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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities in the Company.

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兗礦能源集團股份有限公司

**YANKUANG ENERGY GROUP COMPANY LIMITED\***

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

**(Stock Code: 1171)**

**(1) PROPOSED ADOPTION OF THE RESTRICTED A SHARE  
INCENTIVE SCHEME;  
AND  
(2) CONNECTED TRANSACTION – GRANT OF RESTRICTED A  
SHARES TO THE CONNECTED PARTICIPANTS UNDER THE  
INCENTIVE SCHEME**

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



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The notices convening the EGM and the H Shareholder's Class Meeting to be held at the headquarters of the Company at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 a.m. on 27 January 2022 was published on 4 January 2022.

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

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

\* For identification purposes only

12 January 2022

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## DEFINITIONS

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

“A Share(s)”	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the SSE
“A Shareholder(s)”	holder(s) of A Share(s)
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be held at the headquarters of the Company at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 10:00 a.m. on 27 January 2022, to consider and, if thought fit, approve, among other things, adoption of the Restricted A Share Incentive Scheme and the related matters
“Administrative Measures”	Measures for the Administration of Equity Incentives of Listed Companies (CSRC Order [No.148])
“Articles of Association”	the Articles of Association of Yankuang Energy Group Company Limited*
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Class Meetings”	the Class Meeting of the Holders of A Shares and the Class Meeting of the Holders of H Shares
“Company”	Yankuang Energy Group Company Limited* (兗礦能源集團股份有限公司), a joint stock limited company established under the laws of the PRC in 1997, and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange (1171.HK) and the SSE (600188.SH), respectively
“Company Law”	the Company Law of the People’s Republic of China
“Connected Participants”	participant(s) who is/are connected person(s) of the Group
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

\* For identification purposes only

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## DEFINITIONS

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“connected transaction”	has the meaning ascribed to it under the Listing Rules
“CSDC”	China Securities Depository and Clearing Corporation Limited
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting to be held at the headquarters of the Company at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 a.m. on 27 January 2022, to consider and, if thought fit, approve, among other things, adoption of the Restricted A Share Incentive Scheme and the related matters
“General Meeting(s)”	the EGM and Class Meetings
“Grant”	the proposed grant of 62,980,000 Restricted A Shares to the Participants under the Incentive Scheme
“Grant Date”	the date on which the Company grants the Restricted A Shares to the Participants, which shall be a trading day
“Grant Price”	the price of each Restricted A Share to be granted to the Participants by the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas-listed foreign-invested shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“H Shareholder(s)”	holder(s) of H Share(s)
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be held at the headquarters of the Company at 949 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 10:30 a.m. on 27 January 2022, to consider and, if thought fit, approve, among other things, adoption of the Restricted A Share Incentive Scheme and the related matters

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee comprising all independent non-executive Directors to be established by the Company to advise the Independent Shareholders in relation to grant of Restricted A Shares to the Connected Participants under the Incentive Scheme
“Independent Financial Adviser”	Donvex Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, which is appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of grant of Restricted A Shares to the Connected Participants under the Incentive Scheme
“Independent Shareholder(s)”	any Shareholder(s) of the Company that is not required to abstain from voting on the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme and the related matters at the EGM
“Latest Practicable Date”	7 January 2022, being the latest practicable date of ascertaining certain information contained in this circular before the issuing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lock-up Periods”	the period(s) during which the Restricted Shares to be granted to the Participants under the Incentive Scheme shall not be transferred, pledged or used for repayment of debt
“Notice”	the Notice on Issues concerning Regulating the Implementation of the Equity Incentive System of State-owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171)

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## DEFINITIONS

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“Participant(s)”	the Director(s), senior and middle-level management, and key personnel will be granted the Restricted Shares pursuant to the provisions of the Incentive Scheme
“PRC”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Remuneration Committee”	the remuneration committee of the Board
“Restricted A Shares” or “Restricted Shares”	certain amount of the A Share(s) to be granted to the Participants by the Company according to the conditions and price stipulated in the Incentive Scheme which are subject to the Lock-up Period(s) and can only be unlocked and transferred after satisfaction of the Unlocking Conditions as stipulated in the Incentive Scheme
“Restricted A Share Incentive Scheme”, “Incentive Scheme” or “Scheme”	the 2021 Restricted A Share Incentive Scheme of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Energy”	Shandong Energy Group Company Limited* (山東能源集團有限公司), a state-owned company with limited liability, the controlling shareholder of the Company holding directly and indirectly approximately 55.76% of the total issued share capital of the Company as at the Latest Practicable Date
“SASAC of Shandong Province”	State-owned Assets Supervision & Administration Commission of Shandong Province
“Securities Law”	the Securities Law of the PRC
“SSE”	the Shanghai Stock Exchange in the PRC
“Share(s)”	the ordinary shares in the share capital of the Company with par value of RMB1.00 each, including A Share(s) and H Share(s)
“Shareholder(s)”	the shareholder(s) of the Company, including A Shareholder(s) and H Shareholder(s)

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## DEFINITIONS

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“substantial Shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Unlocking Conditions(s)”	the condition(s) prescribed in the Incentive Scheme which have to be satisfied to unlock the Restricted Shares granted to the Participants
“Unlocking Period(s)”	the period(s) during which the Restricted Shares held by the Participants can be unlocked and transferred after all the Unlocking Conditions prescribed under the Incentive Scheme are satisfied
“%”	per cent

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## LETTER FROM THE BOARD

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兗礦能源集團股份有限公司

**YANKUANG ENERGY GROUP COMPANY LIMITED\***

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

**(Stock Code: 1171)**

*Directors:*

Li Wei  
Liu Jian  
Xiao Yaomeng  
Zhu Qingrui  
Zhao Qingchun  
Wang Ruolin  
Huang Xiaolong

*Independent non-executive Directors:*

Tian Hui  
Zhu Limin  
Cai Chang  
Poon Chiu Kwok

*Registered office:*

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

*Principal place of business  
in Hong Kong:*

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

12 January 2022

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED ADOPTION OF THE RESTRICTED A SHARE  
INCENTIVE SCHEME;**

**AND**

**(2) CONNECTED TRANSACTION – GRANT OF RESTRICTED  
A SHARES TO THE CONNECTED PARTICIPANTS UNDER  
THE INCENTIVE SCHEME**

**I. INTRODUCTION**

The purpose of this circular is to provide you with information relating to proposed adoption of the Restricted A Share Incentive Scheme and the Connected Transaction of grant of Restricted A Shares to the Connected Participants under the Incentive Scheme.

\* For identification purposes only



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## LETTER FROM THE BOARD

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### II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME

#### 1. Purpose of Implementing the Incentive Scheme

For the purpose of further perfecting the medium-term to long-term incentive mechanism, fully mobilising the enthusiasm of the management and key personnel of the Company, aligning the interests of the Shareholders, the Company and the core team, and enhancing the Company's market competitiveness and sustainable development, the Company intends to implement the Incentive Scheme in accordance with relevant requirements of the Company Law, the Securities Law, the Notice and the Administrative Measures.

#### 2. Method of Share Incentive and source of underlying Shares

The method adopted by the Incentive Scheme is the Restricted Shares. The source of underlying Shares shall be the Company's RMB-dominated ordinary A Shares to be issued specifically by the Company to the Participants.

#### 3. Number of Restricted Shares to be granted

The number of the Restricted Shares proposed to be granted under the Incentive Scheme is 62,980,000 Shares (being the maximum number of Restricted A Shares that can be issued pursuant to the Incentive Scheme), representing 1.29% of the Company's total share capital of 4,874,184,060 Shares as at the Latest Practicable Date.

After implementation of the Incentive Scheme, the total number of underlying Shares involved under all effective share incentive schemes of the Company shall not exceed 10% of the total share capital of the Company. The total number of Shares of the Company to be granted to any Participant under all effective share incentive scheme shall not, in aggregate, exceed 1% of the total share capital of the Company as at the date of the announcement of the draft Incentive Scheme.

During the period from the date of the announcement of the draft Incentive Scheme to the completion of registration of the Restricted Shares of the Participants, in case of any conversion of capital reserve into share capital, bonus issue, share split or share consolidation or rights issue made by the Company, the number of Restricted Shares and total number of underlying Shares involved shall be adjusted accordingly.

#### 4. Details of basis for determining the Participants, scope of the Participants and allocation of the Restricted Shares to be granted among the Participants

##### *(I) Basis for determining the Participants*

The Participants of the Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Administrative Measures as well as other relevant laws, regulations and the Articles of Association by taking into account the actual situation of the Company.

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## LETTER FROM THE BOARD

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### *(II) Scope of the Participants*

The total number of Participants under the Incentive Scheme shall be 1,268, specifically includes:

1. Directors (excluding external Directors) and senior management;
2. Middle-level management;
3. Key personnel.

The key personnel include key technical staffs, key skilled staffs, and key business personnel. Specific selection criteria are as follows:

- a. Key technical staffs: technical experts of the Company and professional technology (discipline) leaders.
- b. Key skilled staffs: outstanding skilled production personnel who own various workshops such as “innovative workshop” and “model worker workshop”, or are honoured as the “great country craftsmen”, “craftsmen of Shandong Energy” or above, or are awarded titles at the Shandong provincial level and above.
- c. Key business personnel: employees who are at the deputy head level or above in their departments or sections, and have worked in the Company for three years. Also, their annual appraisal results of management and technical personnel should be “competent” or above in 2019 and 2020, and “excellent” for at least one year. Among them, priority will be given to underground team leaders, production line workshop leader, outstanding professional and technical personnel, and model workers (at the Group and prefectural level).

Key personnel of criteria a and b are directly included in the scope of the Participants and those of criteria c are determined to be included in the scope of the Participants after investigation in accordance with relevant procedures.

The Participants under the Incentive Scheme do not include the external Directors, the Supervisors and any Shareholder or actual controller, whether jointly or individually, holding more than 5% of the Shares of the Company, or their respective spouses, parents and children.

Among the above Participants, Directors and senior management must be elected by the Shareholders at general meetings, employee representative meeting or appointed by the Board. All Participants must be employed by the Company or a controlled subsidiary upon the grant of the Scheme and have entered into a labour contract or an employment contract with the Company or a controlled subsidiary.

## LETTER FROM THE BOARD

All Participants of the Incentive Scheme shall not participate in share incentive schemes of other listed companies at the same time and those who have already participated in share incentive schemes of any other listed companies shall not participate in the Incentive Scheme. If the intended Participant has participated in the mid-term to long-term incentive scheme of an affiliated subsidiary, he/she can only choose between the Incentive Scheme and other mid-term to long-term incentive schemes and should, in principle, choose the Incentive Scheme.

