not be changed as a result of the asset appraisal. The valuers obtain the calculation information of deferred income tax of the enterprise, verify the calculation process and the calculation basis, and check the consistency between the actual income tax rate of the enterprise and the tax rate calculated. For items with differences between carrying amounts and tax basis, the tax basis and taxable temporary differences or deductible temporary differences are calculated item by item. With reference to the calculated deductible temporary differences and taxable temporary differences and tax rate applicable to the enterprise, deferred income tax assets will be recalculated and verified with the carrying amount. The deferred income tax assets shall be determined by the audited carrying amount.

**3. *Liabilities***

The valuers check and verify the actual debtors and amounts of various liabilities after the valuation purpose is fulfilled, and determine the appraised value based on the actual items and amounts of liabilities to be borne by the appraised entity after the valuation purpose is fulfilled.

**(2) *Income approach***

**1. *Introduction***

- 1) Definition and principle. Pursuant to the Asset Valuation Practicing Standards – Enterprise Value, the income approach for valuation of enterprise value, also known as the discounted cash flow method, is a method used to estimate the asset value by discounting the future expected net cash flow of the enterprise to the present value. The basic idea of the income approach is to derive the appraised value by estimating the future expected net cash flow of the assets which are then discounted to the present value with an appropriate discount rate.

- 2) Preconditions. The basic conditions for applying the income approach are: the enterprise has the foundations and conditions to continue as a going concern; there is a stable corresponding relation between its operation and income; and the future income and risk can be forecasted and quantified.
- 3) Reason for adoption. As the appraised entity qualifies for the basis and requirements as a going concern, and future profit and risks are predictable and quantifiable, therefore the income approach can be used for this valuation.

## **2. Valuation concept**

According to the due diligence results and the asset composition and characteristics of principal operations of the appraised entity, the basic valuation concept for this valuation is:

- 1) In respect of assets and principal businesses included in the scope of the financial statements, the value of operating assets is derived by discounting their expected income (net cash flow) based on the trend of historical operating conditions and the types of businesses;
- 2) Value of the assets (liabilities) that are included in the scope of the financial statements but not taken into account in the forecast of expected income (net cash flow) are forecasted separately;
- 3) In respect of long-term equity investments included in the scope of the financial statements but not taken into account in the estimation of expected income (net cash flow), their values are forecasted separately;
- 4) The value of the total shareholders' equity of the appraised entity is derived by adding the values of the above assets and liabilities.

In determining the value of the total shareholders' equity, the premium or discount caused by such factors as controlling interest and minority interest and impact of the liquidity of the equity interests on the valuation conclusions is not considered in this valuation.

**3. Valuation model****1) Basic model**

$$E = P + C \quad (1)$$

E: Value of the total shareholders' equity interests in the appraised target;

P: Value of the operating assets of the appraised target;

C: Value of surplus or non-operational assets (liabilities) of the appraised target as at the Valuation Reference Date.

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{(1+r)^n \times (r-g)} \quad (2)$$

R<sub>i</sub>: Expected income of the appraised target in year i in the future (free cash flow of equity);

r: Discount rate;

g: Endogenous growth rate;

n: Forecast period of the appraised target;

**2) Income indicators**

In this valuation, the free cash flow of equity is used as an income indicator of the appraised entity's operating assets. Its basic definition is as follows:

$$R = \text{net profit} - \text{increase in equity} + \text{other comprehensive gains}$$

The expected free cash flow of equity of the appraised target in the future is estimated according to its operation history, market development in the future and etc., and the free cash flow of equity in the future operation term is then discounted and added up to work out the value of the shareholders' equity.



3) *Discount rate*

In this valuation, the capital asset pricing model (CAPM) is used to determine the discount rate  $r_e$ :

$$r_e = r_f + \beta_e (r_m - r_f) + \epsilon \quad (3)$$

Where:

$r_f$ : Risk-free return rate;

$r_m$ : Expected market yield;

$\beta_e$ : Expected beta of equity capital;

$\epsilon$ : Specific risk-adjusted factor.

4) *Determination of operating period*

According to the articles of association of the appraised entity, the enterprise has a long operating term and the appraised entity was under normal operation as at the Valuation Reference Date. There are no limitations on the useful life of the core assets that affect the enterprise's operation as a going concern and on the production and operation period of the enterprise and the duration of investor's ownership, or such limitations can be released and to achieve sustainable use by way of extension. Therefore, this valuation assumes that the appraised entity operates as a going concern after the Valuation Reference Date and the corresponding income period is indefinite. Based on the future development of the appraised entity, it is expected a stable period will be reached by 2030 and subsequent to which will be the perpetual period.

## **VIII. IMPLEMENTATION OF VALUATION PROCEDURES**

The overall valuation work was performed in four stages:

### **(1) Preparation phase of the valuation**

1. In late July 2022, we and the appraised entity reached an agreement on the purpose, Valuation Reference Date, scope of the valuation and worked out an asset appraisal work plan.
2. To cooperate with the appraised entity in conducting asset inventories and filling in the "Detailed Asset Appraisal Form" and others, the personnel of the valuation team went on site to have an initial understanding of the assets to be appraised, assisted in the reporting of the assets to be appraised and collection of documents and information required for the assets valuation.

