
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 **Yanzhou Coal Mining 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).

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兖州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

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

(Stock Code: 1171)

**(1) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND OTHER CONSTITUTIONAL DOCUMENTS; AND
(2) PROPOSED ADOPTION OF THE SHARE OPTION SCHEME AND
THE PROPOSED GRANT THEREUNDER**

The notices convening the EGM and the H Shareholders Class Meeting to be held at the headquarter of the Company at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 8:30 a.m. and 10:00 a.m. respectively on 12 February 2019 were published on 27 December 2018.

Whether or not you are able to attend the respective meetings 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 298 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 relevant meeting(s) or any adjourned meeting(s) (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting(s) or any adjourned meeting(s) should you so wish.

21 January 2019

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DEFINITIONS

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

“A Shareholders”	holders of A Shares;
“A Shareholders Class Meeting”	the 2019 first class meeting of A Shareholders to be held at the headquarter of the Company at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:30 a.m. on Tuesday, 12 February 2019;
“A Shares”	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and fully paid in RMB and are listed on the Shanghai Stock Exchange;
“Articles of Association”	the articles of association of the Company;
“Assessment Years”	a period of time (i.e. from years 2019 to 2021) when the Company will make assessments on an annual basis of the Participants and the Company, to decide if the conditions of the exercise of the Share Options have been satisfied;
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules;
“Black-out Period”	Please see the section headed “Proposed Adoption of Share Option Scheme – Waiver from strict compliance with the Listing Rules” in Letter from the Board to this circular;
“Class Meetings”	the A Shareholders Class Meeting and the H Shareholders Class Meeting;
“Board”	the board of Directors of the Company;
“Company”	Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司), a joint stock limited company incorporated in the PRC and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively;
“Company Law”	Company Law of the People’s Republic of China, as revised from time to time;
“Connected Person(s)”	has the same meaning ascribed thereto under the Listing Rules;

DEFINITIONS

“CSRC”	China Securities Regulatory Commission;
“Date of Grant”	the date on which the Company grants the Participants the Share Options, and the date of the Grant must be a trading day under the Listing Rules of the Shanghai Stock Exchange, which will be determined by the Board in accordance with relevant regulations;
“Director(s)”	the directors of the Company;
“EGM”	the 2019 first extraordinary general meeting of the Company to be held at the headquarter of the Company at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 8:30 a.m. on Tuesday, 12 February 2019;
“Exercise Date”	the date on which the Participants are entitled to exercise the Share Options, which must be a trading day under the Listing Rules of the Shanghai Stock Exchange;
“Exercise Period”	the exercise period as set out in the Scheme;
“Exercise Price”	the price as agreed in advance for the Participants to purchase A Shares when the Company grants the Participants the Share Option;
“Grant”	the Company grant a total of 46,680,000 Share Options to the Participants under the Scheme;
“Grantee Directors’ Undertaking”	Please see the section headed “Proposed Grant Under the Share Option Scheme – Distribution of the Share Options proposed to be granted under the Share Option Scheme” in Appendix I to this circular;
“H Shareholders”	holders of H Shares;
“H Shareholders Class Meeting”	the 2019 first class meeting of H Shareholders to be held at the headquarter of the Company at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 10:00 a.m. on Tuesday, 12 February 2019;
“H Shares”	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;

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Incentive Measures”	the Administrative Measures on Share Incentives of Listed Companies issued by CSRC;
“Independent Director(s)”	the independent non-executive director(s) of the Company;
“Latest Practicable Date”	16 January 2019, 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, as revised from time to time;
“Listing Rules of the Shanghai Stock Exchange”	the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, as revised from time to time;
“Other Constitutional Documents”	Rules of Procedures for Shareholders’ General Meeting of Yanzhou Coal Mining Company Limited, Rules of Procedures for the Board of Directors of Yanzhou Coal Mining Company Limited and Rules of Procedure for Supervisory Committee of Yanzhou Coal Mining Company Limited;
“Participant(s)”	the directors, senior management, mid-level management and core backbone staff of the Company who are eligible to participate in the Scheme in accordance with the provision of the Scheme;
“PRC”	The People’s Republic of China excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Remuneration Committee”	the remuneration committee under the Board;
“RMB”	Renminbi, the lawful currency of the PRC;
“SASAC of Shandong Province”	Shandong Provincial 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);

DEFINITIONS

“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China;
“Scheme” or “Share Option Scheme”	the share option scheme of A Shares of the Company in 2018;
“Securities Law”	Securities Law of the People’s Republic of China, as revised from time to time;
“Share Option(s)”	in the case of satisfying the conditions of exercise, each share option (also known as share option per share) is entitled to purchase one A Share of the Company at a pre-set exercise price of the Share Option (also known as an “Option”) during the Validity Period;
“Shareholders”	the shareholders of the Company;
“Supervisory Committee”	the supervisory committee of the Company;
“Validity Period of the Share Options”	the validity period of the Share Options granted under the Scheme, commencing from the Date of Grant and shall not exceed 60 months;
“Validity Period”	the validity period during which the Scheme is in effect, commencing from the date after the consideration and approval of the Scheme at the EGM and the Class Meetings and ending on the date of exercise or cancellation of the Share Options granted under the Scheme;
“Yankuang Group”	Yankuang Group Company Limited* (兗礦集團有限公司), a state-controlled limited liability company, is the controlling shareholder of the Company holding directly and indirectly approximately 51.81% of the total issued share capital of the Company as at the Latest Practicable Date;
“%”	per cent.

* For identification purposes only.

LETTER FROM THE BOARD



兖州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1171)

Directors:

Li Xiyong
Li Wei
Wu Xiangqian
Wu Yuxiang
Guo Dechun
Zhao Qingchun
Guo Jun

Independent non-executive Directors:

Kong Xiangguo
Cai Chang
Poon Chiu Kwok
Qi Anbang

Registered office:

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

*Principal place of business
in Hong Kong:*

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

21 January 2019

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND OTHER CONSTITUTIONAL DOCUMENTS; AND
(2) PROPOSED ADOPTION OF THE SHARE OPTION SCHEME AND
THE PROPOSED GRANT THEREUNDER**

I. INTRODUCTION

Reference is made to the announcements of the Company dated 27 December 2018 in relation to (1) the proposed amendments to the Articles of Association and Other Constitutional Documents, and (2) the proposed adoption of the Share Option Scheme and the proposed Grant thereunder.

The purpose of this circular is to provide you with the relevant information for making informed decisions in respect of the resolutions at the EGM and the Class Meetings.

LETTER FROM THE BOARD

II. DETAILS OF PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND OTHER CONSTITUTIONAL DOCUMENTS

The proposal in relation to the proposed amendments to the Articles of Association and Other Constitutional Documents was approved at the twenty-first meeting of the seventh session of the Board and the proposal in relation to the proposed amendments to the Rules of Procedure for Supervisory Committee was approved at the eleventh meeting of the seventh session of the Supervisory Committee. The Board and the Supervisory Committee agreed to submit the same to the EGM for discussion and consideration.

The Company proposed to amend the Articles of Association and Other Constitutional Documents in accordance with the changes of the laws and regulations in the places of listing, as well as the operation needs of the Company.

Details of the amendments are set out as follows:

A. Amendments to the Articles of Association

1. *The original Article 12 of the Articles of Association*

“Article 12 The Company’s scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

The business scope of the company includes: sale and lease of electronic equipments and sale of parts; leasing of construction mechanical equipments;

“The above paragraphs are proposed to be amended as follows:

“Article 12 The Company’s scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

The business scope of the company includes: sale and lease of electronic equipments and sale of parts; general contracting of mining engineering construction and contracting of electromechanical engineering construction; leasing of construction mechanical equipments;

2. *The original Article 20 of the Articles of Association*

“Article 20 The share capital structure of the Company is as follows: 4,912,016,000 ordinary shares, of which (a) 2,600,000,000 shares, which represent 52.93% of the Company’s share capital, are held by Yankuang (Group) Corporation Ltd. as domestic legal person shares; (b) 1,952,016,000 shares, which represent 39.74% of the Company’s share capital, are held by the H Shares shareholders; and (c) 360,000,000 shares, which represent 7.33% of the Company’s share capital, are held by the A Shares shareholders.”

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The above paragraph is proposed to be amended as follows:

“Article 20 The share capital structure of the Company is as follows: 4,912,016,000 ordinary shares, of which (a) 2,960,000,000 shares, which represent 60.26% of the Company’s share capital, are held by the A Shares shareholders; and (b) 1,952,016,000 shares, which represent 39.74% of the Company’s share capital, are held by the H Shares shareholders.”

3. *The original Article 31 of the Articles of Association*

“Article 31 The Company may, in accordance with the procedures set out in these Articles of Association and with the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the purposes of reducing its capital;
- (2) merging with another company that holds shares in the Company;
- (3) to grant the shares as incentives to the Company’s staff;
- (4) shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting may demand the Company to purchase their shares.
- (5) other circumstances permitted by laws and administrative regulations.

Apart from the above, the Company is not allowed to engage in trading of its own shares.

The above paragraphs are proposed to be amended as follows:

“Article 31 The Company may, in accordance with the procedures set out in these Articles of Association and with the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the purposes of reducing its capital;
- (2) merging with another company that holds shares in the Company;
- (3) to grant the shares for employee shareholding scheme or as share incentives;
- (4) shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting may demand the Company to purchase their shares.

LETTER FROM THE BOARD

- (5) to use the shares for the purpose of conversion of bonds convertible to shares;
- (6) where it is necessary for the company to safeguard company's value and shareholders' interests;
- (7) other circumstances permitted by laws and administrative regulations.

Apart from the above, the Company is not allowed to engage in trading of its own shares.

4. The original Article 32 of the Articles of Association

“Article 32 The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State:

- (1) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;
- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement;
- (4) other means as authorized by the competent securities authorities under the State Council.”

The above paragraph are proposed to be amended as follows:

“Article 32 The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State:

- (1) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;
- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement;
- (4) other means as authorized by the competent securities authorities under the State Council.

Under the circumstances set out in (3), (5) and (6) of the first paragraph of Article 31 of the Articles of Association, the Company shall repurchase shares through public concentrated trading.”

LETTER FROM THE BOARD

5. *The original Article 34 of the Articles of Association*

“Article 34 The Company must obtain the prior approval of the shareholders in a general meeting before it can repurchase shares pursuant to the reasons set out in these Articles of Association 31 (1) to (3). Following shares being repurchased by the Company pursuant to the provisions in Article 31, in the case of (1), the shares repurchased shall be cancelled within 10 days of the completion of the repurchase. In the case of (2) and (4), the shares repurchased shall be transferred or cancelled within six months of the completion of the repurchase.

The aggregate par value of the cancelled shares shall be deducted from the Company’s registered share capital.

The shares the Company repurchases in accordance with the provisions in Article 31(3) shall not be more than 5% of the total issued shares of the Company. The funding for the repurchase shall be provided from the profit after tax. The shares repurchased shall be transferred to the staff within one year.”

The above paragraphs are proposed to be amended as follows:

“Article 34 The Company must obtain the prior approval of the shareholders in a general meeting before it can repurchase shares pursuant to the reasons set out in these Articles of Association 31 (1) to (2). Where the Company repurchases in accordance with the circumstances set out in Articles of Association 31 (3), (5) and (6), it must obtain the approval in a meeting of the Board of Directors, at which two third of the directors are present.