### *(III) Allocation of the Restricted Shares to be granted among the Participants*

The allocation of the Restricted Shares to be granted among the Participants under the Incentive Scheme is set out in the table below:

Name	Position	Total number of the Restricted Shares to be granted (10,000 Shares)	Proportion of the Restricted Shares to be granted to the total number of the Restricted Shares	Proportion of the Restricted Shares to the total share capital
Xiao Yaomeng (“Mr. Xiao”)	Secretary to the party committee of the Company (“Party Committee”), director and general manager	20	0.32%	0.004%
Wang Ruolin (“Mr. Wang”)	Deputy secretary to the Party Committee, chairman of the labour union of the Company (the “Labour Union”) and employee director	16	0.25%	0.003%
Gong Zhijie	Deputy general manager	16	0.25%	0.003%
Zhang Yanwei	Deputy general manager	16	0.25%	0.003%
Zhao Qingchun (“Mr. Zhao”)	Director and chief financial officer	16	0.25%	0.003%
Zhang Chuanchang	Deputy general manager	16	0.25%	0.003%
Tian Zhaohua	Deputy general manager	16	0.25%	0.003%
Liu Qiang	Deputy general manager	16	0.25%	0.003%
Li Weiqing	Deputy general manager	16	0.25%	0.003%
Huang Xiaolong (“Mr. Huang”)	Director and secretary to the Board	16	0.25%	0.003%
Total of the above Directors and senior management (10 persons)		164	2.60%	0.034%
Total of other Participants (1,258 persons)		6,134	97.40%	1.26%
Total		6,298	100.00%	1.29%

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## LETTER FROM THE BOARD

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*Note: Any difference between the figures shown as totals and the sum of the corresponding figures above results from the rounding of the above data.*

### 5. Grant Price of the Restricted Shares and basis for determination thereof

#### *(I) Grant Price*

The Grant Price of the Restricted Shares under the Incentive Scheme is RMB11.72 per Share, i.e., the Participants who have satisfied the conditions of grant can subscribe for the Restricted Shares to be issued by the Company to them at the price of RMB11.72 per Share.

#### *(II) Basis for determining the Grant Price*

The Grant Price shall not be lower than the nominal value of the Shares, and shall not be lower than 50% of the fair market price, the fair market price being determined at the higher of:

- Basis 1: the average trading price of the Company's underlying Shares on the trading day preceding the date of the announcement of the draft Incentive Scheme (i.e. RMB23.44);
- Basis 2: one of the average trading prices of the Company's underlying Shares in the 20 trading days, 60 trading days or 120 trading days prior to the date of the announcement of the draft Incentive Scheme (i.e. RMB23.29, RMB27.03 and RMB22.25, respectively).

Details are set out in the table below:

	Basis 1	Basis 2			The minimum Grant Price
	1 trading day	20 trading days	60 trading days	120 trading days	
	RMB	RMB	RMB	RMB	RMB
Average trading price of A Share	23.44	23.29	27.03	22.25	–
50% of the average trading price of A Share	11.72	11.65	13.52	11.13	11.72

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## LETTER FROM THE BOARD

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### 6. Schedule of the Incentive Scheme

#### *(I) Validity period*

The validity period of the Scheme is from the date of registration of the Grant of the Restricted Shares to the date when all the Restricted Shares which have been granted to the Participants are unlocked or repurchased and cancelled, and shall not exceed 60 months in any event.

#### *(II) Grant Date*

The Grant Date shall be determined by the Board after the Incentive Scheme has been reviewed and approved by Shandong Energy, filed by SASAC of Shandong Province, and considered and approved at the General Meetings. The Grant Date shall be a trading day.

Within 60 days after the Scheme is considered and approved at the General meetings, and the conditions for the grant are satisfied, the Company shall convene a Board meeting to grant the Restricted Shares to Participants under the Incentive Scheme according to relevant provisions and complete registration, announcement and other relevant procedures. If the Company fails to complete the aforesaid tasks within 60 days, the Incentive Scheme will be terminated and the ungranted Restricted Shares shall lapse.

The Company shall not grant the Restricted Shares during following periods:

1. 30 days prior to the publication of periodic reports of the Company. Where there is a delay in publishing such reports due to special circumstances, the period shall be 30 days prior to the original date of publication to the day before the actual date of publication.
2. 10 days prior to the publication of the Company's estimated operating results announcements or preliminary performance results announcements.
3. the period from the date of occurrence of any significant event which may have a material impact on the trading prices of the Company's Shares and their derivatives or the date on which the relevant decision-making procedures begin, to the second trading day after disclosure is made in accordance with laws.
4. other periods as stipulated by the CSRC and the SSE.

The abovementioned periods within which the Company is restricted from granting the Restricted Share are excluded from the 60-day limit.

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## LETTER FROM THE BOARD

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### *(III) Lock-up Periods*

The Lock-up Periods of the Incentive Scheme shall be 24 months, 36 months and 48 months from the date of completion of registration of the grant of the Restricted Shares. The Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

The Shares and dividends obtained by the Participants due to the grant of the Restricted Shares not yet unlocked to them arising from conversion of capital reserve into share capital, bonus issue, share split, etc. shall be subject to locking in accordance with this Incentive Scheme. If the Company repurchases the Restricted Shares not yet unlocked, such shares shall be repurchased and cancelled at the same time.

### *(IV) Unlocking arrangements*

The Unlocking Periods of the Restricted Shares to be granted under Incentive Scheme and arrangements for each Unlocking Period are set out in the table below:

<b>Unlocking arrangements</b>	<b>Unlocking Periods</b>	<b>Proportion of Restricted Shares to be unlocked</b>
First Unlocking Period	Commencing from the first trading day upon the expiry of 24 months from the date of the completion of registration of the Restricted Shares to the last trading day upon the expiry of 36 months from the date of the completion of registration of the Restricted Shares	33%
Second Unlocking Period	Commencing from the first trading day upon the expiry of 36 months from the date of the completion of registration of the Restricted Shares to the last trading day upon the expiry of 48 months from the date of the completion of registration of the Restricted Shares	33%

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## LETTER FROM THE BOARD

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Unlocking arrangements	Unlocking Periods	Proportion of Restricted Shares to be unlocked
Third Unlocking Period	Commencing from the first trading day upon the expiry of 48 months from the date of the completion of registration of the Restricted Shares to the last trading day upon the expiry of 60 months from the date of the completion of registration of the Restricted Shares	34%

**(V) Black-out periods**

The black-out period refers to the period during which the shares are restricted from being sold after the Grant of Shares to the Participants. The provisions for black-out periods under the Incentive Scheme shall be implemented in accordance with the Company Law, the Securities Law and other relevant laws, regulations and regulatory documents and the Articles of Association, including but not limited to:

- (1) If a Participant is a Director or a member of senior management, the number of Shares that may be transferred each year during the term of office of the Participant shall not exceed 25% of the total number of Shares of the Company held by such Participant. No Shares shall be transferred within the six months after the Participant has left his or her office.
- (2) If a Participant is a Director and a member of senior management and sells any Shares of the Company which were purchased within the last six months, or purchases Shares in the six months following a disposal, all gains arising therefrom shall belong to the Company and be recovered by the Board.
- (3) If, during the validity period of the Incentive Scheme, there is any change in the provisions of the Company Law, the Securities Law and other relevant laws, regulations and regulatory documents and the Articles of Association regarding transfer of the Shares held by a Director or a member of senior management, the relevant Participants shall comply with the relevant amended provisions prevailing at the time of share transfer.

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## LETTER FROM THE BOARD

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### **7. Conditions of Grant and unlocking of Restricted Shares under Incentive Scheme**

#### ***(I) Conditions of the Grant***

Restricted Shares shall only be granted to Participants when the following conditions of the Grant are satisfied. In other words, no Restricted Shares shall be granted to the Participants if any of the following conditions of grant has not been satisfied.

1. There is no occurrence of any of the following on the part of the Company:
  - (1) issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's financial accounting report for the most recent accounting year;
  - (2) issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's internal control over financial reporting for the most recent accounting year;
  - (3) failure to carry out profit distribution in accordance with the laws and regulations, the Articles of Association or public undertakings during the latest 36 months after listing;
  - (4) prohibition from implementation of any equity incentive scheme by applicable laws and regulations; and
  - (5) any other circumstances as prescribed by the CSRC.
2. A Participant shall not be a person who:
  - (1) has been deemed as an inappropriate candidate by the SSE in the last 12 months;
  - (2) has been deemed as an inappropriate candidate by the CSRC or any of its dispatch agencies in the last 12 months;
  - (3) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatch agencies due to material breach of laws and regulations in the last 12 months;
  - (4) is prohibited from acting as a director or a member of the senior management of the Company under the Company Law;



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## LETTER FROM THE BOARD

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- (5) is not allowed to participate in any equity incentive scheme of a listed company under laws and regulations; or
  - (6) falls under any other circumstances as prescribed by the CSRC.
3. The operation results of the Company shall have reached the appraisal conditions, that is:
- (1) In 2020, the net profit of the Company shall not less than RMB6.5 billion, and the growth rate shall not less than the industry average in 2019;
  - (2) The Company's earnings per share in 2020 shall not less than RMB1.3 per share and shall not less than the industry average.

*Notes:*

- (1) With reference to all 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 of the Company will remove or change such sample during the assessment, hereinafter the same.
- (2) "The growth rate on net profits" is calculated based on the net profits attributable to the Shareholders after deducting non-recurring gains and losses in accordance with China Accounting Standards for Business Enterprises, hereinafter the same.
- (3) Earnings per share refer to the ratio of the net profits attributable to the ordinary Shareholders after deducting non-recurring gains and losses to the total share capital of the Company in accordance with China Accounting Standards for Business Enterprises. During the validity period of the Incentive Scheme, in cases of any conversion of capital reserve into share capital, bonus issue and stock issue which will affect the total number of share capital of the Company, the Company's total number of share capital 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 share capital, hereinafter the same.

In 2020, the Company recorded the net profit (after tax) of RMB6.53 billion and earning per share of RMB1.34 in accordance with China Accounting Standards for Business Enterprises, both of which were higher than the industry average and met the appraisal conditions under the Incentive Scheme.

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## LETTER FROM THE BOARD

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### *(II) Unlocking Conditions*

Within the Unlocking Periods, the Restricted Shares granted to a Participant may be unlocked only when all of the following conditions are satisfied:

1. There is no occurrence of any of the following on the part of the Company:
  - (1) issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's financial accounting report for the most recent accounting year;
  - (2) issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's internal control over financial reporting for the most recent accounting year;
  - (3) failure to carry out profit distribution in accordance with the laws and regulations, the Articles of Association or public undertakings during the 36 months after listing;
  - (4) prohibition from implementation of any equity incentive scheme by applicable laws and regulations;
  - (5) any other circumstances as prescribed by the CSRC.
2. A Participant shall not be a person who:
  - (1) has been deemed as an inappropriate candidate by the SSE in the last 12 months;
  - (2) has been deemed as an inappropriate candidate by the CSRC or any of its dispatch agencies in the last 12 months;
  - (3) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatch agencies due to material breach of laws and regulations in the last 12 months;
  - (4) is prohibited from acting as a director or a member of the senior management of the Company under the Company Law;
  - (5) is not allowed to participate in any equity incentive scheme of a listed company under laws and regulations;
  - (6) falls under any other circumstances as prescribed by the CSRC.

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## LETTER FROM THE BOARD

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In case of occurrence of any of the circumstances as stipulated in paragraph 1 above to the Company, all the Restricted Shares that have been granted to the Participants but not yet unlocked under the Incentive Scheme shall be repurchased and cancelled by the Company. In case of occurrence of any of the circumstances as stipulated in paragraph 2 to a Participant, the Restricted Shares that have been granted to such Participant but not yet unlocked under the Incentive Scheme shall be repurchased and cancelled by the Company.