**(2) On-site**

The project team's on-site appraisal phase is from 21 July 2022 to 2 August 2022. The main work covers the follows:

1. To listen to the introduction of the general situation of the enterprise and the history and current status of the appraised assets by the principal and the relevant personnel of the appraised entity, and to understand the financial system, operating conditions, technological content of the fixed assets of the enterprise.
2. To audit and identify the Detailed Asset Appraisal Declaration Forms provided by the enterprise, check with the relevant financial record data of the enterprise, and assist the enterprise in making adjustments to the problems identified. Discussions with the management of the enterprise on future development plan and profit forecast and other information for reporting was conducted to reach agreement on future development trend.
3. Through site investigation, visits and special forum to investigate and review conditions of the appraised target including the current status of its operational assets, operating condition and capabilities, historical operating conditions, net interest income, service charge and net commission income, business and management fee of the appraised entity. In particular, items affecting the pricing of the valuation including the charging standards and related costs of its main businesses have been investigated in detail and financial data including relevant accounts statements and books have been examined.
4. The operating conditions and other matters of the enterprise are comprehended through communication with the management and financial staff of the enterprise. Market investigation and research in addition to the gathering of macro information of relevant industries as well as financial information and market data of comparable companies are further developed on the basis of asset verification and due diligence.
5. A comprehensive inspection and verification on fixed assets is carried out based on the detailed list of assets inspection for valuation.
6. The title certificates of the assets to be appraised are collected and reviewed, with inspection and verification on ownership information provided by the enterprise.
7. Specific models and methods for asset valuation are determined according to the actual status and features of the assets to be appraised. And preliminary appraisals and estimates of the assets and liabilities within the scope of valuation are made on the basis of inventory verification.

**(3) Summary phase of valuation**

The preliminary conclusions of the valuation on various types of assets and liabilities were analysed and consolidated, and necessary adjustments, amendments and improvements were made to the valuation conclusions from 3 August 2022 to 8 August 2022. Repeated revisions and modifications were made on the appraised results according to the triple examination system and procedures of the internal assets valuation report of the valuation agency.

**(4) Report submission phase**

On the basis of the above work, we will preliminarily draft the asset valuation report and after the preliminary review, exchange opinions with the principal on the valuation results. After independently analysis of the relevant opinions, revise and adjust the report according to the report review system and procedures of the internal assets valuation report of the valuation agency, and finally issue our formal asset valuation report.

**(5) Compilation of valuation materials for filing**

Within 90 days after the date of the valuation report, the working papers, asset valuation report and other relevant information will be compiled to form asset valuation documents for filing.

**IX. VALUATION ASSUMPTIONS**

The valuers adopted the following assumptions in this valuation:

**(I) Basic Assumptions****1. *Transaction assumption***

The transaction assumption is that all assets to be appraised are in the process of transaction, and the valuers will conduct valuation in a simulated market according to the transaction conditions of assets to be appraised. The transaction assumption is the most fundamental assumption for the further implementation of the asset valuation.

**2. *Open market assumption***

In the open market assumption, it is assumed that for assets to be traded or intended to be traded in the market, the parties to an asset transaction shall have equal ranking, and have the same opportunity and time to gain sufficient market information, so as to make rational judgment on the functions, purpose and trading prices of the assets. The open market assumption is based on the fact that assets can be publicly traded on the market.

**3. *Going concern assumption***

The going concern assumption is to take the assets in their entirety as the subject of appraisal. As a business entity, the enterprise will continue to operate as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the enterprise operates according to the law, makes reasonable profits, and its operation is sustainable.

**(II) SPECIAL ASSUMPTIONS**

1. There would be no significant change, other than those as known to the public, in the macroeconomic, industrial and regional development policies of the countries where the appraised enterprise is located after the Valuation Reference Date;
2. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the appraised enterprise after the Valuation Reference Date;
3. The management of the appraised entity as at the Valuation Reference Date is performing with due diligence and will maintain the existing management model as a going concern;
4. The accounting policies and accounting methods adopted by the appraised enterprise after the Valuation Reference Date would be consistent with those used in the preparation of the valuation report in all material aspects;
5. The acquisition and utilization methods of the premises for production and business operation of the appraised entity remain in line with those as at the Valuation Reference Date without changes;
6. The composition of income and costs and the operating strategy of the enterprise for future operating periods will continue in accordance with the operating plan established at the Valuation Reference Date, without taking into account any incomes and losses brought by changes in business type arising from the changes in management, business policy and business environment;
7. The costs of the appraised entity will be incurred on an ongoing basis over the future operating period in accordance with the operating plan and business needs as at the Valuation Reference Date;
8. There are no other force majeure and unforeseen factors that would have a material adverse impact on the appraised enterprise during the projection period;
9. The basic information and financial information provided by the appraised enterprise for the valuation are true, accurate and complete;