Following shares being repurchased by the Company pursuant to the provisions in Article 31, in the case of (1), the shares repurchased shall be cancelled within 10 days of the completion of the repurchase. In the case of (2) and (4), the shares repurchased shall be transferred or cancelled within six months of the completion of the repurchase. In the case of (3), (5) and (6), the aggregate number of shares held by the Company shall not exceed 10% of aggregate amount of shares issued by the company, and shall be transferred or cancelled within 3 years.

The aggregate par value of the cancelled shares shall be deducted from the Company’s registered share capital.”

LETTER FROM THE BOARD

6. The original Article 45 of the Articles of Association

“Article 45 All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with these Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognise any instrument of transfer and would not need to provide any reason therefor:

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount as may be agreed by the Stock Exchange has been paid to the Company for registration of the instrument of transfer and other documents relating to or which will affect the right of ownership of the shares;”

The above paragraphs are proposed to be amended as follows:

“Article 45 All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with these Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognise any instrument of transfer and would not need to provide any reason therefor:

- (1) a fee of HK\$2.00 per instrument of transfer or such higher amount as may be agreed by the Stock Exchange has been paid to the Company for registration of the instrument of transfer and other documents relating to or which will affect the right of ownership of the shares;”

7. The original Article 78 of the Articles of Association

“Article 78 If the Supervisory Committee or the shareholders decides/decide to convene the shareholders’ general meeting by itself/themselves, a written notice shall be given to the board of directors and in the meantime report shall be made to the local representative office of the competent securities authorities under the State Council and the stock exchange for record.

The convening shareholder(s) shall submit the relevant documents to the local representative office of the competent securities authorities under the State Council and the stock exchange before issuing the notice for convening of the shareholders’ general meeting and the announcement on resolution proposed to the shareholders’ general meeting.”

The above paragraphs are proposed to be amended as follows:

“Article 78 If the Supervisory Committee or the shareholders decides/decide to convene the shareholders’ general meeting by itself/themselves, a written notice shall be given to the board of directors and in the meantime report shall be made to the local representative office of the competent securities authorities under the State Council and the stock exchange for record.

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Before publishing the resolutions of the shareholders' general meeting, shares held by the convening shareholder(s) shall not be less than 10%.

The convening shareholder(s) shall submit the relevant documents to the local representative office of the competent securities authorities under the State Council and the stock exchange before issuing the notice for convening of the shareholders' general meeting and the announcement on resolution proposed to the shareholders' general meeting.”

8. *The original Article 96 of the Articles of Association*

“Article 96 The proxy form shall state clearly if the proxy is entitled to vote at his discretion in the absence of specific instruction from the principal.

The above paragraph is proposed to be amended as follows:

“Article 96 The proxy form shall state clearly that the proxy is entitled to vote at his discretion in the absence of specific instruction from the principal.”

9. *The original Paragraph 2 of Article 154 of the Articles of Association*

“Article 154

A shareholder's written notice of the intention to nominate a person for election as a director who are not staff representative and a notice in writing by that person indicating his acceptance of such nomination shall have been given to the Company seven (7) days before the date of such shareholders' general meeting. Such written notice (s) by the shareholder(s) of the Company shall be made no earlier than the day after the despatch of the notice of the general meeting appointed for election of directors who are not staff representative and no later than 7 days prior to the date of such meeting.

.....”

The above paragraph is proposed to be amended as follows:

“Article 154

A shareholder's written notice of the intention to nominate a person for election as a director who are not staff representative and a notice in writing by that person indicating his acceptance of such nomination shall be made no earlier than the day after the despatch of the notice of the general meeting appointed for election of directors who are not staff representative and no later than 7 days prior to the date of such meeting.

.....”

LETTER FROM THE BOARD

10. The original Article 157 of the Articles of Association

“Article 157 An independent director should be independent. The following persons shall not act as independent directors:

.....”

The above paragraph is proposed to be amended as follows:

“Article 157 An independent director should be independent. The following persons shall not act as independent directors:

.....

(8) other persons identified as not independent pursuant to the regulatory rules of the listing places of the Company.”

11. The original Paragraph 2 of Article 168 of the Articles of Association

“Article 168

The Board may establish special committees such as Strategic Committee, Audit Committee, Nomination Committee and Remuneration Committee as it deems appropriate. The special committees are to be comprised solely of Directors. The independent directors of the Company should take up the majority of the Audit Committee, the Nomination Committee and the Remuneration Committee and be responsible for as conveners of meetings. The members of the Audit Committee should have at least one independent director who is an accounting professional.”

The above paragraph is proposed to be amended as follows:

“Article 168

The Board shall establish audit committee, and may establish special committees such as Strategic Committee, Nomination Committee and Remuneration Committee as it deems appropriate. The special committees are to be comprised solely of Directors. The independent directors of the Company should take up the majority of the Audit Committee, the Nomination Committee and the Remuneration Committee and be responsible for as conveners of meetings. The members of the Audit Committee should have at least one independent director who is an accounting professional or possesses appropriate financial management expertise.”

LETTER FROM THE BOARD

12. The original Paragraph 1 of Article 177 of the Articles of Association

“Article 177 Meetings of the Board shall be held at least three times every year and shall be convened by the chairman of the board of directors. All of the directors and supervisors should be notified about the meeting fourteen (14) days beforehand. An extraordinary meeting of the board of directors may be held under the following circumstances:

.....”

The above paragraph is proposed to be amended as follows:

“Article 177 Meetings of the Board shall be held at least four times on a regular basis every year and shall be convened by the chairman of the board of directors. All of the directors and supervisors should be notified about the meeting fourteen (14) days beforehand. An extraordinary meeting of the board of directors may be held under the following circumstances:

.....”

13. The original Article 181 of the Articles of Association

“Article 181 Meetings of the board of directors shall be held only if more than half of the directors (including any alternate director appointed pursuant to Article 182 of the Company’s Articles of Association) are present.

Each director shall have one (1) vote. A resolution of the board of directors must be passed by more than half of all of the directors of the Company.”

The above paragraphs are proposed to be amended as follows:

“Article 181 Unless otherwise stipulated in the Company Law of the People’s Republic of China and these Articles of Association, meetings of the board of directors shall be held only if more than half of the directors (including any alternate director appointed pursuant to Article 182 of the Company’s Articles of Association) are present.

Each director shall have one (1) vote. A resolution of the board of directors must be passed by more than half of all of the directors of the Company.”

LETTER FROM THE BOARD

14. The original Article 294 of the Articles of Association

“Article 294 Amendment of the Company’s Articles of Association shall become effective upon receipt of approvals from the foreign trade and economic authorities. Amendment involving the contents of the Mandatory Provisions of Overseas-Listed Companies’ Articles of Association shall become effective upon receipt of approvals from the State Council’s securities authorities and the companies approving department authorised by the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for change in registration in accordance with law.”

The above paragraph is proposed to be amended as follows:

“Article 294 Amendment of the Company’s Articles of Association shall be filed to the competent commercial authorities for record. Amendment involving the contents of the Mandatory Provisions of Overseas-Listed Companies’ Articles of Association shall become effective upon receipt of approvals from the State Council’s securities authorities and the companies approving department authorised by the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for change in registration in accordance with law.”

15. The original Article 304 of the Articles of Association

“Article 304 The Company’s Articles of Association are written in Chinese and English. Both text shall be equally valid. If there is any discrepancy between the two versions, the Chinese version of the Articles of Association most recently filed at the Shandong Administration of Industry and Commerce shall prevail.”

The above paragraph is proposed to be amended as follows:

“Article 304 The Company’s Articles of Association are written in Chinese and English. Both text shall be equally valid. If there is any discrepancy between the two versions, the Chinese version of the Articles of Association most recently filed at the registration authority of the industry and commerce of the PRC shall prevail.”

LETTER FROM THE BOARD

B. Amendments to the Rules of Procedures for Shareholders' General Meeting of the Company

1. The original Article 1 of the Rules of Procedures for Shareholders' General Meeting

“Article 1 These rules (these “Rules”) are specifically formulated in accordance with laws and regulations, including the Company Law of the People’s Republic of China (the “Company Law”) and the Governance Rules On the Shareholder’ General Meetings of Listed Companies promulgated by the China Securities Regulatory Commission (“CSRC”), and the Articles of association of Yanzhou Coal Mining Company Limited (the “Company”) for the purpose of regulating the proceedings of shareholders’ general meetings, ensuring that shareholders’ general meetings are duly convened and conducted, and resolutions are legally passed, enhancing the efficiency of shareholders’ general meetings and protecting the legal rights and interests of shareholders.”

The above paragraph is proposed to be amended as follows:

“Article 1 These rules (these “Rules”) are specifically formulated in accordance with laws, administrative regulations, departmental codes and normative documents, including the Company Law of the People’s Republic of China (the “Company Law”), the Governance Rules On the Shareholder’ General Meetings of Listed Companies and the Code of Corporate Governance for Listed Companies promulgated by the China Securities Regulatory Commission (“CSRC”), and the Articles of association of Yanzhou Coal Mining Company Limited (the “Company”) for the purpose of regulating the proceedings of shareholders’ general meetings, ensuring that shareholders’ general meetings are duly convened and conducted, and resolutions are legally passed, enhancing the efficiency of shareholders’ general meetings and protecting the legal rights and interests of shareholders.”

2. The original Article 12 of the Rules of Procedures for Shareholders' General Meeting

“Article 12 The board of directors shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events:

.....

- (3) where shareholder(s) singly or jointly holding 10% or more of the Company’s issued voting shares (excluding proxy, hereinafter “the Requesting Shareholders”) request(s) in writing for convening an extraordinary general meeting (the amount of shareholdings of the Requesting Shareholders shall be calculated as at the date of the request(s)) and the board of directors agree to such request(s);

LETTER FROM THE BOARD

.....”

The above paragraphs are proposed to be amended as follows:

“Article 12 The Company shall convene an extraordinary general meeting within two (2) months from the date of occurrence of any one of the following events:

.....

(3) where shareholder(s) singly or jointly holding 10% or more of the Company’s issued voting shares (excluding proxy, hereinafter “the Convening Shareholders”) request(s) in writing for convening an extraordinary general meeting (the amount of shareholdings of the Convening Shareholders shall be calculated as at the date of the request(s));

.....”

3. *The original Article 17 of the Rules of Procedures for Shareholders’ General Meeting*

“Article 17 If the supervisory committee or the requesting shareholders decide to convene the extraordinary general meeting itself, they shall notify the board of directors in writing and report the same to the local security authority of the State Council where the Company locates, and the Stock Exchanges.

The supervisory committee and the requesting shareholders shall provide the relevant evidencing materials to the local security authority of the State Council where the Company locates, and the Stock Exchanges when issuing the notice convening the extraordinary general meeting and making announcement of resolutions resolved at the extraordinary shareholders’ general meeting.”

The above paragraphs are proposed to be amended as follows:

“Article 17 If the supervisory committee or the shareholders decide to convene the extraordinary general meeting itself, they shall notify the board of directors in writing and report the same to the local security authority of the State Council where the Company locates, and the Stock Exchanges.

Before publishing the resolutions of the shareholders’ general meeting, shares held by the Convening Shareholder(s) shall not be less than 10%.