### 3. Performance appraisal requirements at the Company's level

The appraisal period for unlocking the Restricted Shares granted under the Incentive Scheme is the three accounting years from 2022 to 2024. Annual appraisal shall be conducted in each accounting year for Participants to achieve the Company's performance assessment targets as the condition to unlock Restricted Shares.

Performance appraisal targets at the Company's level for each year are set out below:

Unlocking Period	Performance appraisal conditions
First Unlocking Period	<ol style="list-style-type: none"><li>1. On the basis of the net profit for 2020, the growth rate of net profit for 2022 shall not be lower than 45% as well as the industry average level;</li><li>2. Earnings per share for 2022 will be no less than RMB1.95 per share and no less than the industry average level.</li></ol>
Second Unlocking Period	<ol style="list-style-type: none"><li>1. On the basis of the net profit for 2020, the growth rate of net profit for 2023 shall not be lower than 53% as well as the industry average level;</li><li>2. Earnings per share for 2023 will be no less than RMB2.05 per share and no less than the industry average level.</li></ol>
Third Unlocking Period	<ol style="list-style-type: none"><li>1. On the basis of the net profit for 2020, the growth rate of net profit for 2024 shall not be lower than 60% as well as the industry average level;</li><li>2. Earnings per share for 2024 will be no less than RMB2.15 per share and no less than the industry average level.</li></ol>

*Note:*

- (1) "Net profits" refer to the net profit attributable to the shareholders of the listed company after deducting non-recurring gains and losses in accordance with China Accounting Standards for Business Enterprises.
- (2) "Earnings per share" refer to the ratio of the net profits attributable to the shareholders of the listed company after deducting non-recurring gains and losses to the total share capital of the Company in accordance with China Accounting Standards for Business Enterprises.

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## LETTER FROM THE BOARD

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If the Company's performance assessment targets for a particular Unlocking Period of the Restricted Shares are not met, all the Restricted Shares of the Participants for that period shall not be unlocked and shall be repurchased by the Company for cancellation at the Grant Price.

#### 4. Performance appraisal requirements at individual level

Participants are assessed by year in accordance with the Company's "Regulations Governing the Implementation of the 2021 Restricted A Share Incentive Scheme", and the assessment results are determined in accordance with the individual's performance appraisal indicators, with the following appraisal references:

<b>Assessment Result</b>	<b>Excellent (A)</b>	<b>Good (B)</b>	<b>Pass (C)</b>	<b>Fail (D)</b>
Unlocked Ratio	1.0	1.0	0.8	0

The actual amount of Restricted Shares to be released by an individual in the year = standard coefficient x the amount of Restricted Shares to be unlocked by the individual in the year. Restricted Shares that cannot be unlocked in the current period due to the results of the individual's performance appraisal shall be repurchased by the Company for cancellation at the Grant Price.

#### 5. Scientific and reasonable basis of appraisal indicators

The appraisal indicators for the Restricted Shares of the Company are divided into two levels, i.e. performance appraisal at the Company's level and performance appraisal at the Participant's individual level.

Performance appraisal indicators at the Company's level include the growth rate of net profits and earnings per Share. The growth rate of net profits reflects the actual profitability of the company while the earnings per share reflects the return to Shareholders and the level of value creation of the Company, which forms a well-established indicator system. In setting the performance appraisal indicators, the Company has taken into account the development and prospects of the industry in which the Company operates, the level of the Company's future performance and the Company's strategic development directions, and has set the Company's performance appraisal indicators under the Plan in a reasonable manner from the perspective of being conducive to the Company's sustainable development while being feasible and achievable. The setting of the abovementioned performance indicators of the Company is in line with the Company's current operating conditions and future development plans, and is conducive to strengthening the Company's profitability and maximising the interests of all Shareholders.

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## LETTER FROM THE BOARD

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In addition to the performance appraisal at the Company's level, the Incentive Scheme has established a structured performance appraisal system for individuals, which evaluates comprehensively the performance of the Participants in an accurate and all-round manner. The Company will determine whether the Participants meet the Unlocking Conditions and the specific percentage of Restricted Shares based on their performance appraisal results for the previous year.

### 8. Methods and procedures of the Incentive Scheme

#### *(I) Methods of adjusting the number of Restricted Shares*

During the period from the date of the announcement of the draft Incentive Scheme to the completion of registration of the Restricted Shares held by the Participants, in case of any conversion of capital reserve into share capital, bonus issue, share split, rights issue, share consolidation, etc. made by the Company, the number of Restricted Shares shall be adjusted accordingly. The adjustment methods are set out below:

1. Conversion of capital reserve into share capital, bonus issue and share split

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of conversion of capital reserve into share capital, bonus issue or share split per Share (i.e. increase in the number of Shares for each Share held upon conversion of capital reserve into share capital, bonus issue or share split);  $Q$  represents the number of the Restricted Shares after the adjustment.

2. Rights issue

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e., the ratio of the number of Shares issued under the rights issue to the Company's total share capital before the rights issue);  $Q$  represents the number of the Restricted Shares after the adjustment.

3. Share consolidation

$$Q = Q_0 \times n$$

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## LETTER FROM THE BOARD

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Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the share consolidation ratio (i.e., one Share of the Company will be consolidated into  $n$  Share);  $Q$  represents the number of the Restricted Shares after the adjustment.

4. Issuance of new shares

In case of issuance of new shares, the number of the Restricted Shares shall not be adjusted.

***(II) Method of Adjusting the Grant Price***

During the period from the date of the announcement of the draft Incentive Scheme to the completion of registration of the Restricted Shares held by the Participants, in case of any dividend distribution, conversion of capital reserve into share capital, bonus issue, share split, rights issue, share consolidation, etc. made by the Company, the Grant Price of the Restricted Shares shall be adjusted accordingly. The adjustment methods are set out below:

1. Conversion of capital reserve into share capital, bonus issue and share split

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the ratio of conversion of capital reserve into share capital, bonus issue or share split per Share;  $P$  represents the Grant Price after the adjustment.

2. Rights issue

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e., the ratio of the number of Shares issued under the rights issue to the Company's total share capital before the rights issue);  $P$  represents the Grant Price after the adjustment.

3. Share consolidation

$$P = P_0 \div n$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the share consolidation ratio;  $P$  represents the Grant Price after the adjustment.

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## LETTER FROM THE BOARD

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### 4. Dividend distribution

$$P = P_0 - V$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $V$  represents the dividend per Share;  $P$  represents the Grant Price after the adjustment.  $P$  shall be larger than 1 after the adjustment for dividend distribution.

### 5. Issuance of new shares

In case of issuance of new Shares, the Grant Price of the Restricted Shares shall not be adjusted.

### *(III) Adjustment procedures for the Incentive Scheme*

The General Meetings authorise the Board to make adjustments to the number of Restricted Shares and the Grant Price 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 Administrative 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 General Meetings.

## 9. Implementation procedures for the Incentive Scheme

### *(I) Procedures for effectuating the Scheme*

The Remuneration Committee established by the Board shall be responsible for preparing the Incentive Scheme.

The Board shall arrive at a resolution on the Incentive Scheme in accordance with the laws. When the Board is considering the Incentive Scheme or matters in relation to the implementation of the Incentive Scheme, any Director who is a Participant of the Scheme shall abstain from voting.

The independent Directors and the Supervisory Committee shall issue opinions in respect of whether the Incentive Scheme is beneficial to the Company's sustainable development and whether there is any apparent prejudice to the interests of the Company and all Shareholders.

The Company shall carry out self-investigation on the trading of shares of the Company and its derivatives by insiders during the 6-month period prior to the date of the announcement of the draft Incentive Scheme illustrate whether there is any insider trading. Those who trade in the shares of the Company while possessing insider information shall not become the Participants, except where

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## LETTER FROM THE BOARD

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laws, administrative regulations and relevant judicial interpretations deem not to be insider information. Those who leak insider information that results in insider trading shall not become the Participants.

The implementation of the Incentive Scheme is subject to the verification and approval of the Shandong Energy, filing by the SASAC and consideration and approval at the General Meetings. The Company shall internally publicise the list of Participants through the Company's website or other channels for a period of not less than 10 days prior to the convention of the General Meetings. The Supervisory Committee shall verify the list of Participants and thoroughly consider opinions from the public. The Company shall disclose the explanation of the Supervisory Committee on the verification and publication in respect of the list of Participants 5 days before the Scheme is considered at the General Meetings.

When voting on the Restricted Shares Incentive Scheme at the General Meetings, independent Directors shall solicit proxy rights from all Shareholders in respect of the Restricted Shares Incentive Scheme, and the Company shall provide online voting method when on-site voting is provided. The contents of the Incentive Scheme as stipulated in Article 9 of the Administrative Measures shall be voted at the General Meetings, and shall be approved by more than two-thirds of the voting rights held by the shareholders present at the meeting. The voting of shareholders other than the directors, supervisors and senior management of the Company and shareholders individually or jointly holding more than 5% of the shares of the Company shall be separately counted and disclosed.

When considering the Incentive Scheme at the General Meetings of the Company, the Shareholders who are Participants or have a connected relationship with any Participants shall abstain from voting.

When the Incentive Scheme is considered and approved at the general meetings of the Company and the grant conditions stipulated in the Incentive Scheme are satisfied, the Company shall grant the Restricted Shares to the Participants within the prescribed time. The Grant Date shall be on a trading day and in compliance with regulations.

### ***(II) Procedures for granting***

Upon consideration and approval of the Incentive Scheme at the General Meetings, the Company shall sign the Agreement on Grant of Restricted Shares with the Participants to stipulate the rights and obligations of both parties. The Board shall handle the specific matters in respect of the grant of the Restricted Shares in accordance with the authorization by the General Meetings.

Before the Company grants any Restricted Shares to the Participants, the Board shall consider and announce whether the conditions for the grant of entitlements to the Participants as set out in the Incentive Scheme have been fulfilled before the Company grants benefits to the Participants. The independent



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## LETTER FROM THE BOARD

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Directors and the Supervisory Committee shall issue explicit opinions simultaneously. The law firm shall issue legal opinions on whether the conditions for the grant of entitlements to the Participants have been fulfilled.

The Supervisory Committee of the Company shall verify and issue opinions on the date of granting the Restricted Shares and the list of Participants.

In the event of any discrepancy between the grant of entitlements by the Company to the Participants and the arrangements under the Incentive Scheme, the independent Directors, the Supervisory Committee (in case of any change of the Participants) and the law firm shall issue explicit opinions simultaneously.

Upon consideration and approval of the Incentive Scheme at the General Meetings, the Company shall grant the Restricted Shares to the Participants and complete the announcement and registration within 60 days. The Board of the Company shall disclose an announcement on the implementation thereof in a timely manner upon the completion of registration of the Restricted Shares granted. If the Company fails to complete the above work within 60 days, the Incentive Scheme shall be terminated, and the Board shall disclose the reason for such failure in a timely manner and shall not consider and disclose the Incentive Scheme again within 3 months.

After the Grant of the Restricted Shares, the Company shall make an application to the SSE and the CSDC shall handle the registration and clearing matters upon confirmation by the SSE.

If the registered capital is designated to change upon completion of the registration of the Restricted Shares granted, the Company shall handle the registration procedures in relation to the changes of the Company with the industry and commerce registration department.