10. The scope of the valuation is only based on the valuation return provided by the appraised enterprise, without taking into account the possible existence of contingent assets and contingent liabilities outside the list provided by the appraised enterprise;
11. The operating cash inflows and cash outflows of the enterprise over the future earnings period will be balanced;
12. Each asset under this valuation is based on the actual stock level on the Valuation Reference Date, and the current market price of the relevant asset is based on the domestic effective price on the Valuation Reference Date;
13. The income from the principal business activities of the enterprise is mainly derived from net interest income, fee and commission income and investment income, without taking into account possible new business in the future;
14. Future net profits will be distributed to the maximum extent possible after satisfying the operational development and capital regulations of the enterprise.

When the above conditions change, the valuation conclusions may in general become invalid.

## **X. VALUATION CONCLUSION**

Based on the judgment of the appraised entity and the management of the enterprise on the future development trend and the implementation of business plans, and in accordance with the relevant laws and regulations and asset valuation standards, the asset-based approach and the income approach have been adopted after implementation of valuation procedures, including checking and verification, on-site inspection, market research and inquiry, assessment and estimation. The assessment of the value of the total shareholders' equity of Yankuang Group Finance Co., Ltd. as at the Valuation Reference Date (i.e. 30 June 2022) was carried out.

### **(I) Valuation Conclusion with Asset-based Approach**

The book value of assets is RMB41,529,766,200, the appraised value is RMB41,533,413,700, representing an increase of RMB3,647,500, with an increment of 0.01%.

The book value of liabilities is RMB35,625,133,900, the appraised value is RMB35,625,133,900, without appreciation or depreciation.

## APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY

The book value of net assets is RMB5,904,632,300, the appraised value is RMB5,908,279,800, representing an increase of RMB3,647,500, with an increment of 0.06%. Details are as follows:

### Summary sheet of valuation results by asset appraisal

Appraised unit: Yankuang Group Finance Co., Ltd.

Valuation reference date: 30 June 2022

*Unit: RMB0'000*

Item	Book value B	Estimated value C	Increase or decrease D=C-B	Increase % E=D/B×100%
1 Current assets	2,599,192.41	2,599,192.41	-	-
2 Non-current assets	1,553,784.21	1,554,148.96	364.75	0.02
3 Of which:	-	-	-	
Long-term equity investments				
4 Investment properties	-	-	-	
5 Fixed assets	393.22	754.27	361.06	91.82
6 Construction in Progress	261.48	265.17	3.69	1.41
7 Intangible assets	-	-	-	
8 Of which:	-	-	-	
Land use rights				
9 Deferred income tax assets	5,950.28	5,950.28	-	-
10 <b>Total assets</b>	4,152,976.62	4,153,341.37	364.75	0.01
11 Current liabilities	3,562,464.18	3,562,464.18	-	-
12 Non-current liabilities	49.21	49.21	-	-
13 <b>Total liabilities</b>	3,562,513.39	3,562,513.39	-	-
14 <b>Net assets</b> <b>(Shareholders'</b> <b>Equity)</b>	590,463.23	590,827.98	364.75	0.06

For the details of the valuation conclusion with asset-based approach, please refer to the valuation list.

On 30 June 2022, being the Valuation Reference Date, the value of total shareholders' equity of Yankuang Group Finance Co., Ltd. is RMB5,908,279,800, representing an increase of RMB3,647,500, with an increment of 0.06%.

**(II) Valuation Conclusion of Income Approach**

After implementation of valuation procedures including checking verification, on-site inspection, market research and inquiry, assessment and estimation, the discounted cash flow method (DCF) approach is adopted to conduct valuation of the value of the enterprise's total shareholders' equity. On 30 June 2022, being the Valuation Reference Date, the book value of the net assets of Yankuang Group Finance Co., Ltd. is RMB5,904,632,300, and the value of total shareholders' equity upon valuation (net assets) is RMB6,091,288,200, representing an increase of RMB186,655,800, or an increment of 3.16%.

**(III) Analysis of the difference between the valuation conclusions and selection of final conclusions*****1. Analysis of the difference between the valuation conclusions***

The value of total shareholders' equity calculated by income approach in this valuation was RMB6,091,288,200, which was RMB183,008,400 higher than the value of total shareholders' equity calculated by the asset-based approach of RMB5,908,279,800. The difference between the two valuation methods was mainly due to:

- (1) The value derived from the asset-based approach is based on cost replacement, reflecting the necessary social labors expended on capital investment, i.e. the purchase and construction costs, which usually vary with the national economy;
- (2) The value derived from the income approach is based on the expected return on the asset, reflecting the magnitude of the asset's operating capacity (profitability), and such profitability will usually be influenced by a variety of conditions such as macroeconomics, government control and effective use of the assets.

Based on the above, difference is generated between the two valuation methods.