The supervisory committee and the Convening Shareholders shall provide the relevant evidencing materials to the local security authority of the State Council where the Company locates, and the Stock Exchanges when issuing the notice convening the extraordinary general meeting and making announcement of resolutions resolved at the extraordinary shareholders’ general meeting.”

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4. *The original Article 19 of the Rules of Procedures for Shareholders' General Meeting*

“Article 19 Shareholders who are on the register of shareholders on the date of book closure as stated on the notice of the shareholders’ general meeting, and after they have registered as required, are entitled to attend the meeting and have the voting rights.”

The above paragraph is proposed to be amended as follows:

“Article 19 Shareholders who are on the register of shareholders on the date of book closure as stated on the notice of the shareholders’ general meeting, and after they have registered as required, are entitled to attend the meeting and exercise voting rights in accordance with the relevant laws, regulations, regulatory rules of the listing places and the Articles of Association.”

5. *The original Article 21 of the Rules of Procedures for Shareholders' General Meeting*

“Article 21 The board of directors, independent directors and any shareholder fulfilling certain criteria can collect voting rights at a general meeting from the Company’s shareholders.”

The above paragraph is proposed to be amended as follows:

“Article 21 The board of directors, independent directors and any shareholder fulfilling certain criteria can collect voting rights at a general meeting from the Company’s shareholders. The Company and the convening person of the general meeting shall not impose minimum shareholding ratio restriction on shareholder’s collection of voting rights. The collection of voting rights shall be conducted free of charge, with sufficient disclosure of information of specific voting preferences to shareholders whose voting rights are being collected. Paid or indirect paid collections of voting rights are not permitted.”

6. *The original Paragraph 4 of Article 28 of the Rules of Procedures for Shareholders' General Meeting*

“Article 28

Motion(s) not specified in the notice of shareholders’ general meeting or inconsistent with the requirements stipulated in Article 81 of the Company’s Articles of association shall not be voted or resolved at the shareholders’ general meeting.”

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The above paragraph is proposed to be amended as follows:

“Article 28

Motion(s) not specified in the notice of shareholders’ general meeting or inconsistent with the requirements stipulated in Article 29 of the Rules shall not be voted or resolved at the shareholders’ general meeting.”

7. *The original Paragraph 1 of Article 40 of the Rules of Procedures for Shareholders’ General Meeting*

“Article 40 A conference venue shall be set up for the shareholders’ general meeting and a live conference mode shall be adopted. The Company can use safe, economical and convenient information technology network or other means to facilitate participation by the shareholders in the meeting. The shareholders attending the meeting in such ways shall be deemed as being present at the meeting.

.....”

The above paragraph is proposed to be amended as follows:

“Article 40 A conference venue shall be set up for the shareholders’ general meeting and a combination of live meeting and online voting shall be adopted. The time and venue chosen for live conference shall be convenient for shareholders’ participation. The Company shall ensure legitimacy and effectiveness of the shareholders’ general meeting and facilitate the shareholders’ participation in the meeting. Reasonable time for discussion shall be allocated to each proposal during the shareholders’ general meeting.

.....”

8. *The original Paragraph Article 54 of the Rules of Procedures for Shareholders’ General Meeting*

“Article 54 The shareholders attending the shareholders’ general meeting shall vote “for”, “against” or “abstain” for every motion proposed for resolution.”

The above paragraph is proposed to be amended as follows:

“Article 54 The shareholders attending the shareholders’ general meeting shall vote “for”, “against” or “abstain” for every motion proposed for resolution (“abstain” may be excluded from the options for H shares shareholders.)”

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**9. *The original Article 63 of the Rules of Procedures for Shareholders’
General Meeting***

“Article 63 The accumulative voting method shall be used in both the election of directors (including independent directors but excluding directors as employees’ representatives) and the election of supervisors (not being employees’ representatives) at shareholders’ general meetings. Votes shall be taken for each candidate of directors and supervisors one by one.”

The above paragraph is proposed to be amended as follows:

“Article 63 The accumulative voting method shall be used in both the election of directors (including independent directors but excluding directors as employees’ representatives) and the election of supervisors (not being employees’ representatives) at shareholders’ general meetings. Votes shall be taken for candidates of directors and supervisors.”

**10. *The original Article 81 of the Rules of Procedures for Shareholders’
General Meeting***

“Article 81 On the day when the shareholders’ general meeting ends, the Company shall submit the resolutions passed, public announcement of resolutions, legal opinions of attesting solicitor to the Shanghai Stock Exchange and the Stock Exchange of Hong Kong. Upon examination by the relevant stock exchanges, the Company shall issue the public announcement of resolutions in national and overseas newspapers the next business day.”

The above paragraph is proposed to be amended as follows:

“Article 81 On the day when the shareholders’ general meeting ends, the Company shall submit the resolutions passed, public announcement of resolutions, legal opinions of attesting solicitor to the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.”

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C. Amendments to the Rules of Procedures for the Board of Directors

1. *The original Paragraph 1 of Article 7 of the Rules of Procedures for the Board of Directors*

“Article 7

2. a single transaction of which the completion consideration (including liabilities and expenses) accounts for more than 10% and less than 50% of the Company’s latest audited net asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the total market capitalisation of the Company (which is calculated by the average closing price of the Company’s shares as stated in the Hong Kong Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of a transaction);

.....”

The above paragraph is proposed to be amended as follows:

“Article 7

2. a single transaction of which the completion consideration (including liabilities and expenses) accounts for more than 10% and less than 50% of the Company’s latest audited net asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the total market capitalisation of the Company (which is calculated by the respective average closing price of the Company’s relevant class shares for the five business days immediately preceding the date of the transaction);

.....”

2. *The original Article 20 of the Rules of Procedures for the Board of Directors*

“Article 20 Specialized committees such as strategic committee, audit committee, nomination committee and remuneration committee may be formed under the board of directors to conduct studies on professional matters and provide the board of directors with opinion and recommendation for reference in making decision. All members of the specialized committees should be directors.”

The above paragraph is proposed to be amended as follows:

“Article 20 The board of directors shall set up an audit committee and specialized committees such as strategic committee, nomination committee and remuneration committee may be formed under the board of directors as it deemed

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appropriate, to conduct studies on professional matters and provide the board of directors with opinion and recommendation for reference in making decision. All members of the specialized committees should be directors.”

3. *The original Article 22 of the Rules of Procedures for the Board of Directors*

“Article 22 The primary responsibilities of the audit committee of the board of directors include:

- (1) to propose the appointment or replacement of the external audit institution;
- (2) to supervise the internal audit work of the Company and its implementation;
- (3) to handle the communications between internal and external audit;
- (4) to examine the financial information of the Company and its disclosure;
- (5) to check the internal control system of the Company;
- (6) to review the regular reports and financial statements of the Company;
- (7) to give opinion on relevant matters in accordance with the regulatory provisions of the place where the Company’s shares are listed;
- (8) other matters authorised by the board of directors.”

The above paragraphs are proposed to be amended as follows:

“The primary responsibilities of the audit committee of the board of directors include:

- (1) to supervise and assess external audit work, and propose the appointment or replacement of the external audit institution;
- (2) to supervise and assess the internal audit system, and evaluate the design and implementation of internal audit regulations;
- (3) to handle the coordination between internal and external audit;
- (4) to examine the financial information of the Company and its disclosure;
- (5) to supervise and assess the internal control system of the Company;
- (6) to review the regular reports and financial statements of the Company;

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- (7) to give opinion on relevant matters in accordance with the regulatory provisions of the place where the Company's shares are listed
- (8) to be responsible for other matters authorised by laws, regulations, the Articles of Association of the Company and the board of directors."

4. *The original Paragraph 1 of Article 29 of the Rules of Procedures for the Board of Directors*

"Article 29 The board of directors convenes three (3) regular meetings each year including:

....."

The above paragraph is proposed to be amended as follows:

"Article 29 The board of directors convenes four (4) regular meetings each year including:

....."

5. *The original Article 58 of the Rules of Procedures for the Board of Directors*

"Article 58 Resolutions of the board of directors shall be disclosed simultaneously in places inside and outside the PRC where the Company's shares are listed."

The above paragraph is proposed to be amended as follows:

Delete this article.

D. Amendments to the Rules of Procedure for Supervisory Committee

1. *The original Article 1 of the Rules of Procedure for Supervisory Committee*

"Article 1 In order to standardize the operation mechanism of the Company, perfect supervisory system, protect the interests of the Company and the Shareholders, and elevate the work efficiency of Supervisory Committee, pursuant to the PRC Company Law ("Company Law"), Corporate Governance of Listing Companies, domestic and foreign listing rules and Articles, and based on the Company policies, to formulate these Rules of Procedures."

The above paragraph is proposed to be amended as follows:

"Article 1 These Rules of Procedure are formulated in order to standardize the operation mechanism of the Company, perfect supervisory system, protect the interests of the Company and the Shareholders, and elevate the work efficiency of

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Supervisory Committee, pursuant to the laws, administrative regulations, departmental codes, normative documents such as the PRC Company Law the (“Company Law”) and the Corporate Governance of Listing Companies, as well as the Articles of Association of Yanzhou Coal Mining Company Limited (the “Articles”), and based on the Company policies.”

2. *The original Article 8 of the Rules of Procedure for Supervisory Committee*

“Article 8 Supervisory Committee has set up a unit – the Office of the Secretary to the Supervisory Committee, responsible for executing daily operations of Supervisory Committee.”

The above paragraph is proposed to be amended as follows:

“Article 8 Supervisory Committee has set up a unit, responsible for executing daily operations of Supervisory Committee.”

3. *The original Article 20 of the Rules of Procedure for Supervisory Committee*

“Article 20

Notice period of the meeting of Supervisory Committee shall be at least five days in advance. Supervisors shall be notified at least two days in advance before the convening of extraordinary supervisory meeting. The way of notifying for the meeting of the Supervisory Committee shall be by way of delivery in person, facsimile, courier, registered mail or other means of electronic communication. Once the meeting shall not be convened as scheduled, it shall make an announcement and give reasons therefor.”

The above paragraph is proposed to be amended as follows:

“Article 20

Notice period of the meeting of Supervisory Committee shall be at least five days in advance. Supervisors shall be notified at least two days in advance before the convening of extraordinary supervisory meeting. The way of notifying for the meeting of the Supervisory Committee shall be by way of delivery in person, facsimile, courier, registered mail or other means of electronic communication. In case of emergency and when the extraordinary meeting has to be convened as soon as possible, verbal or telephone notifications are acceptable at any time, but the convening person shall explain the situation at the meeting.”

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4. The original Article 21 of the Rules of Procedure for Supervisory Committee

“Article 21 The notice of meetings of Supervisory Committee shall include the following: time, venue, duration, subject, agenda and the date of notice issued, of meeting convened.”

The above paragraph is proposed to be amended as follows:

“Article 21 The written notice of meetings of Supervisory Committee shall at least include the following:

- (1) the time and venue of the meeting;
- (2) proposed issue(s) to be considered and approved (the motion(s));
- (3) the convening person and the chair of the meeting, the person proposing the extraordinary meeting and his/her written proposal;
- (4) meeting materials necessary for supervisors’ decision making;
- (5) the requirements for supervisors to be present at the meeting in person;
- (6) contact person and contact information.

Verbal meeting notification shall at least include (1) and (2) of the above, as well as the description of the emergency in convening the extraordinary meeting as soon as possible.