### ***(III) Procedures for unlocking the Restricted Shares***

Prior to the date of unlocking, the Company shall confirm whether the Participants have satisfied the conditions for unlocking the Restricted Shares. The Board shall consider whether the conditions for unlocking the Restricted Shares under the Incentive Scheme have been fulfilled, and the independent Directors and the Supervisory Committee shall issue explicit opinions simultaneously. The law firm shall issue legal opinions on whether the conditions for unlocking the Restricted Shares to the Participants have been fulfilled. For the Participants who have fulfilled the conditions for unlocking the Restricted Shares, the Company shall solely handle the matters related to the unlocking of the Restricted Shares; and for the Participants who have not fulfilled the conditions for unlocking the Restricted Shares, the Company shall repurchase the Restricted Shares as held by them correspondingly to the unlocking. The Company shall disclose an announcement on the implementation thereof in a timely manner.

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## LETTER FROM THE BOARD

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The Company shall apply to the SSE before unlocking the Restricted Shares held by the Participants. The CSDC will handle the registration and settlement matters upon the confirmation of the SSE.

Participants may transfer their unlocked Restricted Shares, whereas the transfer of the Restricted Shares held by the Directors and senior management shall comply with the requirements of the relevant laws, regulations and regulatory documents.

### ***(IV) Procedures for amendments***

Any proposed amendment to the Incentive Scheme by the Company prior to consideration of the Incentive Scheme at the General Meetings shall be subject to consideration and approval of the Board.

Any proposed amendment to the Incentive Scheme by the Company after consideration and approval of the Incentive Scheme at the General Meetings shall be subject to consideration and determination at the General Meetings, provided that such amendment shall not:

- (1) result in premature unlocking of restriction;
- (2) reduce the Grant Price.

The independent Directors and the Supervisory Committee shall issue explicit opinions in respect of whether the amended Scheme is beneficial to the Company's sustainable development and whether there is any apparent prejudice to the interests of the listed company and all Shareholders.

The law firm shall issue professional opinions in respect of whether the amended Scheme is in compliance with the provisions of the Administrative Measures, the relevant laws and regulations, and whether there is any apparent prejudice to the interests of the Company and all Shareholders.

### ***(V) Procedures for termination***

Any proposed termination of the Incentive Scheme by the Company prior to consideration of the Incentive Scheme at the General Meetings shall be subject to consideration and approval of the Board.

Any proposed termination of the Incentive Scheme by the Company after consideration and approval of the Incentive Scheme at the General Meetings shall be subject to consideration and determination at the General Meetings.

The law firm shall issue professional opinions in respect of whether the termination of the Incentive Scheme is in compliance with the provisions of the Administrative Measures, the relevant laws and regulations, and whether there is any apparent prejudice to the interests of the Company and all Shareholders.

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## LETTER FROM THE BOARD

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Upon termination of the Incentive Scheme, the Company shall repurchase the Restricted Shares which have not been unlocked and shall be dealt with in accordance with the requirements under the Company Law.

The Company shall apply to the SSE before repurchasing the Restricted Shares. The CSDC shall handle the registration and settlement matters upon the confirmation of the SSE.

When the Company is required to repurchase the Restricted Shares, it shall promptly convene a board meeting to consider the repurchase plan, submit the same to the General Meetings for approval in accordance with the law, and make a timely announcement.

### **10. Respective rights and obligations of the Company and the Participants**

#### ***(I) Rights and obligations of the Company***

The Company shall have the right to require the Participants to perform their responsibilities based on the requirements of the positions it employs. If the Participant is incompetency in performing his/her position or fails the examination, the unlocked Restricted Shares of the Participant shall be repurchased by the Company for cancellation upon approval by the Board.

The Company shall have the right to construe and execute the Incentive Scheme and to appraise the performance of the Participants based on the requirements under the Incentive Scheme. If the Participant fails to fulfill the unlocking conditions required under the Incentive Scheme, the Company will repurchase and cancel the Restricted Shares, which have not been unlocked by the Participants, in accordance with the requirements under the Incentive Scheme.

If the Participants violate the laws and professional ethics, leak confidential information of the Company, and are negligent or gross misconduct in performance of duties, which may cause serious damage to the interests or reputation of the Company, the Company shall repurchase and cancel the unlocked Restricted Shares of the Participants and required the Participants to return the gains from the unlocked Restricted Shares upon approval of the Board.

The Company shall withhold and pay, on behalf of the Participants, the individual income tax and other taxes and fees payable in accordance with the provisions of the national tax regulations.

The Company undertakes not to provide loans, guarantee for loans and any other forms of financial assistance to the Participants for acquiring the Restricted Shares under the Incentive Scheme.

The Company shall discharge its obligations in a timely manner in relation to reporting and information disclosure under the Restricted Shares Incentive Scheme in accordance with the relevant requirements.

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## LETTER FROM THE BOARD

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The Company shall actively support the Participants who have fulfilled the unlocking conditions to unlock the Restricted Shares in accordance with the relevant requirements including those under the Incentive Scheme, the CSRC, the SSE, and the CSDC. However, the Company disclaims any liability for losses incurred by the Participants who fail to unlock the Restricted Shares at their own wills due to reasons on part of the CSRC, the SSE and the CSDC.

The Company confirms that the eligibility of the Participants under the Scheme does not represent the right of such Participants to continue to serve the Company and does not constitute a commitment of employment for a fixed term by the Company. The employment relationship between the Company and a Participant is still governed by the employment contract between the parties.

Other relevant rights and obligations under the laws and regulations.

### ***(II) Rights and obligations of the Participants***

The Participants shall comply with the requirements of his/her position as stipulated by the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make contribution to the development of the Company.

Source of funds shall be self-financed by the Participants.

The Restricted Shares granted to the Participants shall enjoy the entitlements of the shares after registration of transferal by the CSDC, including but not limited to the rights to dividend and rights issue of such shares etc.

Prior to the unlocking of the Restricted Shares, the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as guarantee or used for repayment of debts. The shares obtained by the Participants due to the grant of the Restricted Shares not yet unlocked to them arising from conversion of capital reserve into share capital, bonus issue, share split, etc. shall be subject to locking in accordance with the Incentive Scheme.

Any gains of the Participants generated from the Incentive Scheme are subject to the individual income tax and other taxes and fees payable in accordance with the provisions of the national tax regulations.

The Participants undertake, where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant of the entitlements, the Participants concerned shall return to the Company all interests gained through the Incentive Scheme calculated from the date when it is confirmed that the relevant information disclosure documents of the Company contain false statement or misleading representations or material omissions.

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## LETTER FROM THE BOARD

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Upon consideration and approval of the Incentive Scheme at the General Meetings, the Company will enter into the Agreement on Grant of Restricted Shares with each of the Participants to specify their respective rights and obligations under the Incentive Scheme and other relevant matters.

Other relevant rights and obligations under the laws and regulations.

### **11. Handling Unusual Changes to the Company and the Participants**

#### ***(I) Handling Unusual Changes to the Company***

1. The Incentive Scheme shall be terminated if any of the following events occurs to the Company:
  - (1) issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
  - (2) issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  - (3) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association of the Company and public undertakings during the 36 months after listing;
  - (4) prohibition from implementation of a share incentive scheme by laws and regulations;
  - (5) other circumstances under which the Incentive Scheme shall be terminated as determined by the China Securities Regulatory Commission.

In the event of termination of the Scheme by the Company as described above, the Restricted Shares granted, but not yet unlocked, to such Participant shall be repurchased and cancelled by the Company at the Grant Price.

2. The Incentive Scheme shall be implemented as usual in case any of the following events occurs to the Company:
  - (1) change in control of the Company;
  - (2) merger and spin-off of the Company.

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## LETTER FROM THE BOARD

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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 grant or arrangements for unlocking the restrictions, all Restricted Shares which are not yet unlocked shall be repurchased by the Company for cancellation at the Grant Price. In respect of the Restricted Shares granted to the Participants which have been unlocked, all the Participants shall return to the Company all interests granted. If the Participants, who are not liable for the abovementioned events, suffer loss as a result of returning the interests, they may claim for damage from the Company or responsible parties in accordance with the arrangements under the Incentive Scheme.

The Board shall recover all the profits gained by the Participants in accordance with the preceding provisions and relevant arrangements under the Incentive Scheme.

### *(II) Changes to the individual circumstances of the Participants*

1. When a Participant has a change in job positions, but still works in the Company or a branch or a subsidiary of the Company or is assigned by the Company, the Restricted Share granted to him/her will be fully regulated by the procedures as specified in the Incentive Scheme before the change of his/her job positions. In case a Participant becomes an independent Director or supervisor who cannot hold Restricted Shares of the Company, Restricted Shares that have been granted to, but not yet unlocked, the Participant under the Scheme shall be repurchased by the Company for cancellation at the Grant Price bearing interest on bank deposits for the same period.
2. If the Participants sever or terminate their labour relationship with the Company due to objective reasons such as relocation, removal, retirement, death or loss of civil capacity, provided that the exercisable period limits and the performance appraisal conditions of the granted interests have been fulfilled in the year of such termination, the exercisable portion shall be exercised within a half-year period after the date of such termination (or when exercisable), or else the interests will lapse after the half-year period. If the exercisable period limits and the performance appraisal conditions have not been fulfilled in the year of such termination, it shall no longer be exercised. The Restricted Shares that have not been unlocked shall be repurchased by the Company for cancellation at the Grant Price plus interest with reference to the bank lending rate at the same period.
3. If the Participants sever or terminate their labour relationship with the Company due to personal reasons, the Restricted Shares granted but not yet unlocked shall be repurchased by the Company at the Grant Price.

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## LETTER FROM THE BOARD

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4. When any of the following events occurs to a Participant, the Company shall have the right to request the Participant to return of gains from the share incentive scheme, whereas the Restricted Shares granted but not yet unlocked shall be repurchased by the Company for cancellation at the Grant Price:
  - (1) there is such conduct as violates national laws and regulations, occupational ethics, or negligence of duty or professional misconduct, which causes severe damage to the interests or the reputation of the Company and causes economic losses or negative effect in society to the Company, whether direct or indirect;
  - (2) where a Participant is dismissed due to violation of the Company's rules and regulation to a severe extent according to relevant provisions of the Company's staff reward and punishment management;
  - (3) where the Company has sufficient evidence to prove a Participant, during his/her terms of office, has taken illegal or unethical actions such as accepting bribes, asking for bribes, corruption, theft and divulging operational and technical secrets, entering into connected transactions to damage the interests and reputation of the listed company, which have material negative impact on the Company's image and direct or indirect cause losses or negative effect in society to the Company;
  - (4) where the Participant is prosecuted as a result of criminal offence;
  - (5) where the Participant causes improper losses to the Company as a result of violating relevant laws and regulations or the requirements of the Articles of Association.
5. For other circumstances not stated above, the handling method thereof shall be determined by the Board.

### ***(III) Resolution of disputes between the Company and the Participants***

Any controversy or dispute between the Company and the Participants arising from the execution of the Incentive Scheme and/or the Agreement on Grant of Restricted Shares entered into between both parties or in connection with the Incentive Scheme and/or the Agreement on Grant of Restricted Shares shall be resolved through negotiation and communication between both parties, or mediation by the remuneration committee of the Board of the Company. If relevant controversy or dispute are not solved through the above methods within 60 days from the date of occurrence of the controversy or dispute, either party is entitled to file a lawsuit with the People's Court with jurisdiction in the place where the Company is located.