***2. Selection of valuation conclusions***

The asset-based approach conducts valuation from an asset reconstruction perspective. The income approach, on the other hand, regards judging the profitability of the enterprise as its core, which reflects the value of an enterprise and the value of shareholders' equity more objectively.

In addition to tangible resources such as fixed assets, the main value of the enterprise also includes the contribution of important intangible resources such as various preferential policies, business network, talent team and brand advantages enjoyed by the enterprise. The asset-based approach only assesses individual tangible and intangible assets and does not fully capture the contribution of each

individual portfolio of asset as a group to the company as a whole, nor does it fully measure the possible integration effect of the individual assets with each other and the organic combination of factors. As the overall profitability of a company is the result of a combination of all the environmental factors and internal conditions of the company, the valuation result of the income approach is therefore taken as the final valuation conclusion in this valuation.

This results in the market value of total shareholders' equity of Yankuang Group Finance Co., Ltd. as at the Valuation Reference Date of RMB6,091,288,200.

**(IV) Difference of the valuation conclusion and the book value and reasons thereof**

The income approach regards judging the profitability of the enterprise as its core, which reflects the value of an enterprise and the value of shareholders' equity more objectively. The value of Yankuang Group Finance Co., Ltd. is deemed as an organic whole. In addition to the value of individual assets, the intangible assets formed by integrated factors such as goodwill, excellent management experience, market channels, customers and branding are also integral parts of the value. These factors together contributed to the incremental value of assets.

**XI. SPECIAL NOTES**

**(I) Quotation of report conclusions issued by other institutions**

The book value of assets and liabilities on the Reference Date in this valuation report is the standard unqualified audit report of Zhongxingcai Guanghua Shen Kuai Zi (2022) No. 316071 by Zhongxingcai Guanghua Certified Public Accountants LLP. Save for the above, there is no reference to the reports from other organisations.

**(II) Security and guarantees**

As of the Valuation Reference Date, there were no encumbrances in the appraised entity.

**(III) Uncertainties such as pending litigations and legal disputes**

As of the Valuation Reference Date, there were no pending litigations or legal disputes in the appraised entity.

**(IV) Significant subsequent events**

There were no significant subsequent events in the appraised entity.



**(V) Other matters requiring explanation**

1. The valuers and appraisal agency assume the legal responsibility for making professional judgment on the value of the assets under the appraisal purpose described in this report, but do not bear the legal responsibility for making any judgment on any economic activity for the appraisal purposes described in this report. The valuation largely depends on the information provided by the principal and the appraised entity. Therefore, the appraisal is based on the premise of the truthfulness and lawfulness of the relevant legal documents provided by the principal and the appraised entity, such as the economic activity documents, the documents of ownership of the assets, certificates and accounting vouchers.
2. The objectives of the valuers conducting the asset valuation are to estimate the value of the appraised target and to express professional advice thereof, and accept no responsibilities for the decision of the relevant party. The valuation conclusion should not be regarded as a guarantee for the realisable value of the appraised target.
3. The principal and the appraised target are held responsible for the authenticity and completeness of the data, statements and the relevant information which are provided by the appraised target and were used within the scope of this valuation.
4. The principal and the appraised target are held responsible for the authenticity and legality of the title documentary proof and relevant information which are provided by the appraised target and referred to in the valuation report.
5. In the event that any changes in the quantity and the pricing standard of assets occurred within the term of validity after the Valuation Reference Date, the principles set out below shall be followed:
  - (1) In the event that the quantity of assets changes, corresponding adjustments shall be made to the quantity of assets according to the original valuation method;
  - (2) In the event that the pricing standard of the assets changes and imposes obvious impacts on the asset valuation results, the principal shall timely employ qualified asset valuation agency to redetermine the appraised value;
  - (3) After the Valuation Reference Date, the principal shall give due consideration to changes in the quantity and the pricing standard of assets and make corresponding adjustment when determining prices.

6. The conclusion of this valuation is based on the assumption that the owner of property rights and the management of the appraised target make accurate judgments on the development trend in future and related plans will be duly implemented with continuous operation. If the future actual operating conditions of the enterprise deviate from the operation plans, and the owners of property rights and the management of the appraised target fail to make remedies in time to correct such deviation, the conclusion of this valuation will change substantially. Therefore, users of the report are strongly advised to pay close attention in this regard.
7. The scope of valuation shall be subject to that in the asset valuation list provided by the principal and the appraised entity, without taking into consideration any contingent assets or contingent liabilities which may exist other than those included in the aforesaid list.
8. Xinda Hotel of Shandong Energy Group Company Limited leased from Yankuang Group Finance Co., Ltd. is located at No. 329 Fushan South Road, Zoucheng City. There are 16 small rooms, 3 large rooms, and 1 business hall in Building 2 of Xinda Hotel, with a total of 20 rooms. The property has an area of 376 square meters and the lease contract is signed at the beginning of each year.