5. The original Chapter 4 of the Rules of Procedure for Supervisory Committee

Article 25 to be added, following Article 24 of this chapter.

“Article 25 The chair of the meeting shall invite the participating supervisors to clearly deliver their opinion in relation to each proposal.

The chair of the meeting shall, in accordance with supervisors’ proposal, request directors, senior management, other staff members of the Company and business personnel of other relevant intermediaries to be questioned at the meeting.”

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6. *The original Article 25 of the Rules of Procedure for Supervisory Committee*

“Article 25 The rules of procedure of Supervisory Committee shall be by the way of convening meetings.”

The above paragraph is proposed to be amended as follows:

“Article 26 The rules of procedure of Supervisory Committee shall be by the way of convening meetings. The meetings can be convened by way of onsite meetings or communication meetings.”

7. *The original Article 33 of the Rules of Procedure for Supervisory Committee*

“Article 33 In the event that the Rules are not in congruence with the laws, administrative regulations or Articles of Associations promulgated by the State, they shall be executed in accordance with the relevant laws, regulations and Articles of Associations; the Rules shall be revised immediately.”

The above paragraph is proposed to be amended as follows:

“Article 34 In the event that the Rules are not in congruence with the relevant laws, administrative regulations, departmental codes or normative documents promulgated by the State or the Articles of Association, they shall be executed in accordance with the relevant laws, administrative regulations, departmental codes, normative documents and Articles of Associations. Additionally, these rules shall be amended in a timely manner.”

Other clauses in the Company’s Articles of Association and Other Constitutional Documents shall be renumbered to the extent of reflecting the changed order as a result of the amendments.

Save for the proposed amendments to the Articles of Association and Other Constitutional Documents set out above, other provisions in the Articles of Association and Other Constitutional Documents remain unchanged.

The proposed amendments to the Articles of Association and Other Constitutional Documents are subject to the approval of Shareholders by way of special resolution at the EGM.

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III. PROPOSED ADOPTION OF SHARE OPTION SCHEME

A. Introduction

At the EGM and the Class Meetings, resolutions will be proposed for the approval and adoption of the Share Option Scheme in which, amongst other things, the proposed Grant to the Participants, the number of Share Options proposed to be granted to each Participant and the Exercise Price are contained. Each of the proposed Grant to a Director has been approved by the Independent Directors in compliance with Rule 17.04(1) of the Listing Rules. Pursuant to the Share Option Scheme, Independent Directors are not eligible Participants and there is no Independent Director who is also a Participant.

Please refer to Appendices I and II to this circular for full details of the key information contained in this section including without limitation to the scope of eligible Participants, the proposed Grant, the number of the Share Options proposed to be granted to each Participant, the Validity Period, the Validity Period of the Share Options, the performance targets of the Company and the Participants which the exercise of the Share Options is conditional upon, the assessment methods, the Exercise Price and adjustments, the Exercise Period and circumstances under which the Share Options shall lapse.

B. Purpose of the Share Option Scheme and scope of eligible Participants

The Share Option Scheme is to further establish and improve the long-term incentive mechanism of the Company, attract and retain talents, fully mobilize the Directors, senior management, mid-level management and core employees of the Company, effectively align the interests of Shareholders, the Company and the management personally, and enable all parties to take interest in the long-term development of the Company. As such, the scope of eligible Participants include Directors, senior management, mid-level management and core employees of the Company. No consideration is payable by the Participants on acceptance of the Share Option. The Board is of the view that the adoption of the Share Option Scheme serves to enable the Company to move towards reaping the abovementioned benefits and therefore recommend the Shareholders to approve the resolutions in relation to the Scheme at the EGM and the Class Meetings.

C. Source and number of the underlying shares in respect of the Share Options to be Granted

Only new A Shares will be issued upon exercise of the Share Options to be Granted and no H Shares can be issued under the Share Option Scheme. The Share Option Scheme and the assessment methods which govern the performance targets on which the exercise of the Share Options is, amongst other things, conditional shall be considered and approved by the Shareholders, A Shareholders and H Shareholders at the EGM, the A Shareholders Class Meeting and H Shareholders Class Meeting respectively.

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The number of A Share Options to be granted under the Scheme is 46,680,000, representing approximately 0.95% of the total issued share capital of 4,912,016,000 shares of the Company as at the Latest Practicable Date. Upon satisfaction of the conditions of exercise of the Share Options, each Share Option shall provide its holder with a right to purchase one A Share at the Exercise Price during the Validity Period. The Share Options shall not be transferred, mortgaged or used to set-off. Except as otherwise provided by the Scheme on lock-up requirements, upon exercise of the Share Options granted under the Scheme, the A Shares obtained by the Participants through the Grant in accordance with the law shall enjoy all rights and fulfil all obligations as ordinary Shareholders.

There is no Participant to whom the aggregate number of A Shares to be issued upon exercise of his or her Share Options may exceed 1% of the Company's total share capital as at the date of consideration and approval of the Scheme at the EGM and the Class Meetings, and shall not exceed 1% of the Company's total number of A Shares in issue on the same day. The total accumulated number of A Shares involved in the Scheme shall not exceed 10% of the total share capital of the Company as at the date of consideration and approval of the Scheme at the EGM and the Class Meetings, and shall not exceed 10% of the total number of the Company's A Shares in issue on the same day.

During the Validity Period of the Share Options, any estimated income from Share Options of a Participant who is a Director or a member of the senior management of the Company shall be within 30% of his or her overall remunerations (including any expected income deriving from the Share Options) and any actual income upon exercise shall not exceed 40% of his or her overall remunerations (including any income deriving from the Share Options).

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D. Exercise Period

Under the premise that conditions of exercise of the Share Options have been fulfilled, the Share Options are exercisable in three tranches upon expiry of 24 months from the Date of Grant. Details are as follows:

Arrangement for the exercise	Exercise Period	Proportion of exercisable Share Options to the total number of granted Share Options
First Exercise Period	Commencing from the first trading day after the expiry of the 24th month from the Date of Grant, and ending on the last trading day of the 36th month from the Date of Grant	33%
Second Exercise Period	Commencing from the first trading day after the expiry of the 36th month from the Date of Grant, and ending on the last trading day of the 48th month from the Date of Grant	33%
Third Exercise Period	Commencing from the first trading day after the expiry of the 48th month period from the Date of Grant, and ending on the last trading day of the 60th month period from the Date of Grant	34%

The Participants shall exercise their Share Options during the Validity Period of the Share Options. If the conditions of exercise of the Share Options are not fulfilled, the Share Options for that period shall not be exercised. If the conditions of exercise of the Share Options are fulfilled but not all of the relevant Share Options for that period have been exercised, such portion of the unexercised Share Options shall be cancelled by the Company.

“Trading day” under this section has the same meaning as under the Listing Rules of the Shanghai Stock Exchange.

E. Performance targets on which the exercise of the Share Options Granted are conditional

Pursuant to Share Option Scheme, a Participant’s exercise of Share Options is conditional upon the fulfilment of certain conditions by the Company and the Participants. The details are provided in the assessment methods as set out in Appendices I and II to this circular.

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F. Adjustment to the Exercise Price and number of A Shares subject to Share Options

The Share Option Scheme has a mechanism for adjustment of the Exercise Price and/or the number of A Shares subject to Share Options to be granted under the Grant in the event of a capitalisation issue, bonus issue, subdivision or consolidation of shares, rights issue or reduction of capital of the Company. The details of such adjustments are set out in the section headed “Methods of and procedures for adjustment of the Share Option Scheme” in Appendix I to this circular.

The Company further confirms that it will comply with the relevant requirements of the Listing Rules and supplementary guidance issued by the Hong Kong Stock Exchange in all future adjustments to be made to the Exercise Price and/or the number of A Shares subject to Share Options to be granted under the Grant.

G. Conditions of the Share Option Scheme

The proposed Scheme has been approved by the Board, and is expected to be approved by Yankuang Group, the controlling shareholder of the Company, and filed with the Shandong SASAC prior to the date of the EGM and the Class Meetings. The proposed Scheme shall take effect upon Shareholders’ approval at the EGM and Class Meetings.

H. Implications under the Listing Rules

The Share Option Scheme constitutes a share option scheme under Chapter 17 of the Listing Rules. Pursuant to Rule 14A.92(3)(a), issue of new securities to Connected Persons of the Company is fully exempted from the requirements of approval by Shareholders, annual review, announcement and circular under Chapter 14A of the Listing Rules. Directors who are proposed Participants under the proposed Share Option Scheme have abstained from voting on any Board resolutions in relation to the proposed Share Option Scheme and/or the proposed Grant to themselves.

As disclosed hereinabove and in Appendices I to II to this circular:

- (1) by putting in place the following mechanism: (i) a minimum 24-month period from the Date of Grant before any Share Options granted may be exercised; (ii) dividing the Exercise Periods of the Share Options into three approximately equal tranches commencing on the first trading day after the expiry of the 24th month, 36th month and 48th month from the Date of Grant respectively; and (iii) cessation of service due to layoff, dismissal or termination of engagement by the Company will render all outstanding Share Options Granted to a Participant lapse, the Share Option Scheme will help to retain talents and prolong their valuable services to the Company;
- (2) by putting in place performance targets of the Company and of each Participant on which the exercise of the Share Options Granted shall be conditional upon, the Participants are expected to be incentivised to deliver

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outstanding work performance to meet the targets of the individual assessment while bearing in mind that as a whole the overall performance of the Company will have to be attained in order for any Share Options Granted to be exercisable in the first place. In this regard, the interests of the Company and of the Participants as well as the Shareholders are therefore expected to be aligned; and

- (3) by setting the Exercise Price no lower than the relevant prices prior to the announcement date of the Scheme, the Participants will be directed to attend to the long-term interests of the Company which would need to be reflected by an increased stock price before any exercise of Share Options at the Exercise Price becomes profitable.

In view of the above, the terms of the Share Option Scheme and the assessment methods are expected to serve the purposes of the Share Option Scheme.

“Trading day” under this section has the same meaning as under the Listing Rules of the Shanghai Stock Exchange.

I. Waivers from strict compliance with the Listing Rules

(1) Waiver from strict compliance with Note 1 of Rule 17.03(9) of the Listing Rules regarding the basis of determination of the Exercise Price

Note 1 of Rule 17.03(9) of the Listing Rules requires that the exercise price must be at least the higher of: (i) the closing price of the securities on the date of granting the options; and (ii) the average closing price of the securities for the five business days immediately preceding the date of granting the options. However, the relevant PRC laws and regulations require that the exercise price of share options under share option schemes shall be the higher of: (i) the average trading price of the A shares on the trading day immediately preceding the date of announcement of the share option scheme; (ii) the average trading price of the A Shares for the 20/60/120 trading days immediately preceding the date of announcement of the share option scheme; (iii) the closing price of the A Shares on the trading day immediately preceding the date of announcement of the share option scheme; and (iv) the average closing price of the A Shares for the 30 trading days immediately preceding the date of announcement of the share option scheme.

Since the Share Options to be granted under the Scheme involves A Shares only, and that the Exercise Price must be determined based on the relevant PRC laws and regulations, the Company has applied to the Hong Kong Stock Exchange and the Hong Kong Stock Exchange has granted a waiver from strict compliance with Note 1 of Rule 17.03(9) of the Listing Rules.