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## LETTER FROM THE BOARD

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### 12. Accounting treatment and impact on the operating performance for the Restricted Shares

#### *(I) Accounting treatment for the Restricted Shares*

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 11 – Share-Based Payments, at each balance sheet date within the Lock-up Period, the Company shall revise the number of the Restricted Shares which are expected to be unlocked according to the change in the latest available number of persons eligible to unlock the Restricted Shares, completion of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

#### *(II) Amortization method for the expenses of the Restricted Shares*

In accordance with the relevant requirements of the accounting standards, the Company recognized the fair value of the Restricted Shares on the Grant Date, and subsequently recognized the share-based expenses of the Scheme. Such expenses will be recognized in installments over the course of the implementation of the Scheme in proportion to unlocking. The incentive cost arising from the Incentive Scheme will be listed in the recurring profit or loss.

Assuming that the Restricted Shares will be granted by the Company in January 2022, the amortization of the cost of the Restricted Shares from 2022 to 2025 is as follows:

Number of Restricted Shares to be granted (0'000 shares)	Total amortization expense (RMB0'000)	2022 (RMB0'000)	2023 (RMB0'000)	2024 (RMB0'000)	2025 (RMB0'000)
6,298	75,576.00	27,207.36	27,207.36	14,737.32	6,423.96

*Notes:*

1. The above result does not represent the final accounting cost. In addition to the Grant Date, Grant Price and number of Restricted Shares granted, the accounting cost also related to the actual number of Shares that are valid and invalid.
2. The final result of the impact of the implementation of the Share Incentive Scheme on the operating performance of the Company shall be subject to the annual audited report issued by the accounting firm.



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## LETTER FROM THE BOARD

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### *(III) The estimated impact of the Incentive Scheme on operating results*

Without considering the positive effect of the Incentive Scheme on the Company's performance, the Company estimates, based on current information, that although the Restricted Shares does not generate cash outflows, its amortisation does have an impact on net profits in each year during validity periods, thereby affecting the growth rate of net profits in the performance appraisal indicators, but the impact is not significant. Considering the positive effect of the Incentive scheme on the Company's development, which will stimulate the enthusiasm of the management and key personnel, improve operating efficiency and reduce agency costs, the improvement in the Company's results as a result of the Incentive Scheme will be greater than the increase in costs associated with the Incentive Scheme.

### **III. CONNECTED TRANSACTION – GRANT OF RESTRICTED A SHARES TO THE CONNECTED PARTICIPANTS UNDER THE INCENTIVE SCHEME**

The Company may grant Restricted A Shares to the Connected Participants under the Incentive Scheme. Connected Participants involve, among others, the Directors whom will be granted the Restricted A Shares by the Company.

In respect of the Grant, the below Connected Participants are the Directors of the Company. Details of the Restricted Shares which may be granted to such Connected Participants are set out below:

Name	Position	Total number of the Restricted Shares to be granted (Million Shares)	Proportion of the total number of the Restricted Shares to be granted	Proportion of the total share capital
Mr. Xiao	Secretary to the Party Committee, director and general manager	0.20	0.32%	0.004%
Mr. Wang	Deputy secretary to the Party Committee, chairman of the Labour Union and employee director	0.16	0.25%	0.003%
Mr. Zhao	Director and chief financial officer	0.16	0.25%	0.003%
Mr. Huang	Director and secretary to the Board	0.16	0.25%	0.003%
Total		0.68	1.08%	0.014%

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## LETTER FROM THE BOARD

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The following table set out the remuneration package of the Connected Participants for the year ended 31 December 2020:

Name	Total Remuneration in 2020 RMB'000
Mr. Xiao <sup>(1)</sup>	1,155
Mr. Wang <sup>(2)</sup>	1,225
Mr. Zhao <sup>(2)</sup>	1,030
Mr. Huang <sup>(3)</sup>	410

*Notes:*

1. Mr. Xiao's total remuneration for the year ended 31 December 2020 consisted of salaries, allowance, other benefits in kind, and retirement benefit scheme contributions.
2. Mr. Wang and Mr. Zhao's total remuneration for the year ended 31 December 2020 has been disclosed in the 2020 annual report of the Company.
3. Mr. Huang joined the Company in August 2021. For four months ended 30 November 2021, his monthly average remuneration amounted to approximately RMB34,000, consisting of salaries, allowance, other benefits in kind, and retirement benefit scheme contributions. Mr. Huang's annual remuneration was calculated on a pro rata basis with reference to the above monthly average remuneration for illustration purpose.

### Reasons for and benefits of implementing the Incentive Scheme

Please refer to the section headed "Purpose of implementing the Incentive Scheme" of this circular.

The Incentive Scheme can further establish and improve the Company's long-term incentive mechanism, attract and retain talented individuals, bond the interests of Shareholders, the Company and core individuals together effectively, help various parties to attend to the long-term development of the Company and improve operational efficiency.

Further, the Connected Participants, who are all eligible participants under relevant laws and regulations, involve in the day-to-day operations of the Company and have substantial professional knowledge and experience to contribute to the growth of the Company and the development of the Group. In view that the remuneration package of the Connected Participants, taking into account the attributed Restricted A Shares, are in line with the Group's remuneration policy and market practice, the Remuneration Committee is of the view that the grant of Restricted A Shares to the Connected Participants on top of their existing remuneration package is fair and reasonable.

The Directors (including members of the Remuneration Committee) believes that the adoption of the Incentive Scheme will achieve the abovementioned objectives, and the terms and conditions of the Incentive Scheme are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Information of the Company

The Company is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. The Company's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production and prime quality low sulphur coal for use in pulverised coal injection.

### Information of the Connected Participants

The Connected Participants are the Participants who are the Connected Persons of the Company.

#### *1. Mr. Xiao*

Mr. Xiao is secretary to the Party Committee, Director, and general manager of the Company and is responsible for overseeing the operation of the Group. Mr. Xiao has over 17 years of experience in coal business operations and safety management of the coal mines. Mr. Xiao joined the Group in 1994 and served as (i) the director of the Safety Inspection Department of Dongtan Coal Mine of the Company in 2013; (ii) the chairman and the general manager of Guizhou Wulunshan Coal Mining Company Limited in 2014; (iii) the deputy general manager of Yankuang Guizhou Neng Hua Company Limited and chairman of Guizhou Wulunshan Coal Mining Company Limited in 2016; (iv) the manager of Jining No. 3 Coal Mine of the Company in 2018; (v) deputy general manager and a member of Party Committee of the Company in 2020; and (vi) the Director, general manager, and secretary to the Party Committee of the Company in 2021. Under his leadership, (a) the safety and productivity of the coal mines and the profitability of the coal business of the Group have been improved; (b) no significant fatal mining accidents occurred during his tenure in the Company; and (c) the Group is capable of maintaining the leading position in the coal industry. In this connection, the Company was awarded as a member of "Top 100 companies in the PRC", which is evaluated based on, among other things, the profit before taxation of the listed companies, in December 2021 by China Business Top 100 Forum established by Warton Economic Institute (formerly named as Shanghai Institute of Economic Development) the first consulting firm in the PRC to conduct comprehensive researches on the macroeconomy, regional economy, and the development of companies of the PRC).

Mr. Xiao obtained a master's degree of engineering from China University of Mining and Technology.

#### *2. Mr. Wang*

Mr. Wang is deputy secretary to the Party Committee, chairman of the Labour Union, and employee Director of the Company and is mainly responsible for the overall management of the trade union of the Group. Mr. Wang joined the Group in 1990 and served as (i) the vice-director-level manager and the vice director of Chinese Communist Party ("CCP") Committee Publicity Department of Yankuang Group in 2003 and in 2008; (ii) the deputy secretary of CCP Committee, the secretary of the

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## LETTER FROM THE BOARD

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CCP Committee, and deputy factor director of Methanol Plant of Yulin Neng Hua of the Company in 2014; (iii) the secretary of the CCP Committee and the vice head of Dongtan Coal Mine of the Company in 2017; and (iv) the deputy secretary of the CCP Committee, the chairman of the Labor Union, and the employee Director of the Company in 2020. During his tenure, Mr. Wang has made an effort to safeguard the interests of employees and workers of the Group.

Mr. Wang obtained a bachelor's degree of arts from Qufu Normal University.

### **3. Mr. Zhao**

Mr. Zhao is a Director and the chief financial officer of the Company and is responsible for the finance management of the Group. Mr. Zhao has over 32 years of experience in finance management. Mr. Zhao joined the Group in 1989 and served as (i) the chief accountant of Finance Department of the Company in 2002; (ii) director of the Planning and Finance Department of the Company in 2006; (iii) vice chief financial officer and the director of the Finance Department of the Company in 2011; (iv) general manager assistant and the director of the Finance Management Department of the Company in 2014; (v) a Director and the chief financial officer of the Company in 2016; and (vi) a member of Party Committee of the Company in 2020. Mr. Zhao has made an endeavor to (a) improve the business performance of the Group by conducting cost optimization such as simplifying the operational process to boost the efficiency of the Group's business operation; (b) enhance the internal control of the Group; (c) optimize the capital structure of the Group; and (d) reinforce the financial risk management of the Group, thus maximizing the enterprise value of the Group.

Mr. Zhao obtained a master's degree of business administration from Nankai University.

### **4. Mr. Huang**

Mr. Huang is a Director and secretary to the Board and is responsible for ensuring compliance with statutory and regulatory requirements of the Company. Mr. Huang has over 21 years of experience in corporate governance. Mr. Huang joined the Group in 1999 and served as (i) the representative of Securities Affairs Department in 2006; (ii) assistant secretary of Board Secretary Department in 2008; (iii) associate director of Board Secretary Department in 2012; (iv) the director of the Department of Reformation of Shareholding Structure of Shandong Energy in 2013; (v) the minister of Company Secretary Department of Shandong Energy in 2020; and (iv) the Director of the Company and secretary to the Board in 2021. Mr. Huang is assigned to be responsible to oversee the Company's compliance of the Listing Rules and the listing rules of Shanghai Stock Exchange and improve the compliance system in relation to the above respective since 2021. In this connection, the compliance control on the Listing Rules and the listing rules of Shanghai Stock Exchange has been further enhanced.

Mr. Huang obtained a master's degree of law from University of International Business and Economics.

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## LETTER FROM THE BOARD

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### Ancillary matters relating to the proposed adoption of the Restricted A Share Incentive Scheme

#### *Authorisation to be granted to the Board*

Subject to approvals of the Shareholders at the EGM and the Class Meetings, the Board shall be authorised to make such decisions, enter into such documents, amend the Articles of Association, carry out such procedures and take such any other actions as are in its discretion necessary to effect and complete the adoption of the Restricted Share Incentive Scheme.