## **XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT**

- (1) This valuation report may only be used according to the objectives and purposes as stated herein. Meanwhile, the valuation conclusion reflects the prevailing fair market value under the valuation purpose based on the open market principle, without considering the impact of mortgages and guarantees that the appraised target may be subject to in the future, nor the impact of additional price which may be paid by trading parties with special interest. Meanwhile, the effects of changes in national macro-economic policies, natural forces and other force majeure on the price of assets are not taken into account. In general, if the aforesaid conditions and other situations such as going concern basis change, the valuation conclusion will become invalid. The appraisal agency is not liable for the invalidity of the valuation conclusion due to changes of such conditions.
- (2) This valuation report is only valid when the economic activity complies with the state laws and regulations and the valuation report is approved by relevant departments.
- (3) The valuation report may only be used by users expressly stated herein. The right to use this report is vested in the principal. The valuation agency will not make the report public without the approval of the principal.
- (4) The asset appraisal agency and its valuers shall not bear responsibilities if the principal or other users of the asset valuation report fail(s) to use the asset valuation report in accordance with the provisions of laws and administrative regulations or within scope of use specified in the asset valuation report.

- (5) Except for the principal, other users of this asset valuation report designed in the asset valuation entrustment contract and asset valuation users of this report stipulated by laws and administrative regulations, any other firms or individuals shall not become asset valuation users of this report.
- (6) Save as required by laws and regulations or otherwise agreed upon by relevant parties concerned, the extraction, reference or disclosure of the whole or any part of the contents of this valuation report in any public media shall be subject to approval and review of such contents by the appraisal agency.
- (7) The valuation report can only be used after the state-owned assets management procedures have been completed and is to be used in conjunction with the filing or approval documents of the state-owned assets management department.
- (8) Validity period of the valuation conclusion: According to relevant laws and regulations on asset valuation, the asset valuation report involving statutory valuation business must be used by the principal after performing the asset valuation supervision and management procedures in accordance with the requirements of relevant laws and regulations. The valuation results shall be valid for a term of one year from 30 June 2022, the Valuation Reference Date, to 29 June 2023. Revaluation is necessary after one year.

### **XIII. DATE OF VALUATION REPORT**

This valuation report is dated 15 August 2022.

(There is no text on this page.)

**China United Assets Appraisal Group Co., Ltd.**

**Asset Valuer: Tian Desui**

**Asset Valuer: Wang Mouhua**

15 August 2022

**APPENDIX**

1. Economic behavior documents (photocopy);
2. Audit report (photocopy);
3. Business licenses of the principal and the appraised entity (photocopy);
4. Financial business license and approval documents of the appraised entity;
5. Letter of undertaking of the principal and the appraised entity;
6. Letter of undertaking of signing asset appraisers;
7. Notice of filing and registration of China United Assets Appraisal Group Co., Ltd. (photocopy);
8. Corporate business license of China United Assets Appraisal Group Co., Ltd. (photocopy);
9. Qualification Certificate of the Signing Asset Appraiser (photocopy);
10. The Asset Valuation Engagement Contract (photocopy).

## APPENDIX III VALUATION REPORT OF YANKUANG FINANCE COMPANY

### DISCOUNTED CASH FLOW ANALYSIS

The table below illustrates the valuation model of Yankuang Finance Company based on the income approach, whereby the appraised value is derived by estimating the future expected net cash flow of the assets which are then discounted to the present value with an appropriate discount rate.