“Trading day” under this paragraph has the same meaning as under the Listing Rules of the Shanghai Stock Exchange.

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The details of the Exercise Price and the basis of determination are set out in the section headed “Exercise Price and basis of determination” in Appendix I to this circular.

(2) *Waiver from strict compliance with Rule A.3(a) of Appendix 10 to the Listing Rules which prevents Directors from accepting options*

Rule A.3(a) of Appendix 10 to the Listing Rules requires that directors of a listed issuer must not deal in any securities of the company on the day on which the company’s annual results are published and during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the annual results (the “**Black-out Period**”).

However, the relevant PRC laws and regulations require the Company to grant the Share Options within 60 days (including the acceptance of the Share Options by Participants) of Shareholders’ approval of the Share Option Scheme. The relevant announcement and registration procedures shall also be completed within the said period, or the Share Option Scheme shall be terminated and the Share Options not granted shall lapse. Based on the current timetable of the Scheme, the EGM and the Class Meetings will be held on 12 February 2019. Therefore, if Shareholders’ approval of the Scheme is obtained, the Date of Grant will fall within the Black-out Period. Therefore, two Directors, Mr. Wu Xiangqian and Mr. Zhao Qingchun, shall not accept the Grant pursuant to Rule A.3(a) of Appendix 10 to the Listing Rules.

Based on the following reasons, the Company has applied to the Hong Kong Stock Exchange and the Hong Kong Stock Exchange has granted a waiver from strict compliance with Rule A.3(a) of Appendix 10 to the Listing Rules:

- (1) Details of the Grant (including but not limited to the identities of the Participants, the number of the Share Options, the Exercise Price, etc.) have been determined at the Board meeting held on the date of announcement of the Scheme (which is prior to the Black-out Period), and put forward to the EGM and the Class Meetings for consideration;
- (2) Once the Scheme and the details of the Grant are approved by the EGM and the Class Meetings, any amendments need to be approved by the Shareholders. The Grant by the Board is purely a procedural matter without any discretionary power;
- (3) The two Directors, Mr. Wu Xiangqian and Mr. Zhao Qingchun, who are proposed to be granted the Share Options, have both given the Grantee Directors’ Undertaking to the Company at the date of announcement of the Scheme (which is prior to the Black-out Period).

The details of the Grant are set out in the section headed “Proposed Grant Under the Share Option Scheme” in Appendix I to this circular.

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J. Solicitation of votes by Independent Directors

Pursuant to the Incentive Measures, independent directors of a company whose securities are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange should solicit votes publicly from its shareholders on resolutions in relation to the adoption of an equity incentive scheme. The purpose of such arrangement is to encourage the securities holders to participate in the voting on the resolutions on the adoption of equity incentive schemes by providing them with an additional way of participation in the meeting(s) of such securities holders. As the A Shares are listed and tradable on the Shanghai Stock Exchange, the Independent Directors have nominated Mr. Kong Xiangguo to solicit on their behalf Shareholders' votes on all special resolutions in relation to the Scheme to be tabled at the EGM and the Class Meetings. No solicitation is made on the other resolutions which are not related to the Scheme. Mr. Kong Xiangguo has for the abovementioned purpose prepared the proxy forms for appointing himself as a proxy at the EGM and the H Shareholders Class Meeting respectively. Such proxy form specific to the Independent Directors' solicitation of votes (the "**INED Proxy Forms**") were despatched together with the notices of the EGM and the H Shareholders' Meeting (the "**Meeting Notices**"), the regular proxy forms (which, together with the INED proxy forms, the "**Proxy Forms**"), and the reply slips in respect of such meetings by the Company and also published and made available for downloading on the websites of Hong Kong Stock Exchange at www.hkex.com.hk and of the Company at <http://www.yanzhoucoal.com.cn/zh.htm>. Please refer to the Meeting Notices and the instructions imprinted on the Proxy Forms for details of the solicitation arrangement.

K. Documents available for inspection

A copy of the Share Option Scheme is available for inspection at the office of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Hong Kong during normal business hours from the date hereof up to and including the date of the EGM.

IV. EGM, A SHAREHOLDERS CLASS MEETING AND H SHAREHOLDERS CLASS MEETING

The Company will convene the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting.

The "Proposal in relation to the amendments to the Articles of Association and relevant rules of procedures of Yanzhou Coal Mining Company Limited" will be submitted to the EGM for consideration and approval by way of a special resolution.

The following will be submitted to the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting for consideration and approval by way of special resolutions:

- (a) the "Proposal in relation to '2018 A Share Option Scheme (Draft) of Yanzhou Coal Mining Company Limited' and its abstract";

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- (b) the “Proposal in relation to ‘Implementation, Assessment and Management Methods in Relation to the 2018 A Share Option Scheme of Yanzhou Coal Mining Company Limited’”; and
- (c) the “Proposal in relation to authorizing the Board of Directors to manage issues in connection with the 2018 A Share Option Scheme of the Company”.

The Meeting Notices containing, among others, details of the above resolutions have been despatched to the Shareholders on 28 December 2018.

The Proxy Forms and the reply slips for the EGM and the H Shareholders Class Meeting have been despatched to the Shareholders on 28 December 2018. Whether or not you intend to attend the EGM and/or the H Shareholders Class Meeting, you are requested to complete and return the appropriate form(s) of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding such meeting(s) (or any adjournment thereof). Should you return both the regular proxy forms and the INED Proxy Forms and your voting instructions thereon are inconsistent, your voting instructions in the INED Proxy Form shall prevail in relation to the resolutions on the Scheme.

As at the Latest Practicable Date, two of the Participants, namely, Mr. Wu Xiangqian and Mr. Zhao Honggang are A Shareholders of the Company. Each of them is entitled to exercise control over the voting rights of the Company in respect of 10,000 A Shares. Mr. Wu Xiangqian and Mr. Zhao Honggang and their associates (to the extent any of them owns any shares of the Company as at the date of the EGM and the Class Meetings) shall abstain from voting in relation to the resolutions approving the Share Option Scheme which proposes to grant Share Options to Mr. Wu Xiangqian and Mr. Zhao Honggang. Save as disclosed herein, to the best knowledge and belief of the Directors, none of the Shareholders would be required to abstain from voting on the proposed resolutions at the EGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting.

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

The H Share register of members of the Company will be closed from Saturday, 12 January 2019 to Tuesday, 12 February 2019 (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 and the H Shareholders Class Meeting. In order to attend the EGM and the H Shareholders Class Meeting, all share transfers, 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 Friday, 11 January 2019 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 Friday, 11 January 2019 will be eligible to attend the EGM and the H Shareholders Class Meeting.

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VI. RECOMMENDATION OF THE BOARD

The Directors (including the Independent Directors) consider that the proposed resolutions for approving the amendments to the Articles of Association and relevant rules of procedures of Yanzhou Coal Mining Company Limited are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the Independent Directors) recommend the Shareholders and the H Shareholders to respectively vote in favour of the resolution set out in the notices of the EGM and the H Shareholders Class Meeting.

The Directors (including the Independent Directors, while excluding Mr. Wu Xiangqian and Mr. Zhao Qingchun who shall abstain from voting on the resolutions in relation to the Share Option Scheme) consider that the proposed adoption of the Share Option Scheme including the Grant under the Share Option Scheme and the related matters are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the Independent Directors, while excluding Mr. Wu Xiangqian and Mr. Zhao Qingchun who shall abstain from voting on the resolutions in relation to the Share Option Scheme) recommend the Shareholders and the H Shareholders to respectively vote in favour of the resolutions set out in the notices of the EGM and the H Shareholders Class Meeting.

VII. 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.

By order of the board of directors
Yanzhou Coal Mining Company Limited
Li Xiyong
Chairman

APPENDIX I

THE SHARE OPTION SCHEME

The following summarises all principal terms of the Share Option Scheme and the proposed Grant thereunder.

I. OPERATIVE TERMS OF THE SHARE OPTION SCHEME

1. Purpose of the Share Option Scheme

The Share Option Scheme is for the purpose to further establish and improve the long-term incentive mechanism of the Company, attract and retain talents, fully mobilize the Directors, senior management, mid-level management and core employees of the Company, effectively align the interests of Shareholders, the Company and the management personally, and enable all parties to take interest in the long-term development of the Company.

2. Basis for determining the Participants and the scope of the Participants

(1) Basis for determining the Participants

Participants are determined in accordance with the Company Law, the Securities Law, the Incentive Measures and relevant laws, administrative regulations, departmental rules and regulatory documents as promulgated by the relevant regulatory departments such as the SASAC and the CSRC, and the relevant provisions of the Articles of Association with reference to the actual situations of the Company.

(2) Scope of Participants

The Participants include the Directors, senior management, mid-level management and core employees of the Company. In respect of the abovementioned Participants, any such Director and senior management must have been elected at the general meeting of the Company or appointed by the Board. A Participant must be employed by and have entered into a labor contract or an employment contract with the Company, the wholly-owned subsidiaries or controlled subsidiaries of the Company as at the Date of Grant and during the Assessment Years.

The Participants do not include the external Directors (including the Independent Directors), the supervisors and any Shareholder or actual controller individually or jointly holding more than 5% of the shares of the Company and their respective spouse, parents and children. The Participants shall not also be participants of share incentive schemes of any other listed companies, and persons who are already participants of such incentive schemes of any other listed companies shall not take part in the Share Option Scheme.

APPENDIX I**THE SHARE OPTION SCHEME**

3. Source and number of shares under the Share Option Scheme***(1) Source of the underlying shares of the Scheme***

The source of the underlying shares of the Scheme shall be ordinary A Shares to be directly issued to the Participants.

(2) Total number of the Share Options involved in the Scheme

The number of A Share Options to be granted under the Scheme is 46,680,000, representing approximately 0.95% of the total issued share capital of 4,912,016,000 shares of the Company as of the Latest Practicable Date. Upon satisfaction of the conditions of exercise of the Share Options, each Share Option shall provide its holder with a right to purchase one A Share at the Exercise Price during the Validity Period. The Share Options shall not be transferred, mortgaged or used to set-off. Except as otherwise provided by the Scheme on lock-up requirements, upon exercise of the Share Options granted under the Scheme, the A Shares obtained by the Participants through the Grant in accordance with the law shall enjoy all rights and fulfil all obligations as ordinary Shareholders.

There is no Participant to whom the aggregate number of A Shares to be issued upon exercise of his or her Share Options may exceed 1% of the Company's total share capital as at the date of consideration and approval of the Scheme at the EGM and the Class Meetings, and shall not exceed 1% of the Company's total number of A Shares in issue on the same day. The total accumulated number of A Shares involved in the Scheme shall not exceed 10% of the total share capital of the Company as at the date of consideration and approval of the Scheme at the EGM and the Class Meetings, and shall not exceed 10% of the total number of the Company's A Shares in issue on the same day.

During the Validity Period of the Share Options, any estimated income from Share Options of a Participant who is a Director or a member of the senior management shall be within 30% of his or her overall remunerations (including any expected income deriving from the Share Options) and any actual income upon exercise shall not exceed 40% of his or her overall remunerations (including any income deriving from the Share Options).

4. Validity Period, Validity Period of the Share Options, Date of Grant, vesting period, Exercise Date and the lock-up requirements***(1) Validity Period***

The Scheme will take effect after it has been considered and approved by the EGM and the Class Meetings, and will expire on the date on which all the Share Options granted under the Scheme have been exercised or cancelled.