#### *Impact of adoption of the Restricted A Share Incentive Scheme on the shareholding structure of the Company*

As at the Latest Practicable Date, the shareholding structures of the Company is as follows:

	Number of Shares	Approximate percentage of the total number of issued A Shares	Approximate percentage of the total number of issued Shares
<b>A Shareholders</b>			
Shandong Energy	2,263,047,288	76.09%	46.43%
Directors			
Li Wei	10,000	0.0003%	0.0002%
Liu Jian	85,800	0.0029%	0.0018%
Mr. Xiao	49,500	0.0017%	0.0010%
Mr. Wang	49,500	0.0017%	0.0010%
Mr. Zhao	85,800	0.0029%	0.0018%
Other A Shareholders	<u>710,856,172</u>	<u>23.90%</u>	<u>14.58%</u>
 Total A Shares	 <u>2,974,184,060</u>	 <u>100%</u>	 <u>61.02%</u>
 <b>H Shareholders</b>			
Shandong Energy	454,989,000	—	9.33%
Other H Shareholders	<u>1,445,011,000</u>	<u>—</u>	<u>29.65%</u>
 Total H Shares	 <u>1,900,000,000</u>	 <u>—</u>	 <u>38.98%</u>
 <b>Total Shares</b>	 <u><b>4,874,184,060</b></u>	 <u><b>—</b></u>	 <u><b>100%</b></u>

*Note:* Numbers may not add up to 100% due to rounding.

## LETTER FROM THE BOARD

The shareholding structures of the Company immediately upon (i) completion of the grant of Restricted A Shares to Connected Participants (the “**Connected Participants Grant Date**”); and (ii) completion of the grant of Restricted A Shares to all participant under the Incentive Scheme (the “**All Participants Grant Date**”) (assuming that the Company has issued a total of 62,980,000 Restricted A Shares, being the maximum number of Restricted A Shares that can be issued pursuant to the Incentive Scheme) are as follows (the below table is prepared pursuant to the requirements of the Listing Rules and is for illustrative purpose only):

	As at Connected Participants Grant Date			As at All Participants Grant Date		
	Number of Shares	Approximate percentage of the total number of issued A Shares	Approximate percentage of the total number of issued Shares	Number of Shares	Approximate percentage of the total number of issued A Shares	Approximate percentage of the total number of issued Shares
<b>A Shareholders</b>						
Shandong Energy	2,263,047,288	76.0723%	46.4228%	2,263,047,288	74.5119%	45.8370%
Directors						
Li Wei	10,000	0.0003%	0.0002%	10,000	0.0003%	0.0002%
Liu Jian	85,800	0.0029%	0.0018%	85,800	0.0028%	0.0017%
Mr. Xiao	249,500	0.0084%	0.0051%	249,500	0.0082%	0.0051%
Mr. Wang	209,500	0.0070%	0.0043%	209,500	0.0069%	0.0042%
Mr. Zhao	245,800	0.0083%	0.0050%	245,800	0.0081%	0.0050%
Mr. Huang	160,000	0.0054%	0.0033%	160,000	0.0053%	0.0032%
Other A Shareholders	<u>710,856,172</u>	<u>23.8954%</u>	<u>14.5821%</u>	<u>773,156,172</u>	<u>25.4565%</u>	<u>15.6599%</u>
Total A Shares	<u>2,974,864,060</u>	<u>100%</u>	<u>61.02%</u>	<u>3,037,164,060</u>	<u>100%</u>	<u>61.52%</u>
<b>H Shareholders</b>						
Shandong Energy	454,989,000	–	9.3344%	454,989,000	–	9.2156%
Other H Shareholders	<u>1,445,011,000</u>	<u>–</u>	<u>29.6421%</u>	<u>1,445,011,000</u>	<u>–</u>	<u>29.2680%</u>
Total H Shares	<u>1,900,000,000</u>	<u>–</u>	<u>38.98%</u>	<u>1,900,000,000</u>	<u>–</u>	<u>38.48%</u>
Total Shares	<u><b>4,874,864,060</b></u>	<u><b>–</b></u>	<u><b>100%</b></u>	<u><b>4,937,164,060</b></u>	<u><b>–</b></u>	<u><b>100%</b></u>

*Note:* Numbers may not add up to 100% due to rounding.

### ***The implementation of the Incentive Scheme will not lead to changes in the right of control of the Company***

As at the Latest Practicable Date, Shandong Energy, the Controlling Shareholder of the Company, directly and indirectly holds 2,718,036,288 Shares of the Company, representing approximately 55.76% of the total share capital of the Company. If the Company issues 62,980,000 Restricted A Shares, Shandong Energy will remain the Controlling Shareholder of the Company.

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## LETTER FROM THE BOARD

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Therefore, the adoption of the Restricted A Share Incentive Scheme and grant of Restricted A Shares to the Connected Participants under the Incentive Scheme will not lead to changes in the right of control of the Company, and will not lead to a distribution of shareholding which fails to satisfy relevant listing conditions.

### IV. IMPLICATIONS UNDER THE LISTING RULES

The Incentive Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules.

Pursuant to Rule 19A.38 of the Listing Rules, the proposed adoption of the Restricted A Share Incentive Scheme is subject to the approvals of the Shareholders at the EGM and the Class Meetings.

Directors including Mr. Xiao, Mr. Wang, Mr. Zhao and Mr. Huang, who are the Connected Participants of the Grant, are the connected persons of the Company. Grant of Restricted A Shares to the Connected Participants under the Incentive Scheme constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

### V. APPROVAL FROM THE BOARD

The adoption of the Incentive scheme was considered and approved by the Board on 1 December 2021 and 31 December 2021. Mr. Xiao, Mr. Wang, Mr. Zhao and Mr. Huang, the Directors who are the Connected Participants of the Incentive Scheme, were considered as having material interests of the Incentive Scheme, and accordingly each of them abstained from voting on the relevant resolutions to approve the proposed adoption of the Restricted A Share Incentive Scheme at the Board meeting. The Board is of the view that the terms and conditions of the Incentive Scheme are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### VI. THE EXTRAORDINARY GENERAL MEETING AND THE CLASS MEETINGS

The notice convening the EGM and the H Shareholder's Class Meeting was published on 4 January 2022.

**The following resolution will be proposed to the Shareholders at the EGM and the H Shareholder's Class Meeting:**

**As special resolutions:**

1. To consider and approve the adoption of the Restricted A Share Incentive Scheme and the related matters.

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## LETTER FROM THE BOARD

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The Connected Participants (including Directors, namely Directors including Xiao Yaomeng, Wang Ruolin and Zhao Qingchun) and their respective Associates shall abstain from voting in respect of the resolutions relating to the approval of the adoption of the Restricted A Share Incentive Scheme at the EGM, the A Shareholders' Class Meeting (where applicable) and the H Shareholders' Class Meeting (where applicable).

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the following Shareholders, also being the Participants under the Grant and thus having interests in the resolutions in relation to the adoption of the Restricted A Share Incentive Scheme to be proposed at the EGM, the A Shareholders' Class Meeting (where applicable) and the H Shareholders' Class Meeting (where applicable), will abstain from voting on such resolutions at the abovementioned meetings (where applicable):

Name	Title	Number of A Shares held as at the Latest Practicable Date	Approximate percentage of the total number of issued A Shares as at the Latest Practicable Date	Approximate percentage of the total number of issued Shares as at the Latest Practicable Date
Mr. Xiao	Director	49,500	0.0017%	0.0010%
Mr. Zhao	Director	85,800	0.0029%	0.0018%
Mr. Wang	Director	49,500	0.0017%	0.0010%
<b>Total</b>	<b>/</b>	<b>184,800</b>	<b>0.0063%</b>	<b>0.0038%</b>

As at the Latest Practicable Date, to the best of the knowledge of the Directors after making all reasonable enquiries, except for the abovementioned Shareholders and other Participants under the Incentive Scheme holding Shares (collectively, the “**Abstaining Shareholders**”) and their respective Associates who have interests in, and are required to abstain from voting on such resolutions at the EGM, the A Shareholders' Class Meeting (where applicable) and the H Shareholders' Class Meeting (where applicable), no other Shareholders shall be required to abstain from voting on relevant resolutions to be proposed at the abovementioned meetings (where applicable).

As far as the Company is aware of, having made all reasonable enquiries, as at the Latest Practicable Date:

- (a) the Abstaining Shareholders and their respective Associates controlled or were entitled to exercise control over the voting right in respect of their respective Shares;
- (b) (i) there were no voting trusts or other agreements or arrangements or understanding (other than an outright sale) entered into by or binding upon any of the Abstaining Shareholders or their respective Associates;



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## LETTER FROM THE BOARD

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- (ii) there were no obligations or entitlements of the Abstaining Shareholders or their respective Associates, whereby they had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of their respective Shares to a third party, either generally or on a case-by-case basis; and
- (c) there is no discrepancy between the beneficial shareholding interest of the Abstaining Shareholders or their respective Associates in the Company as disclosed in this circular and the number of Shares in respect of which they will control or will be entitled to exercise control over the voting rights at the EGM and the Class Meetings where relevant resolutions will be proposed to approve, among other things, the adoption of the Restricted A Share Incentive Scheme.

### VII. CLOSURE OF REGISTER OF MEMBERS

The H Share register of members of the Company will be closed, for the purpose of determining Shareholders' entitlement to attend the EGM and the H Shareholder's Class Meeting, from Thursday, 20 January 2022 to Thursday, 27 January 2022 (both days inclusive). In order to attend the EGM and the H Shareholder's Class Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 19 January 2022. H Shareholders whose names appear on the H Share register of members of the Company maintained by Hong Kong Registrars Limited on or before the above date will be eligible to attend the EGM and the H Shareholder's Class Meeting.

### VIII. INDEPENDENT FINANCIAL ADVISER

As required by the Listing Rules, an Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on grant of Restricted A Shares to the Connected Participants under the Incentive Scheme. As at the date of this circular, the Independent Financial Adviser had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they were included.

### IX. RECOMMENDATION

Donvex Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of grant of Restricted A Shares to the Connected Participants under the Incentive Scheme. The Independent Financial Adviser is of the view that although the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme is not conducted in the ordinary and usual course of business of the Group, grant of Restricted A Shares to the Connected Participants under the Incentive Scheme and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, and the terms of which and the transactions contemplated thereunder are on normal

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## LETTER FROM THE BOARD

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commercial terms, fair and reasonable so far as the Independent Shareholders are concerned. The Independent Financial Adviser therefore recommends the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM and the H Shareholder's Class Meeting to approve grant of Restricted A Shares to the Connected Participants under the Incentive Scheme and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors after receiving the advice from the Independent Financial Adviser) consider that grant of Restricted A Shares to the Connected Participants under the Incentive Scheme mentioned above are in the best interests of the Company and its Shareholders as a whole, and recommend that all Independent Shareholders should vote in favour of the relevant resolution to be proposed at the EGM and the H Shareholder's Class Meeting.

### X. 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.

### XI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 of this circular and the letter from the Independent Financial Adviser set out on pages 43 to 64 of this circular which contains the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of grant of Restricted A Shares to the Connected Participants under the Incentive Scheme and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation.

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

Zoucheng City, Shandong Province, the PRC

*As at the date of this circular, the Directors of the Company are Mr. Li Wei, Mr. Liu Jian, Mr. Xiao Yaomeng, Mr. Zhu Qingrui, Mr. Zhao Qingchun, Mr. Wang Ruolin and Mr. Huang Xiaolong, and the independent non-executive Directors of the Company are Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang, and Mr. Poon Chiu Kwok.*

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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兗礦能源集團股份有限公司

**YANKUANG ENERGY GROUP COMPANY LIMITED\***

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

*Registered office:*

949 Fushan South Road,  
Zoucheng City,  
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

12 January 2022

*To Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION – GRANT OF RESTRICTED A SHARES TO THE  
CONNECTED PARTICIPANTS UNDER THE INCENTIVE SCHEME**

We refer to the circular of the Company dated 12 January 2022 (“Circular”) to the Shareholders, of which this letter forms part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires. We have been appointed by the Board to form an Independent Board Committee to advise you as to whether, in our opinion, the Incentive Scheme are fair and reasonable in so far as the Independent Shareholders are concerned.