*Monetary Unit: RMB ('000)*

Items	From July to December 2022	2023	2024	2025	2026	2027	2028	2029	From 2030 onwards
<b>I. Operating income</b>	<b>298,742.0</b>	<b>647,346.3</b>	<b>692,309.1</b>	<b>732,234.3</b>	<b>767,739.9</b>	<b>799,404.3</b>	<b>828,325.3</b>	<b>854,898.3</b>	<b>878,744.1</b>
Net interest income	295,416.3	640,788.1	685,751.0	725,676.2	761,181.7	792,846.2	821,767.2	848,340.1	872,186.0
Interest income	429,681.6	943,802.7	1,019,804.8	1,087,356.2	1,147,034.7	1,199,418.8	1,246,757.3	1,289,445.5	1,327,104.4
Less: interest expenses	(134,265.3)	(303,014.6)	(334,053.8)	(361,680.0)	(385,853.0)	(406,572.6)	(424,990.1)	(441,105.4)	(454,918.5)
Net fee and commission income	2,698.4	5,303.5	5,303.5	5,303.5	5,303.5	5,303.5	5,303.5	5,303.5	5,303.5
Fee and Commission income	2,811.5	5,525.7	5,525.7	5,525.7	5,525.7	5,525.7	5,525.7	5,525.7	5,525.7
Less: fee and commission expenses	(113.1)	(222.2)	(222.2)	(222.2)	(222.2)	(222.2)	(222.2)	(222.2)	(222.2)
Investment income	627.3	1,254.6	1,254.6	1,254.6	1,254.6	1,254.6	1,254.6	1,254.6	1,254.6
<b>II. Operating costs</b>	<b>53,051.9</b>	<b>76,870.6</b>	<b>74,055.6</b>	<b>72,048.9</b>	<b>71,275.0</b>	<b>71,756.2</b>	<b>72,252.4</b>	<b>72,833.3</b>	<b>73,733.6</b>
Tax and surcharge	2,779.8	6,008.2	6,399.8	6,742.3	7,052.1	7,345.6	7,622.7	7,945.0	8,190.0
Business and management fees	20,136.9	37,112.4	37,655.8	39,056.7	40,472.9	41,910.6	43,379.7	44,888.3	46,437.6
Impairment loss of assets	30,135.2	33,750.0	30,000.0	26,250.0	23,750.0	22,500.0	21,250.0	20,000.0	18,750.0
<b>III. Operating profits</b>	<b>245,690.1</b>	<b>570,475.7</b>	<b>618,253.6</b>	<b>660,185.4</b>	<b>696,464.9</b>	<b>727,648.1</b>	<b>756,072.9</b>	<b>782,065.0</b>	<b>805,366.5</b>
Income tax expenses	61,265.7	142,305.3	154,249.7	164,732.7	173,802.6	181,598.4	188,704.6	195,202.6	201,028.0
<b>IV. Net profits</b>	<b>184,424.4</b>	<b>428,170.4</b>	<b>464,003.8</b>	<b>495,452.7</b>	<b>522,662.3</b>	<b>546,049.7</b>	<b>567,368.4</b>	<b>586,862.4</b>	<b>604,338.6</b>
<b>V. Cash flow to equity</b>	<b>165,982.0</b>	<b>385,353.4</b>	<b>417,603.4</b>	<b>445,907.4</b>	<b>470,396.1</b>	<b>491,444.7</b>	<b>510,631.5</b>	<b>510,709.0</b>	<b>525,338.4</b>
<b>VI. Discount period</b>	<b>0.25</b>	<b>1.00</b>	<b>2.00</b>	<b>3.00</b>	<b>4.00</b>	<b>5.00</b>	<b>6.00</b>	<b>7.00</b>	<b>8.00</b>
Discount rate	9.08%								
<b>VII. Discount factor</b>	<b>0.9785</b>	<b>0.9168</b>	<b>0.8404</b>	<b>0.7705</b>	<b>0.7063</b>	<b>0.6476</b>	<b>0.5936</b>	<b>0.5442</b>	<b>0.4989</b>
<b>VIII. Present value of cash flow to equity</b>	<b>162,414.4</b>	<b>353,275.9</b>	<b>350,973.1</b>	<b>343,565.3</b>	<b>332,263.9</b>	<b>318,235.8</b>	<b>303,135.5</b>	<b>277,944.2</b>	<b>3,649,480.0</b>
<b>IX. Appraisal value of total shareholders' equity</b>					<b>6,091,288.2</b>				

*Note:* all the numerical figures in the above table are rounded to one decimal place. Any discrepancy in between totals and sums of individual amounts listed in the above table is due to rounding. Accordingly, figures shown as totals in the above table may not be an arithmetic aggregation of the figures preceding them.

The projected net profit before tax and after tax slightly deviates from the historical net profit before tax and after tax since Yankuang Finance Company granted higher interest rates of deposits for the year ended 31 December 2021 and six months ended 30 June 2022 to Shandong Energy and the Company. Such high interest rates were offered to the depositors because the depositors deposited significant amount of funds in Yankuang Finance Company during the above period. It is expected that Yankuang Finance Company will not offer such high interest rates to depositors during the forecast period since such increased amount of funds will not continue to be deposited in Yankuang Finance Company in the future. Other than the abovementioned difference, there are no other deviations from the historical financial amounts for the beginning of the projections and no material year-on-year fluctuations in projections of Yankuang Finance Company.

*The following is the text of a report dated 8 September 2022 from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, for inclusion in this circular.*

8 September 2022

The Board of Directors  
Yankuang Energy Group Company Limited  
949 Fushan South Road  
Zoucheng City Shandong Province, PRC

Dear Sirs,

#### **INDEPENDENT ASSURANCE REPORT**

We have examined the accounting policies adopted and calculations of the underlying profit forecast (the “**Underlying Forecast**”) to the business valuation dated 15 August 2022 prepared by China United Assets Appraisal Group Company Limited (the “**Valuer**”) in respect of the valuation on Shandong Energy Group Finance Co., Ltd.\* (山東能源集團財務有限公司) and Yankuang Group Finance Co., Ltd.\* (兗礦集團財務有限公司) (collectively the “**Target Companies**”) in connection with the proposed absorption and merger of the Target Companies by Yankuang Energy Group Company Limited, (the “**Company**”) as of 30 June 2022 as set out in the announcement of the Company dated 8 September 2022 (the “**Announcement**”).