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THE SHARE OPTION SCHEME

(2) *Validity Period of the Share Options*

The Validity Period of the Share Options granted under the Scheme commences from the Date of Grant, and such period must not exceed 60 months.

(3) *Date of Grant*

Please see the section headed “Proposed Grant Under the Share Option Scheme – Proposed Date of Grant” below in this Appendix for further information on the Date of Grant of the Share Option Scheme.

(4) *Vesting period*

The vesting period will be the period between the Date of Grant and the Exercise Date. The Share Options will have vesting periods of 24 months, 36 months and 48 months commencing from the Date of Grant respectively.

(5) *Exercise Period and Exercise Date*

Under the premise that conditions of exercise of the Share Options have been fulfilled, the Share Options are exercisable in three tranches upon expiry of 24 months from the Date of Grant. Details are as follows:

Arrangement for the exercise	Exercise Period	Proportion of exercisable Share Options to the total number of granted Share Options
First Exercise Period	Commencing from the first trading day after the expiry of the 24th month from the Date of Grant, and ending on the last trading day of the 36th month from the Date of Grant	33%
Second Exercise Period	Commencing from the first trading day after the expiry of the 36th month from the Date of Grant, and ending on the last trading day of the 48th month from the Date of Grant	33%
Third Exercise Period	Commencing from the first trading day after the expiry of the 48th month period from the Date of Grant, and ending on the last trading day of the 60th month period from the Date of Grant	34%

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The Participants shall exercise their Share Options during the Validity Period of the Share Options. If the conditions of exercise of the Share Options are not fulfilled, the Share Options for that period shall not be exercised. If the conditions of exercise of the Share Options are fulfilled but not all of the relevant Share Options for that period have been exercised, such portion of the unexercised Share Options shall be cancelled by the Company.

“Trading day” under this paragraph has the same meaning as under the Listing Rules of the Shanghai Stock Exchange.

(6) Lock-up provisions on the underlying shares of the Share Option Scheme

The Company’s A Shares held by the Participants pursuant to the exercise of the Share Options under the Scheme are subject to the following lock-up provisions:

The lock-up provisions of the Scheme shall be implemented in accordance with the relevant laws and regulations including the Company Law, the Securities Law and the Articles of Association. Details are as follows:

- (a) where a Participant is a Director or a member of the senior management of the Company, the number of shares that may be transferred each year during his or her term of office must not exceed 25% of the total number of shares held by him or her in the Company. No shares held may be transferred within half a year after his or her termination of office;
- (b) where a Participant is a Director or a member of the senior management of the Company and he or she disposes of any shares within six months after any purchase of shares from the Company, or if he or she should purchases shares within six months after disposal thereof, all gains deriving therefrom should be vested with the Company and the Board will forfeit all such gains;
- (c) where, during the Validity Period, there is any change to the requirements regarding the transfer of shares by Directors and senior management under applicable laws and regulations such as the Company Law and the Securities Law, and under the Articles of Association, the transfer by such Participants shall comply with the amended Company Law, Securities Law and other relevant laws and regulations and with the requirements under the Articles of Association;
- (d) Share Options of not less than 20% of the total Share Options granted to a Director or senior management can only be exercised after such Participant has passed his or her performance assessment at the end of terms of office. If the terms of office of a Participant who is a Director or senior management has not ended upon expiry of the Validity Period, the conditions of exercise shall be determined with reference to his or

APPENDIX I**THE SHARE OPTION SCHEME**

her assessment results of the year during which the relevant Validity Period expires, and the Share Options shall be exercised within the Validity Period.

5. Exercise Price and basis of determination

Please see the section headed “Proposed Grant Under the Share Option Scheme – Exercise Price and basis of determination” below in this Appendix for further information on the Exercise Price and basis of determination.

6. Conditions of the Grant and exercise of the Share Options***(1) Conditions of the Grant***

The following conditions must be simultaneously fulfilled before the Share Options can be granted to the Participants. On the contrary, no Share Option shall be granted to the Participants if any of the following conditions of Grant is not satisfied.

- (a) There is no occurrence of any of the following in respect of the Company:
 - (i) issue of the auditors’ report with an adverse opinion or which indicates an inability to give opinion by a certified public account with respect to the financial report of the Company for its most recent accounting year;
 - (ii) issue of the auditors’ report with an adverse opinion or which indicates an inability to give opinion by a certified public account with respect to the internal control of the Company in its financial report for the most recent accounting year;
 - (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months after listing of the securities on a stock exchange;
 - (iv) under applicable laws and regulations, no equity incentive is allowed; and
 - (v) such other circumstances as determined by the CSRC.

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- (b) There is no occurrence of any of the following in respect of a Participant:
- (i) he or she has been held by the Shanghai Stock Exchange to be a person unsuitable for the relevant post(s) in the last 12 months;
 - (ii) he or she has been held by the CSRC or its derived agencies as a person unsuitable for the relevant post(s) in the last 12 months;
 - (iii) he or she has been imposed by the CSRC or any of its derived agencies with administrative penalties or measures prohibiting access into the market in the last 12 months by reason of material violation of laws and regulations;
 - (iv) he or she is under the Company Law prohibited from acting as a Director or a member of the senior management of the Company;
 - (v) he or she is under applicable laws and regulations not allowed to participate in an equity incentive scheme of a listed company; and
 - (vi) such other circumstance as determined by the CSRC.
- (c) The Company has attained its performance targets as follows:

The growth rate on net profit for year 2017 (i) shall not be lower than 130%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers. Earnings per share for year 2017 (i) shall not be lower than RMB1.17 per share, and (ii) shall not be lower than the average earnings per share of industry peers. For the avoidance of doubts, the Company has attained these performance targets.

(2) *Conditions of exercise of the Share Options*

Share Options of the Participants may only be exercised upon the fulfilment of the following conditions by the Company and the Participants:

- (a) There is no occurrence of any of the following circumstances in respect of the Company:
- (i) issue of the auditors' report with qualified opinion or which indicates an inability to give opinion by a certified public account with respect to the financial report of the Company for its most recent accounting year;

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- (ii) issue of the auditors' report with qualified opinion or which indicates an inability to give opinion by a certified public account with respect to the internal control of the Company in its financial report for the most recent accounting year;
 - (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months after listing of the securities on a stock exchange;
 - (iv) under applicable laws and regulations, no equity incentive is allowed; and
 - (v) such other circumstances as determined by the CSRC.
- (b) There is no occurrence of any of the following circumstances in respect of a Participant:
- (i) he or she has been held by the Shanghai Stock Exchange to be a person unsuitable for the relevant post(s) in the last 12 months;
 - (ii) he or she has been held by the CSRC or its derived agencies as a person unsuitable for the relevant post(s) in the last 12 months;
 - (iii) he or she has been imposed by the CSRC or any of its derived agencies with administrative penalties or measures prohibiting access into the market in the last 12 months by reason of material violation of laws and regulations;
 - (iv) he or she is under the Company Law prohibited from acting as a Director or a member of the senior management of the Company;
 - (v) he or she is under applicable laws and regulations not allowed to participate in an equity incentive scheme of a listed company; and
 - (vi) such other circumstance as determined by the CSRC.

In the event any of the circumstances specified in (a) occurs, the Share Options granted to all Participants under the Scheme but not exercised shall be cancelled by the Company. In the event any of the events specified in (b) occurs, the Share Options granted to the Participant under the Scheme but not exercised shall be cancelled by the Company.

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(c) Performance targets of the Company

The exercise of the Share Options to be granted under the Scheme are subject to the performance targets in the Assessment Years from the financial year of 2019 through the financial year of 2021. Assessment will be made once a financial year. The conditions of performance assessment for each year are as follows:

Exercise Period	Conditions of performance assessment
First Exercise Period	<ol style="list-style-type: none">1. The growth rate on net profit for year 2019 (i) shall not be lower than 139%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers;2. Earnings per share for year 2019 (i) shall not be lower than RMB1.20 per share, and (ii) shall not be lower than the average earnings per share of industry peers.
Second Exercise Period	<ol style="list-style-type: none">1. The growth rate on net profit for year 2020 (i) shall not be lower than 149%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers;2. Earnings per share for year 2020 (i) shall not be lower than RMB1.25 per share, and (ii) shall not be lower than the average earnings per share of industry peers.
Third Exercise Period	<ol style="list-style-type: none">1. The growth rate on net profit for year 2021 (i) shall not be lower than 159%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers;2. Earnings per share for year 2021 (i) shall not be lower than RMB1.30 per share, and (ii) shall not be lower than the average earnings per share of industry peers.

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Notes:

1. With reference to all A share listed companies under the classification of “mining industry – coal mining and dressing industry” according to the industry classification of the CSRC. If there are major changes in business structures of the peer sample companies or extreme values with excessive performance variation, the Board will remove or change such sample during the assessment.
2. “The growth rate on net profits” indicator is calculated based on the net profits attributable to the Shareholders, net of non-recurring gains and losses.
3. Earnings per share refer to the ratio of the net profits attributable to the ordinary Shareholders to the total share capital of the Company after deducting non-recurring gains and losses. During the Validity Period, in cases of capitalization of capital reserves, bonus issue and stock issue which will affect the total number of issued shares of the Company, the Company’s total number of shares involved will be adjusted accordingly, and the target value of earnings per share will be adjusted in accordance with the adjustment of the Company’s total number of shares.

Participants may exercise the Share Options under the Scheme upon satisfaction of the conditions of exercise of the Share Options. On the contrary, the Share Options granted to and exercisable by the Participants shall be cancelled by the Company under the Scheme if the conditions of exercise of the Share Options are not satisfied.

(d) Participants’ performance assessment requirements

Assessment of Participants shall be conducted annually in accordance with the 2018 Performance Assessment Measures of Share Option Incentive Scheme (《2018年股票期權激勵計劃實施考核管理辦法》) of the Company. The assessment results are determined based on the indicators of personal performance assessment. The performance assessment is conducted with reference to the following items:

Assessment Result	Excellent (A)	Good (B)	Passed (C)	Failed (D)
Standard Coefficient	1.0	1.0	0.8	0

Actual exercise quota of a Participant for a year = Standard coefficient × exercise quota of the Participant under the Scheme for the year.

If Participants fail in the assessment, the Share Options granted but not yet exercised in the corresponding Exercise Period will be cancelled by the Company pursuant to relevant requirements of the Scheme.

7. Methods of and procedures for adjustment of the Share Option Scheme

(1) Adjustment of the number of the Share Options

In the event of capitalization of capital reserves, bonus issue, share subdivision, rights issue or share consolidation of the Company prior to any exercise of the Share Options, the number of the Share Options shall be adjusted accordingly. The adjustment methods are as follows:

(a) capitalization of capital reserves, bonus issue, share subdivision

$$Q = Q_0 \times (1+n)$$

Where: Q_0 represents the number of the Share Options prior to adjustment; n represents the ratio of increase per share resulting from capitalization of capital reserves, bonus issue or share subdivision (i.e. the number of increased share(s) per share upon capitalization of capital reserves, bonus issue or share subdivision); and Q represents the number of the Share Options after adjustment.