Under the Listing Rules, the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme may constitute Connected Transactions of the Company. Accordingly, the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme will require the approval of the Independent Shareholders at the EGM. We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 43 to 64 of the Circular, which contains advice and recommendations in respect of the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme.

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered, inter alia, the terms of the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme and reasons considered by, and the recommendations of, the Independent Financial Adviser, as stated in its aforementioned letter, we consider although the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme is not conducted in the ordinary and usual course of business of the Group, the terms of the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the proposal to be proposed at the EGM to approve the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme and the transactions contemplated thereunder.

Yours faithfully,

**Yankuang Energy Group Company Limited\***

Tian Hui, Zhu Limin, Cai Chang and Poon Chiu Kwok  
*Independent Board Committee*

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

12 January 2022

*The Independent Board Committee and the Independent Shareholders of  
Yankuang Energy Group Company Limited\* (formerly known as  
“Yanzhou Coal Mining Company Limited”)*

Dear Sir/Madam,

### **CONNECTED TRANSACTION IN RELATION TO THE GRANT OF RESTRICTED A SHARES TO THE CONNECTED PARTICIPANTS UNDER THE INCENTIVE SCHEME**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the grant of Restricted A Shares to the Connected Participants under the Incentive Scheme, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 January 2022 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

As stated in the Letter from the Board, on 1 December 2021, the Board resolved to propose the adoption of the Incentive Scheme. The Company may grant Restricted A Shares to the Connected Participants under the Incentive Scheme. On 31 December 2021, the Company revised the performance appraisal conditions as indicated in the Incentive Scheme, and the Board resolved to propose the adoption of the Incentive Scheme (Revised Draft).

Directors including Xiao Yaomeng, Wang Ruolin, Zhao Qingchun and Huang Xiaolong are the Connected Participants under the Grant. As such, the Connected Participants are the connected persons of the Company. Accordingly, the Grant of Restricted A Shares to the Connected Participants under the Incentive Scheme constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting, announcement, and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang and Mr. Poon Chiu Kwok, has been established to advise the Independent Shareholders on (i) whether the terms of the Grant are on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; (ii) whether the Grant is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect to the relevant resolution(s) to approve the Grant. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

### INDEPENDENCE

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

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

- (a) the discloseable and connected transaction in relation to the entering into of the capital increase agreement with Yankuang Group, Taizhong Property, Huaneng Fuel and Hainan Intelligent Logistics, details of which are set out in the circular of the Company dated 16 November 2020;
- (b) the major and connected transaction in relation to the acquisition of a series of target companies and target assets, details of which are set out in the circular of the Company dated 16 November 2020; and
- (c) the continuing connected transaction regarding the entering into of the Proposed Yankuang Continuing Connected Transaction Agreements with Yankuang Group relating to the renewal of certain Existing Yankuang Continuing Connected Transaction Agreements dated 13 January 2021 (the “**Previous Engagements**”).

Under the Previous Engagements, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders of the Company in relation to (i) the entering into of the capital increase agreement and the capital increase contemplated thereunder; (ii) the acquisition of a series of target companies and target assets; and (iii) the continuing connected transactions between the Group and Yankuang Group. Apart from the independent financial adviser roles in connection with the Previous Engagements and the Grant, we have not acted in any capacity of the Group in the past two years immediately preceding the Latest Practicable Date.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view, and have performed all the necessary steps as required under Rule 13.80(2) of the Listing Rules to justify our reliance on the information, opinions and representations provided or made to us so as to form a reasonable basis for our opinion and recommendation, including, among other things, the followings:

- (i) reviewing the announcements dated 1 December and 31 December 2021 in relation to the Incentive Scheme and Incentive Scheme (Revised Draft), respectively, published on the websites of the Stock Exchange and Shanghai Stock Exchange and the Letter from the Board;
- (ii) reviewing the legal opinions in relation to the Incentive Scheme and Incentive Scheme (Revised Draft) issued by the Company's PRC lawyer published on the website of Shanghai Stock Exchange;
- (iii) reviewing the reports in relation to the Incentive Scheme and Incentive Scheme (Revised Draft) issued by the Company's PRC independent financial adviser published on the website of Shanghai Stock Exchange;
- (iv) reviewing the Company's annual report for the year ended 31 December 2020 ("**2020 Annual Report**") and interim report for six months ended 30 June 2021; and
- (v) discussing with the Directors and the management of the Company in respect of, among other things, the background of the Connected Participants, the reasons for and benefits of the adoption of the Incentive Scheme, and the conditions of the Grant and unlocking arrangements of the Restricted A Shares under the Incentive Scheme.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

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

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

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

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

#### **A. Background information on the Group**

The Group is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals.

#### **B. Background information on the Connected Participants**

With reference to the Letter from the Board, the Participants of the Incentive Scheme are determined after taking into account the actual situation of the Company and in accordance with the Company Law, the Securities Law, the Administrative Measures, and other relevant laws, regulations and the Articles of Association.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An aggregate of 680,000 Restricted A Shares, representing approximately 1.08% of the total Restricted A Shares under the Grant, are proposed to be granted to four Connected Participants as follows:

Name	Position	Number of Restricted A Shares to be granted <i>Shares</i>	Proportion to the total number of Restricted A Shares to be Granted <i>%</i>	Proportion to the total issued Shares of the Company before the Grant <i>%</i>
Xiao Yaomeng	Secretary to the Party Committee, Director, and general manager	200,000	0.32	0.004
Wang Ruolin	Deputy secretary to the Party Committee, chairman of the Labour Union and employee Director	160,000	0.25	0.003
Zhao Qingchun	Director and chief financial officer	160,000	0.25	0.003
Huang Xiaolong	Director and secretary to the Board	160,000	0.25	0.003
Total		<u>680,000</u>	<u>1.08</u>	<u>0.014</u>

### 1. Mr. Xiao Yaomeng (“Mr. Xiao”)

Mr. Xiao is secretary to the Party Committee, Director, and general manager of the Company and is responsible for overseeing the operation of the Group. Mr. Xiao has over 17 years of experience in coal business operations and safety management of the coal mines. Mr. Xiao joined the Group in 1994 and served as (i) the director of the Safety Inspection Department of Dongtan Coal Mine of the Company in 2013; (ii) the chairman and the general manager of Guizhou Wulunshan Coal Mining Company Limited in 2014; (iii) the deputy general manager of Yankuang Guizhou Neng Hua Company Limited and chairman of Guizhou Wulunshan Coal Mining Company Limited in 2016; (iv) the manager of Jining No. 3 Coal Mine of the Company in 2018; (v) deputy general manager and a member of Party Committee of the Company in 2020; and (vi) the Director, general manager, and secretary to the Party Committee of the Company in 2021. Under his leadership, (a) the safety and productivity of the coal mines and the profitability of the coal business of the Group have been improved; (b) no significant fatal mining accidents occurred during his tenure in the Company; and (c) the Group is capable of maintaining the leading position in the coal industry. In this connection, the Company was awarded as a member of “Top 100 companies in the PRC”, which is evaluated based on, among other things, the profit before taxation of the listed companies, in December 2021 by China Business Top 100 Forum established

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by Warton Economic Institute (formerly named as Shanghai Institute of Economic Development), the first consulting firm in the PRC to conduct comprehensive researches on the macroeconomy, regional economy, and the development of companies of the PRC.

Mr. Xiao obtained a master's degree of engineering from China University of Mining and Technology.

### 2. *Mr. Wang Ruolin ("Mr. Wang")*

Mr. Wang is deputy secretary to the Party Committee, chairman of the Labour Union, and employee Director of the Company and is mainly responsible for the overall management of the trade union of the Group. Mr. Wang joined the Group in 1990 and served as (i) the vice-director-level manager and the vice director of Chinese Communist Party ("CCP") Committee Publicity Department of Yankuang Group in 2003 and in 2008; (ii) the deputy secretary of CCP Committee, the secretary of the CCP Committee, and deputy factor director of Methanol Plant of Yulin Neng Hua of the Company in 2014; (iii) the secretary of the CCP Committee and the vice head of Dongtan Coal Mine of the Company in 2017; and (iv) the deputy secretary of the CCP Committee, the chairman of the Labor Union, and the employee Director of the Company in 2020. During his tenure, Mr. Wang has made an effort to safeguard the interests of employees and workers of the Group.

Mr. Wang obtained a bachelor's degree of arts from Qufu Normal University.

### 3. *Mr. Zhao Qingchun ("Mr. Zhao")*

Mr. Zhao is a Director and the chief financial officer of the Company and is responsible for the finance management of the Group. Mr. Zhao has over 32 years of experience in finance management. Mr. Zhao joined the Group in 1989 and served as (i) the chief accountant of Finance Department of the Company in 2002; (ii) director of the Planning and Finance Department of the Company in 2006; (iii) vice chief financial officer and the director of the Finance Department of the Company in 2011; (iv) general manager assistant and the director of the Finance Management Department of the Company in 2014; (v) a Director and the chief financial officer of the Company in 2016; and (vi) a member of Party Committee of the Company in 2020. Mr. Zhao has made an endeavor to (a) improve the business performance of the Group by conducting cost optimization such as simplifying the operational process to boost the efficiency of the Group's business operation; (b) enhance the internal control of the Group; (c) optimize the capital structure of the Group; and (d) reinforce the financial risk management of the Group, thus maximizing the enterprise value of the Group.

Mr. Zhao obtained a master's degree of business administration from Nankai University.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **4. Mr. Huang Xiaolong (“Mr. Huang”)**

Mr. Huang is a Director and secretary to the Board and is responsible for ensuring compliance with statutory and regulatory requirements of the Company. Mr. Huang has over 21 years of experience in corporate governance. Mr. Huang joined the Group in 1999 and served as (i) the representative of Securities Affairs Department in 2006; (ii) assistant secretary of Company Secretary Department in 2008; (iii) associate director of Board Secretary Department in 2012; (iv) the director of the Department of Reformation of Shareholding Structure of Shandong Energy in 2013; (v) the minister of Company Secretary Department of Shandong Energy Group Company Limited in 2020; and (iv) the Director of the Company and secretary to the Board in 2021. Mr. Huang is assigned to be responsible to oversee the Company’s compliance of the Listing Rules and the listing rules of Shanghai Stock Exchange and improve the compliance system in relation to the above respective since 2021. In this connection, the compliance control on the Listing Rules and the listing rules of Shanghai Stock Exchange has been further enhanced.

Mr. Huang obtained a master’s degree of law from University of International Business and Economics.

We understood from the Company that the Connected Participants are the Directors who have made significant contribution to the Company. It is expected that the Grant to the Connected Participants will enable the Company to recognize their contribution and motivate them to contribute to the development of the Company.

### **C. Reasons for and benefits of the adoption of the Incentive Scheme**

As advised by the Directors, the Connected Participants have sufficient experience in the business operation of the coal mines, management of trade union, finance management, and corporate governance, respectively. We believed that, having considered the experience of and contributions made to the Group by the Connected Participants, the Incentive Scheme will motivate the Connected Participants to continue to devote themselves to the Company’s long-term development.