#### **Directors' Responsibilities**

The directors of the Company and the Target Companies (the “**Directors**”) are solely responsible for the preparation of the Underlying Forecast including the bases and assumptions, for the purpose of business valuation of the Target Companies based on discounted cash flow method. The Underlying Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”) that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the Assumptions.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants, (“**HKICPA**”) which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant’s Responsibilities**

Our responsibility is to express an opinion, based on our work on the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 14.62 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion on the reasonableness and validity of the Assumptions on which the Underlying Forecast is based. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) (“**HKSAE 3000 (Revised)**”) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to the procedures specified in Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecast, Statements of Sufficiency of Working Capital and Statements of Indebtedness” issued by the HKICPA. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the Underlying Forecast. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary to assist the Directors solely in evaluating whether the Underlying Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors.

Our work does not constitute any valuation of the Target Companies. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, the Underlying Forecast has been property compiled in accordance with the Assumptions adopted by the Directors as set out in the Announcement and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Lau Kai Wong**

Practising Certificate Number: P06623

Hong Kong

\* *English name for identification purpose only*

---

## APPENDIX V LETTER FROM THE BOARD ON PROFIT FORECAST

---

*The following is the text of the letter dated 8 September 2022 from the Board which was prepared for inclusion in this circular.*

8 September 2022

The Listing Division  
The Stock Exchange of Hong Kong Limited  
12/F, Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

Dear Sirs,

### **Discloseable and Connected Transaction in relation to the Absorption and Merger**

We refer to the announcement of the Company dated 8 September 2022 (the “**Announcement**”), of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

References are made to (i) the valuation report in relation to the valuation of Shandong Energy Finance Company dated 15 August 2022; and (ii) the valuation report in relation to the valuation (together with the valuation of Shandong Energy Finance Company, collectively the “**Valuations**”) of Yankuang Finance Company dated 15 August 2022 (collectively, the “**Valuation Reports**”), both prepared by China United Assets Appraisal Group Co., Ltd.\* (中聯資產評估集團有限公司), an independent valuer (the “**Independent Valuer**”). The Valuations, which were prepared based on the discounted cash flow method, are deemed to be a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Independent Valuer and reviewed the assumptions based upon which the Valuation Reports were prepared. We have also engaged SHINEWING (HK) CPA Limited to report on the calculations of the profit forecast used in the Valuation Reports and considered the report from SHINEWING (HK) CPA Limited.

Based on the aforesaid, we confirm that the profit forecast as contained in the Valuation Reports have been made after due and careful inquiry.

Yours faithfully,  
For and on behalf of the Board  
**Yankuang Energy Group Company Limited\***  
**Zhao Qingchun**  
*Director*

## 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 of the Company

As at the Latest Practicable Date, save as disclosed below, none of the Directors, chief executive or supervisors of the Company 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 Issuers 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
Li Wei	Director	10,000
Liu Jian	Director	85,800
Xiao Yaomeng	Director	299,000 <sup>(1)</sup>
Zhao Qingchun	Director	331,600 <sup>(2)</sup>
Huang Xiaolong	Director	160,000 <sup>(3)</sup>

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

*Notes:*

- (1) These A Shares includes 200,000 restricted A Shares granted to Xiao Yaomeng under the restricted stock incentive scheme of the Company which are subject to lock-up restrictions.
- (2) These A Shares includes 160,000 restricted A Shares granted to Zhao Qingchun under the restricted stock incentive scheme of the Company which are subject to lock-up restrictions.
- (3) These A Shares includes 160,000 restricted A Shares granted to Huang Xiaolong under the restricted stock incentive scheme of the Company which are subject to lock-up restrictions.

**Share Incentive Mechanism to the Directors**

<b>Name</b>	<b>Title</b>	<b>Number of share options held as at the Latest Practicable Date</b>
Xiao Yaomeng	Director	51,000
Zhao Qingchun	Director	88,400

As at the Latest Practicable Date, Mr. Li Wei, Mr. Liu Jian and Mr. Zhu Qingrui 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 2021, being the date to which the latest published audited accounts of the Group were made up.

**4. CONSENT AND QUALIFICATIONS OF EXPERTS**

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Donvex Capital Limited	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Shinewing (HK) CPA Limited	Certified Public Accountants
China United Assets Appraisal Group Co., Ltd.* (中聯資產評估集團有限公司)	Independent Valuer in the PRC

Each of the experts 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, each of the above experts was not beneficially interested in the share capital of any member of the Enlarged 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 Enlarged Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which have been, since 31 December 2021 (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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

## **5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Enlarged 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 of the Company had any interest, direct or indirect, in any assets which have been, since 31 December 2021 (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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged 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).

## 8. LITIGATION

As at the Latest Practicable Date, the Group was involved in two arbitration cases and seven litigation cases, among which seven were contractual disputes (three cases as plaintiff, four cases as defendant), one was in relation to commercial instruments as defendant and one was in relation to commercial instruments as plaintiff. Please refer to pages 64 to 68 of the 2022 interim report of the Company for further details.