(b) Rights issue

$$Q = Q_0 \times P_1 \times (1+n) / (P_1 + P_2 \times n)$$

Where: Q_0 represents the number of the Share Options prior to adjustment; P_1 represents the closing price of the Share Options on the record date; P_2 represents the subscription price in respect of the rights issue; n represents the basis of the rights issue (i.e. the number of shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and Q represents the number of Share Options after adjustment.

(c) Share consolidation

$$Q = Q_0 \times n$$

Where: Q_0 represents the number of Share Options prior to the adjustment; n represents the ratio of consolidation of shares (i.e. one share of the Company be consolidated into n shares); and Q represents the number of Share Options after the adjustment.

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(2) Adjustment methods of the Exercise Price

In the event of dividend distribution, capitalization of capital reserves, bonus issue, share subdivision, rights issue or share consolidation of the Company prior to any exercise of the Share Options, the Exercise Price should be adjusted accordingly. The adjustment methods are as follows:

(a) capitalization of capital reserves, bonus issue, share subdivision

$$P = P_0 \div (1+n)$$

Where: P_0 represents the Exercise Price of the Share Options prior to the adjustment; n represents the ratio of increase per share resulting from the capitalization of capital reserves, bonus issue or Share Option subdivision; and P represents the Exercise Price after the adjustment.

(b) Rights issue

$$P = P_0 \times (P_1 + P_2 \times n) / [P_1 \times (1+n)]$$

Where: P_0 represents the Exercise Price prior to the adjustment; P_1 represents the closing price of the Share Options as at the record date; P_2 represents the subscription price in respect of the rights issue; n represents the ratio of the rights issue (i.e. the number of shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and P represents the Exercise Price after the adjustment.

(c) Share consolidation

$$P = P_0 \div n$$

Where: P_0 represents the Exercise Price prior to the adjustment; n represents the ratio of share consolidation; and P represents the Exercise Price after the adjustment.

(d) Dividend distribution

$$P = P_0 - V$$

Where: P_0 represents the Exercise Price prior to the adjustment; V represents the dividend per share; and P represents the Exercise Price after the adjustment. After the adjustment of dividend distribution, P shall still be a positive number.

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(3) *In the event of issue of new shares by the Company, the number of the Share Options and the Exercise Price will not be adjusted.*

(4) *Procedures for adjustment of the Share Option Scheme*

The EGM and the Class Meetings authorise the Board to make adjustments to the Exercise Price and number of the Share Options upon occurrence of any of the aforementioned circumstances. The Company shall engage legal advisers to give professional advice to the Board regarding whether such adjustments are in compliance with the requirements under the Incentive Measures, the Articles of Association and the requirements under the Scheme. If necessary adjustments need to be made to the number of the Share Options and the Exercise Price for matters other than the above circumstances, such adjustments shall be determined by the Board and be considered and approved at the EGM and the Class Meetings.

Any such adjustment shall give the Participants the same proportion of the share capital of the Company as to which that they were previously entitled. No such adjustment shall be made to the extent that a share will be issued at less than its nominal value (if any). Except for the adjustment made to capitalization of capital reserves, any other relevant adjustments shall be confirmed by the independent financial advisers to be engaged by the Company or the accountants of the Company in writing to the Directors that such adjustments comply with relevant requirements.

8. Amendments to or termination of the Share Option Scheme

(1) *Procedures of amendments to the Share Option Scheme*

- (a) If the Company proposes to amend the Scheme prior to the consideration of the Scheme at the EGM and the Class Meetings, such amendments shall be considered and approved by the Board.
- (b) If the Company proposes to amend the Scheme after the consideration and approval of the Scheme at the EGM and the Class Meetings, such amendments shall be considered and decided at the EGM and the Class Meetings, and must not be allowed in the following circumstances:
 - (i) circumstances that will result in accelerating the exercise of Share Options; and
 - (ii) circumstances that will lower the Exercise Price.
- (c) Should there be any amendments to the Company Law, the Securities Law and the Incentive Measures or other laws and regulations, the Board shall make adjustments to the relevant contents of the Scheme according to the amendments with the authorization of the EGM and the Class Meetings.

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(2) Termination procedures of the Share Option Scheme

- (a) If the Company proposes to terminate the Scheme prior to the consideration of the Scheme at the EGM and the Class Meetings, such termination shall be considered and approved by the Board.
- (b) If the Company proposes to terminate the Scheme after the consideration and approval of the Scheme at the EGM and the Class Meetings, such termination shall be considered and decided at the EGM and the Class Meetings. If the termination of the Scheme is considered and approved at the EGM and the Class Meetings or by the Board, no share option scheme shall be considered again in three months after the date of announcement of the resolutions.
- (c) A law firm shall give professional opinions as to whether the termination of the Scheme by the Company is in compliance with the requirements under the Scheme and relevant laws and regulations or is significantly detrimental to the interests of the Company and the Shareholders as a whole.
- (d) If the Scheme is terminated, the Company shall apply for the deregistration of the granted Share Options with the Shanghai Stock Exchange and the China Securities Depository and Clearing Corporation Limited in a timely manner after performing the relevant review and approval procedures.

9. Supplemental provisions

- (1) In case of any conflicts between the relevant provisions under the Scheme and relevant PRC laws and regulations, such provisions shall be implemented or adjusted in accordance with relevant PRC laws and regulations. Any issues not specified in the Scheme shall be implemented or adjusted in accordance with relevant PRC laws and regulations.
- (2) In case any Participant disposes the shares granted to him / her in violation of the Scheme, the Articles of Association or relevant PRC laws and regulations by the Participants, the gains from the disposal shall be vested with the Company and executed by the Board.
- (3) The Scheme is subject to approval by Yankuang Group, filing with the SASAC of Shandong Province, and the consideration and approval at the EGM and the Class Meetings.
- (4) The Scheme shall be interpreted by the Board.

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THE SHARE OPTION SCHEME

II. PROPOSED GRANT UNDER THE SHARE OPTION SCHEME

Key terms of the proposed Grant are set out in details in this section. The proposed Grant set out herein complies with the terms and provisions of the proposed Share Option Scheme.

1. Number of the underlying shares in respect of the Share Options under the Grant

The total number of the underlying shares in respect of the Share Options proposed to be granted pursuant to the Share Option Scheme is 46,680,000 A Shares, representing approximately 0.95% of the Company's total issued share capital as of the Latest Practicable Date.

2. Distribution of the Share Options proposed to be granted under the Share Option Scheme

The total number of proposed Participants to whom the Share Options are proposed to be granted is 502, comprising Directors, senior management, mid-level management and core employees of the Company. The distribution details are set out as follows:

Number	Position(s)	Name	Number of the Share Options proposed to be granted (,000 A Shares)	Percentage	Percentage
				to total of the Share Options proposed to be granted (%)	issued share capital of the Company as at the Latest Practicable Date (%)
1	Director, General Manager	Wu Xiangqian	320	0.69	0.01
2	Deputy General Manager	Liu Jian	260	0.56	0.01
3	Deputy General Manager	Zhao Honggang	260	0.56	0.01
4	Director, Chief Financial Officer	Zhao Qingchun	260	0.56	0.01
5	Deputy General Manager	He Jing	260	0.56	0.01
6	Deputy General Manager	Gong Zhijie	260	0.56	0.01
7	Secretary to the Board	Jin Qingbin	260	0.56	0.01
	Other personnel (495)		44,800	95.97	0.91
	Total		46,680	100.00	0.95

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Note: Some figures shown as totals herein may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

The proposed plan of the Share Option Scheme, including but not limited to the proposed distribution of the Grant as set out above, has been approved by the Remuneration Committee and has been made available for review and opinion of the Independent Directors and the Supervisory Committee. Proposed Grant to each of the above-mentioned Directors has been approved by the Independent Directors in compliance with Rule 17.04(1) of the Listing Rules.

Mr. Wu Xiangqian and Mr. Zhao Qingchun have irrevocably and unconditionally undertaken to the Company in writing respectively, that after the Scheme is approved by the EGM and the Class Meetings and the Grant is confirmed by the Board, they will accept the Grant of relevant Share Options (“**Grantee Directors’ Undertaking**”).

3. Proposed Date of Grant

The Date of Grant is subject to approval by Yankuang Group, filing with the SASAC of Shandong Province, and the consideration and approval at the EGM and the Class Meetings. The Company shall grant the Share Options and complete the announcement and registration procedures within 60 days after the approval of the Share Option Scheme. If the Company fails to complete the above procedures within 60 days (including the acceptance of the Share Options by the Participants), the Scheme will be terminated and the Share Options to be granted will lapse.

4. Exercise Price and basis of determination

The Exercise Price pursuant to the proposed Share Option Scheme is RMB9.64 per A Share. The Exercise Price shall not be less than the nominal value of the Company’s A Shares or the higher of:

- (1) the average trading price of the A Shares quoted on the Shanghai Stock Exchange on the trading day immediately preceding the date of announcement of the Scheme, being RMB8.92 per A Share;
- (2) the average trading price of the A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the date of announcement of the Scheme, being RMB9.58 per A Share;
- (3) the closing price of the A Shares quoted on the Shanghai Stock Exchange on the trading day immediately preceding the date of announcement of the Scheme, being RMB8.75 per A Share; and
- (4) the average closing price of the A Shares quoted on the Shanghai Stock Exchange for the 30 trading days immediately preceding the date of announcement of the Scheme, being RMB9.64 per A Share.

“Trading day” under this paragraph has the same meaning as under the Listing Rules of the Shanghai Stock Exchange.

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III. MECHANISM FOR SPECIFIC OCCURRENCES TO THE COMPANY OR THE PARTICIPANTS UNDER THE SHARE OPTION SCHEME**1. Occurrences in relation to the Company**

- (1) On occurrence of any of the following circumstances in respect of the Company, the Scheme shall be terminated and the outstanding Options granted and not exercised by the Participants shall be cancelled by the Company:
 - (i) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public account with respect to the financial report of the Company for its most recent accounting year;
 - (ii) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public account with respect to the internal control of the Company in its financial report for the most recent accounting year;
 - (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months after listing of its securities on a stock exchange;
 - (iv) under applicable laws and regulations, no equity incentive is allowed; and
 - (v) such other circumstances as determined by the CSRC.
- (2) On occurrence of any of the following circumstances in respect of the Company, the Scheme shall not be amended:
 - (i) change in control of the Company; and
 - (ii) merger and spin-off of the Company.
- (3) Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with conditions of the Grant or arrangements for exercise of the Share Options, all outstanding Share Options shall be cancelled by the Company. In respect of the Share Options already exercised by relevant Participants, the Participants concerned shall return to the Company all interests granted. The Participants who bear no responsibility for the aforesaid matters and who incur losses as a result of the return of the Share Options granted may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the Scheme. The Board shall withdraw the gains by the Participants in accordance with the aforesaid requirements and the relevant arrangements under the Scheme.

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2. Occurrences in relation to the Participants***(1) Change of position***

Where the position of a Participant changes as arranged by the Company for the requirements of the Company's work, as long as he or she still works at the Company (including its branches, controlled subsidiaries or dispatched by the Company to work elsewhere), the Share Options granted to him or her shall be exercised in accordance with the requirements under the Scheme prior to the change of his or her position, individual performance assessment shall be executed in accordance with the performance assessment scheme of the new position; however, in the event of any of the following circumstances in respect of the Participants, the Share Options granted to him or her but not yet exercised shall lapse. For the exercised Share Options, the Company may request the Participants to return the gains arose from the Share Option Scheme.