As far as the Directors are aware, save as disclosed above (details of which can be found on pages 64 to 68 of the 2022 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 (including any litigation or claims that may have any material influence on rights to explore or mine) and there was no other litigation or claim of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

## 9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years preceding the date of this circular which are or may be material:

- (i) On 23 October 2020, the Company, Yankuang Group (now known as Shandong Energy), Hainan Taizhong Property Group Co., Ltd. (海南泰中物產集團有限公司), China Huaneng Group Fuel Co., Ltd. (中國華能集團燃料有限公司), and Yankuang (Hainan) Intelligent Logistics Scientific Co., Ltd. (兗礦(海南)智慧物流科技有限公司) (“**Hainan Intelligent Logistics**”) entered into the capital increase agreement regarding the capital increase of Hainan Intelligent Logistics;
- (ii) On 28 October 2020, the Company, Inner Mongolia Geological Mining (Group) Company Limited (內蒙古地質礦產(集團)有限責任公司) and Inner Mongolia Mining (Group) Company Limited (內蒙古礦業(集團)有限公司) (“**Inner Mongolia Mining**”) entered into a capital increase agreement regarding the capital increase of Inner Mongolia Mining;
- (iii) On 19 November 2020, Yancoal Australia Ltd (a controlled overseas subsidiary of the Company) and 兗煤國際貿易有限公司 (Yancoal International Trading Co., Ltd.) (“**YIT**”) entered into the framework agreement for coal sales in relation to the sale of coal by Yancoal Australia Ltd to YIT and/or its associates (excluding the Company);
- (iv) On 27 August 2021, the Company entered into an agreement on the capital increase in Yankuang Finance Company with Shandong Energy and Yankuang Finance Company, pursuant to which the Company and Shandong Energy will increase the registered capital of Yankuang Finance Company in proportion to their respective shareholding interest in Yankuang Finance Company in cash;

- (v) On 15 November 2021, Shandong Property Right Exchange Center Company Limited\* (山東產權交易中心有限公司) issued the confirmation letter to Shandong Duanxin Supply Chain Management Company Limited\* (山東端信供應鏈管理有限公司) in relation to its acquisition of 62% of the equity interest in Yankuang Donghua Yulin Logistics Company\* (兗礦東華榆林物流有限公司) (a wholly-owned subsidiary of the Company) by way of network platform public auction at a consideration of RMB5.9598 million;
- (vi) On 18 November 2021, the Company entered into the deed of guarantee, the trust deed, the agency agreement and the subscription agreement with, among others, Yancoal International Resources Development Co., Limited (兗煤國際資源開發有限公司) (“**Issuer**”) and DB Trustees (Hong Kong) Limited in relation to the issuance of US\$300,000,000 2.90% senior guaranteed bonds due 2024 by the Issuer;
- (vii) On 30 June 2022, the Company, Shandong Energy and Shandong Energy Tower Shanghai Company Limited\* (山東能源大廈上海有限公司) (“**Energy Tower Shanghai Company**”) entered into the capital injection agreement, pursuant to which the Company acquired 75% equity interest in Energy Tower Shanghai Company by way of capital injection in the amount of RMB861 million;
- (viii) the First Financial Services Agreement;
- (ix) the Second Financial Services Agreement; and
- (x) the Absorption and Merger Agreement.

Save as disclosed above, no material contract (not a contract entered into in the ordinary course of business) has been entered into by any member of the Enlarged Group within two years immediately preceding the issue of this circular.

## 10. MISCELLANEOUS

- (i) As at the Latest Practicable Date, the Directors of the Company are Mr. Li Wei, Mr. Liu Jian, Mr. Xiao Yaomeng, Mr. Zhu Qingrui, Mr. Zhao Qingchun and Mr. Huang Xiaolong, and the independent non-executive Directors of the Company are Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang, and Mr. Poon Chiu Kwok.
- (ii) As at the Latest Practicable Date, the registered office and principal place of business of the Company is at 949 Fushan South Road, Zoucheng, Shandong Province, the PRC, Postal Code: 273500.
- (iii) 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.
- (iv) 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.

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

## 11. DOCUMENTS AVAILABLE FOR 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.yanzhoucoal.com.cn/>) for a period of 14 days from the date of this circular:

- (i) the Absorption and Merger Agreement;
- (ii) the First Financial Services Agreement;
- (iii) the Second Financial Services Agreement;
- (iv) the written consents of experts referred to in the paragraph headed “Consent and Qualifications of Expert” in this Appendix;
- (v) the valuation report of Shandong Energy Finance Company, the text of which is set out in Appendix II to this circular;
- (vi) the valuation report of Yankuang Finance Company, the text of which is set out in Appendix III to this circular;
- (vii) the report from Shinewing (HK) CPA Limited in relation to the profit forecast in the Valuation Reports, the text of which is set out in Appendix IV to this circular; and



- (viii) the letter issued by the Board in relation to the profit forecast in the Valuation Reports, the text of which is set out in Appendix V to this circular.