- (a) violation of the PRC laws and regulations, the Articles of Association or the Company's code of internal control, or negligence or misconduct provided in the labor contracts, which may result in material damage to the interests or reputation of the Company, or causing direct or indirect economic losses to the Company;
- (b) be dismissed due to severe violations of the Company's rules and regulations, and in accordance with the requirements under the Company's reward and punishment management regulations for employees;
- (c) where the Company has sufficient evidence to prove that the Participant, during his or her tenure, is involved in bribery, solicitation of bribes, corruption, theft, divulging operational and technological secrets of the Company and other illegal or unethical activities which damage the interests and reputation of the Company, thereby causing loss to the Company directly or indirectly;
- (d) where the Participant shall take criminal responsibilities due to criminal behaviours; and
- (e) violation of relevant laws and regulations or the provisions of the Articles of Association, causing undue damage to the Company.

(2) Cessation of service

For cessation of service due to retirement, the Share Options which are exercisable but not exercised shall retain the right to exercise and shall be exercised within six months by the relevant Participant at the date of the occurrence, and his or her Share Options which are not exercisable shall lapse. For cessation of service due to resignation, layoff or termination of engagement

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due to personal reasons, all of the outstanding Share Options granted and not exercised by the relevant Participants shall not be exercised and will be cancelled by the Company on the date of occurrence of the aforesaid circumstances.

(3) Occurrences of restricted implications

On occurrence of any of the following circumstances in respect of a Participant, all of the outstanding Share Options granted and not exercised by the Participant from the date of occurrence shall be recovered and cancelled by the Company without compensation:

- (a) he or she becomes an Independent Director or supervisor, etc. who cannot hold the Share Option of the Company;
- (b) he or she has been held by the Shanghai Stock Exchange as an unsuitable person in the last 12 months;
- (c) he or she has been held by the CSRC or its derived agencies as an unsuitable person in the last 12 months;
- (d) he or she has been imposed by the CSRC or any of its derived agencies with administrative penalties or measures prohibiting access into the market in the last 12 months by reason of material violation of laws and regulations;
- (e) he or she is under the Company Law prohibited from acting as a Director or a member of the senior management of the Company;
- (f) he or she is under applicable laws and regulations not allowed to participate in an equity incentive scheme of a listed company; and
- (g) such other circumstances as determined by the CSRC.

(4) Incapability

The resignation of Participants due to incapacity shall be treated depending on the following two circumstances:

- (a) If a Participant resigns due to incapacity resulting from performance of duties, at the date of the occurrence, the outstanding Share Options shall be fully subject to the procedures under the Scheme in accordance with the case prior to the incapacity. The Board may decide that the individual performance assessment results no longer form a condition of exercise of the Participant; and
- (b) If a Participant resigns not due to incapacity resulting from performance of duties, the outstanding Share Options shall lapse at the date of the occurrence.

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(5) *Death*

The death of Participants shall be treated depending on the following two circumstances:

- (a) If a Participant should decease due to the performance of duties, at the date of the occurrence, the outstanding Share Options shall be held by his or her designated heir or lawful heir on his or her behalf, and shall be subject to the procedures under the Scheme in accordance with the case prior to the death. The Board may decide that the individual performance assessment results no longer form a condition of exercise of the Participant; and
- (b) If a Participant should decease due to other reasons, the outstanding Share Options shall lapse at the date of the occurrence.

(6) *Other circumstances not stated above and the handling method thereof shall be determined by the Remuneration Committee.*

IV. ACCOUNTING TREATMENTS

Pursuant to the relevant requirements in respect of fair value determination under the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (the “Accounting Standards for Business Enterprise No. 22”), a suitable pricing model is required to be applied to compute the fair value of share options. As such, the Black-Scholes Model has been applied to precompute the fair value of the Share Options (definitive computation will be done on the Date of Grant).

Pursuant to the relevant requirements under Accounting Standards for Business Enterprises No.11 – Share-based Payments (the “Accounting Standards for Business Enterprise No. 11”), the Company will update the number of Share Options expected to be exercisable on each balance sheet day during the vesting period with reference to such subsequent information as the latest available number of Participants entitled to exercise the Share Options and the status of attainment of the performance targets. Services received during the period will be charged to relevant costs or fees and capital reserve based on the fair value on the Date of Grant.

By applying the Black-Scholes Model as the pricing model, the fair value of each Share Option amounted to RMB1.90. Parameters were as follows:

- (1) **price of the underlying shares of the Company:** RMB8.75 (assuming the closing price of the A Shares on the Date of Grant quoted on the Shanghai Stock Exchange is RMB8.75);
- (2) **expected life:** 4 years;
- (3) **historical volatility:** 26.44% (the volatility rate of the Shanghai Stock Exchange Component Index for the last four years adopted); and

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- (4) **risk-free interest rate:** 2.98% (the four-year yield to maturity of the treasury bond adopted).

The Company will determine the fair value of the Share Options on the Date of Grant with the relevant tools of valuation and ultimately recognise the share-based payment expenses in respect of the Share Option Scheme. Such expenses will be recognised at phases along the implementation process of the Share Option Scheme with reference to proportion of the Share Options exercised. The incentive costs incurred in respect of the Share Option Scheme will be recorded as recurring items.

Assuming the grant of Share Options takes place in early February 2019, the amortisation costs of Share Options from 2019 to 2023 will be as follows:

Amount of Share Options	Costs of Share Options	2019	2020	2021	2022	2023
		<i>('0,000 RMB)</i>	<i>('0,000 RMB)</i>	<i>('0,000 RMB)</i>	<i>('0,000 RMB)</i>	<i>('0,000 RMB)</i>
<i>(‘0,000)</i>	<i>(‘0,000)</i>					
4,668	8,869.20	2,926.84	3,192.92	1,851.45	835.18	62.81

The above is not the final definitive costs which would, amongst others, relate to the actual numbers of Share Options exercisable and lapsed, the actual Date of Grant and the closing price of A Shares on the Date of Grant. Shareholders are also reminded to be aware of the possible amortisation. All effects on the operating results of the Company will be subject to annual financial accounts audited by the external auditor of the Company. Shareholders shall be aware that any calculation of the value of the Share Options as at the Latest Practicable Date is uncertain based on a great number of assumptions and is subject to the limitation of the model.

APPENDIX II THE ASSESSMENT METHODS IN RESPECT OF THE IMPLEMENTATION AND MANAGEMENT OF THE SHARE OPTION SCHEME

I. PURPOSE OF THE ASSESSMENT METHODS

The purpose of the assessment methods is to further improve the corporate governance structure of the Company, develop a sound appraisal system for assessing the performance targets of the Participants and establish a mechanism of the effects of incentives and restraints that aligns responsibilities, rights and interests and to incentivize the Participants to perform duties with honesty and diligence, so that the development strategies and operation objectives of the Company can be attained, the sustainable development of the Company can be furthered and the implementation of the Share Option Scheme can be smoothened.

II. PRINCIPLE OF THE ASSESSMENT

The principles of assessment are impartiality, openness and fairness. Assessment should be conducted in strict accordance with the methods herein and the performance targets of the Participants so as to align the Share Option Scheme and the work performance and contribution of the Participants, which would in turn help enhance performance and maximize the interests of Company and the Shareholders.

III. ASSESSMENT AND IMPLEMENTATION BODIES

The Board shall be responsible for the review and approval of these assessment methods. The Remuneration Committee shall be responsible for the leadership and organization of the assessment. The human resources department and financial management department of the Company are responsible for collecting and providing statistics relevant to the performance assessment of the Participants and are accountable for the truthfulness and accuracy of the performance assessment. The human resources department of the Company is further responsible for coordinating with the financial management department of the Company to calculate the actual exercise quota of the Participants and to collect materials relevant to the assessment results. The Remuneration Committee will then consider the assessment results of the Participants and make decisions.

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IV. PERFORMANCE TARGET AND REQUIREMENTS

1. Performance Targets of the Company

The exercise of the Share Options to be granted under the Scheme are subject to the performance targets in the Assessment Years from the financial year of 2019 through the financial year of 2021. Assessment will be made once a financial year. The conditions of performance assessment for each year are as follows:

Exercise Period	Conditions of performance assessment
First Exercise Period	<ol style="list-style-type: none">1. The growth rate on net profit for year 2019 (i) shall not be lower than 139%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers;2. Earnings per share for year 2019 (i) shall not be lower than RMB1.20 per share, and (ii) shall not be lower than the average earnings per share of industry peers.
Second Exercise Period	<ol style="list-style-type: none">1. The growth rate on net profit for year 2020 (i) shall not be lower than 149%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers;2. Earnings per share for year 2020 (i) shall not be lower than RMB1.25 per share, and (ii) shall not be lower than the average earnings per share of industry peers.
Third Exercise Period	<ol style="list-style-type: none">1. The growth rate on net profit for year 2021 (i) shall not be lower than 159%, as compared to the average net profit for years 2015 to 2017, and (ii) shall not be lower than the average net profit of industry peers;

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Exercise Period

Conditions of performance assessment

2. Earnings per share for year 2021 (i) shall not be lower than RMB1.30 per share, and (ii) shall not be lower than the average earnings per share of industry peers.

Notes:

1. With reference to all A share listed companies under the classification of “mining industry – coal mining and dressing industry” according to the industry classification of the CSRC. If there are major changes in business structures of the peer sample companies or extreme values with excessive performance variation, the Board will remove or change such sample during the assessment.
2. “The growth rate on net profits” indicator is calculated based on the net profits attributable to the Shareholders, net of non-recurring gains and losses.
3. Earnings per share refer to the ratio of the net profits attributable to the ordinary Shareholders to the total share capital of the Company after deducting non-recurring gains and losses. During the Validity Period, in cases of capitalization of capital reserves, bonus issue and stock issue which will affect the total number of issued shares of the Company, the Company’s total number of shares involved will be adjusted accordingly, and the target value of earnings per share will be adjusted in accordance with the adjustment of the Company’s total number of shares.

Participants may exercise the Share Options under the Scheme upon satisfaction of the conditions of exercise of the Share Options. On the contrary, the Share Options granted to and exercisable by the Participants shall be cancelled by the Company under the Scheme if the conditions of exercise of the Share Options are not satisfied.

2. Performance Targets of the Participants

Assessment of Participants shall be conducted annually in accordance with the 2018 Performance Assessment Measures of Share Option Incentive Scheme (《2018年股票期權激勵計劃實施考核管理辦法》) of the Company. The assessment results are determined based on the indicators of personal performance assessment. The performance assessment is conducted with reference to the following items:

Assessment Result	Excellent (A)	Good (B)	Passed (C)	Failed (D)
Standard Coefficient	1.0	1.0	0.8	0

Actual exercise quota of a Participant for a year = Standard coefficient × exercise quota of the Participant under the Scheme for the year.

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If Participants fail in the assessment, the Share Options granted but not yet exercised in the corresponding Exercise Period will be cancelled by the Company pursuant to relevant requirements of the Scheme.

Assessment results of the Participants will be filed and maintained for at least five years.

3. Feedback and grievance

Participants who differ about their assessment results may communicate with the corresponding assessment bodies and, if failed, may lodge their cases with the Remuneration Committee which shall within 10 business days reply thereto.

These assessment methods take effect upon approval of Shareholders and in event of conflict with applicable laws, rules and regulations, such applicable laws, rules and regulations shall prevail.