Based on our independent research as disclosed under the section headed “PRINCIPAL FACTORS AND REASONS CONSIDERED – E. Assessment on the terms of the Incentive Scheme” in this letter, we noted that it is a common practice for companies listed on the main board of Shanghai Stock Exchange to adopt restricted share incentive scheme to motivate their directors, senior management, and employees. As such, we consider the adoption of the Incentive Scheme is in line with the market practice.

Having considered (i) the experience of and contributions made by the Connected Participants; (ii) the Grant can motivate the Connected Participants to continue to make contributions to the Group; (iii) the adoption of restricted share incentive scheme for the employees is a common practice for the listed companies in the main board of Shanghai Stock Exchange; (iv) the terms of the Incentive Scheme is fair and reasonable based on our assessment; (v) the financial impact of the Incentive Scheme to the Group is immaterial; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(vi) the dilution effect on the shareholding interests of the existing Shareholders of the Company is immaterial, we are of the view that the grant to the Participants (including the Connected Participants) is in the interests of the Company and the Shareholders as a whole.

### **D. Principal terms of the Incentive Scheme**

Set out below are the principal terms of the Incentive Scheme. Details of the terms are set out under the section headed “II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME” of the Letter from the Board.

#### ***1. Number of Restricted A Shares to be granted***

The number of the Restricted A Shares proposed to be granted under the Incentive Scheme is 62,980,000 Shares (being the maximum number of Restricted A Shares that can be issued pursuant to the Incentive Scheme), representing 1.29% of the Company’s total share capital of 4,874,184,060 Shares as at the Latest Practicable Date.

After the implementation of the Incentive Scheme, the total number of underlying Shares involved under all effective share incentive schemes of the Company shall not exceed 10% of the total share capital of the Company as at the date of the announcement of the draft Incentive Scheme. The total number of Shares to be granted to any Participant under all effective share incentive schemes of the Company shall not exceed 1% of the total share capital of the Company as at the date of the announcement of the draft Incentive Scheme.

During the period from the date of the announcement of the draft Incentive Scheme to the completion of registration of the Restricted A Shares of the Participants, in the event of any changes in the share capital of the Company, including the conversion of capital reserve into share capital, bonus issue, share split or share consolidation, or rights issue made by the Company, the number of Restricted A Shares and total number of underlying Shares involved shall be adjusted accordingly.

#### ***2. The Grant Price***

The Grant Price under the Incentive Scheme is RMB11.72 per Restricted A Share. The Participants who have satisfied the conditions of the Grant can subscribe for the Restricted A Shares at the price of RMB11.72 per Restricted A Share.

The Grant Price shall not be lower than the nominal value of the Shares, and shall not be lower than the higher of:

- (i) Scenario 1: 50% of the average trading price of the Company’s Shares for the trading day immediately preceding the date of the announcement of the draft Incentive Scheme; and
- (ii) Scenario 2: one of the 50% of the average trading price of the Company’s Shares for 20, 60, or 120 trading days immediately preceding the date of the announcement of the draft Incentive Scheme.

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The following table sets forth the details of the average trading price of the Company's A Shares for 1, 20, 60, and 120 trading day(s) immediately preceding the date of the announcement of the draft Incentive Scheme:

	Scenario 1	Scenario 2			The minimum
	1 trading day	20 trading days	60 trading days	120 trading days	Grant Price
	RMB	RMB	RMB	RMB	RMB
Average trading price of A Share	23.44	23.29	27.03	22.25	–
50% of the average trading price of A Share	11.72	11.65	13.52	11.13	11.72

### 3. *The validity period*

The validity period of the Incentive Scheme shall commence from the date of registration of the Restricted A Shares under the first Grant and end on the date when all the Restricted A Shares, which have been granted to the Participants, are unlocked or repurchased and cancelled. It shall not exceed 60 months in any event.

### 4. *Lock-up periods and unlocking conditions*

The Lock-up Periods shall be 24 months, 36 months and 48 months from the date of registration of the Restricted A Shares. The Restricted A Shares to be granted to the Participants under the Incentive Scheme shall not be transferred, pledged or used for repayment of debt during the Lock-up Periods.

In the event of any changes in the lock-up Restricted A Shares, such as the conversion of capital reserve into share capital, bonus issue, or share split, the additional Shares derived from the above changes shall be subject to the locking restrictions in accordance with the Incentive Scheme. If the Company repurchases the lock-up Restricted Shares, such Shares shall be cancelled at the same time.

In relation to the details of the unlocking conditions, please refer to the section headed “II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME – 7. Conditions of Grant and unlocking of Restricted Shares under Incentive Scheme – (II) Unlocking Conditions” in the Letter from the Board.

## E. **Assessment on the terms of the Incentive Scheme**

To assess the fairness and reasonableness of the terms of the Incentive Scheme, we have conducted searches to identify the restricted A share incentive schemes which were announced by the companies listed on the main board of Shanghai Stock Exchange (the “**Comparable Schemes**”) from 1 November 2021 to 30 November 2021 (the “**Review Period**”), being one month prior to the date of the announcement of the Incentive Scheme.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To the best of our knowledge, we have identified 20 companies which are exhaustive as far as we are aware of. Considering that the terms of the Comparable Schemes reflected the latest market conditions in determining the terms of the restricted A share incentive schemes by the companies listed on the main board of Shanghai Stock Exchange, we consider the duration of the Review Period is fair and reasonable and thus adopted a one-month period as Review Period.

Although the companies of the Comparable Schemes might have different principal business activities, profitability and financial position as compared with the Company, and the grant of the restricted A shares varies case by case, we consider the Comparable Schemes can provide a general reference to the market practice of restricted A share incentive schemes adopted by companies listed on the main board of Shanghai Stock Exchange.

The following table sets forth the summary of the Comparable Schemes:

No.	Date of announcement	Company name (Stock code)	Was the initial grant price determined with reference to the benchmark price ( <i>Note 1</i> )? If yes, the percentage of the benchmark price	Are there any unlocking arrangements?	Lock-up period from the date on which the grant has been registered	Any conditions for unlocking the restricted A shares which are based on, among others, the participants' performance and/or financial performance of the listed company?	Proportion of the restricted A shares to be granted to the total issued share capital of the listed company as at the date of the draft incentive scheme	Proportion of the restricted A shares to be granted to the total issued share capital of the listed company as at the date of the draft incentive scheme
1	3 November 2021	Jiangsu Etern Company Limited (江蘇永鼎股份有限公司) (SH600105)	Yes. 50%	Yes	12/24/36 months	Yes	0.04%	2.530%
2	5 November 2021	Grace Fabric Technology Co., Ltd. (宏和電子材料科技股份有限公司) (SH603256)	Yes. 50%	Yes	18/30/42 months	Yes	0.006% to 0.045%	0.797%
3	6 November 2021	Yingkou Jinchun Machinery Co., Ltd. (營口金辰機械股份有限公司) (SH603396)	Yes. 50%	Yes	12/24/36 months	Yes	0.0031% to 0.0309%	0.948%
4	6 November 2021	Well Lead Medical Co., Ltd. (廣州維力醫療器械股份有限公司) (SH603309)	Yes. 50%	Yes	12/24/36 months	Yes	0.03% to 0.05%	1.920%

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No.	Date of announcement	Company name (Stock code)	Was the initial grant price determined with reference to the benchmark price ( <i>Note 1</i> )? If yes, the percentage of the benchmark price	Are there any unlocking arrangements?	Lock-up period from the date on which the grant has been registered	Any conditions for unlocking the restricted A shares which are based on, among others, the participants' performance and/or financial performance of the listed company?	Proportion of the restricted A shares to be granted to individual director/senior management to the total share capital of the listed company	Proportion of restricted A shares to be granted to the total issued share capital of the listed company as at the date of the announcement of the draft incentive scheme
5	10 November 2021	Harbin Dongan Auto Engine Co., Ltd. (哈爾濱東安汽車動力股份有限公司) (SH600178)	Yes. 50%	Yes	24/36/48 months	Yes	0.017% to 0.03%	2.969%
6	12 November 2021	Wuxi NCE Power Co., Ltd. (無錫新潔能股份有限公司) (SH605111)	Yes. 50%	Yes	12/24/36 months	Yes	0.01% to 0.05%	1.000%
7	12 November 2021	Mingxin Automotive Leather Co., Ltd. (明新旭騰新材料股份有限公司) (SH605068)	Yes. 50%	Yes	16/28/40 months	Yes	0.09%	0.450%
8	13 November 2021	Cybird Technologies Inc. (蘇州賽伍應用技術股份有限公司) (SH603212)	Yes. 50%	Yes	12/24/36 months	Yes	0.0025% to 0.0525%	1.250%
9	17 November 2021	AIMA Technology Group Co., Ltd. (愛瑪科技集團股份有限公司) (SH603529)	Yes. 50%	Yes	15/27/39 months	Yes	0.05% to 0.1%	1.750%
10	18 November 2021	Ningbo Sanxing Medical Electric Co., Ltd. (寧波三星醫療電氣股份有限公司) (SH601567)	Yes. 50%	Yes	12/24/36 months	Yes	0.04% to 0.05%	1.300%
11	18 November 2021	China Design Group Co., Ltd. (華設設計集團股份有限公司) (SH603018)	Yes. 50%	Yes	18/36 months	Yes	0.07% to 0.21%	2.270%

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No.	Date of announcement	Company name (Stock code)	Was the initial grant price determined with reference to the benchmark price ( <i>Note 1</i> )? If yes, the percentage of the benchmark price	Are there any unlocking arrangements?	Lock-up period from the date on which the grant has been registered	Any conditions for unlocking the restricted A shares which are based on, among others, the participants' performance and/or financial performance of the listed company?	Proportion of the restricted A shares to be granted to individual director/senior management to the total share capital of the listed company	Proportion of restricted A shares to be granted to the total issued share capital of the listed company as at the date of the announcement of the draft incentive scheme
12	19 November 2021	Ningbo Menovo Pharmaceutical Co., Ltd. (寧波美諾華藥業股份有限公司) (SH603538)	Yes. 50%	Yes	12/24/36 months	Yes	0.11% to 0.13%	3.330%
13	19 November 2021	Guangdong HEC Technology Holding Co., Ltd. (廣東東陽光科技控股股份有限公司) (SH600673)	Yes. 50%	Yes	12/24/36 months	Yes	0.03% to 0.95%	3.840%
14	22 November 2021	China National Software and Service Company Limited (中國軟體與技術服務股份有限公司) (SH600536)	Yes. 50%	Yes	24/36/48 months	Yes	0.0103%	2.999%
15	23 November 2021	China Railway Group Limited (中國中鐵股份有限公司) (SH601390)	Yes. 60%	Yes	24/36/48 months	Yes	0.002%	0.982%
16	23 November 2021	Zhejiang Fulai New Material Co., Ltd. (浙江福萊新材料股份有限公司) (SH605488)	Yes. 50%	Yes	15/27/39 months	Yes	0.07% to 0.75%	2.000%
17	25 November 2021	Zhuzhou Qianjin Pharmaceutical Co., Ltd. (株洲千金藥業股份有限公司) (SH600479)	Yes. 50%	Yes	24/36/48 months	Yes	0.05%	3.000%
18	25 November 2021	Shinva Medical Instrument Co., Ltd. (山東新華醫療器械股份有限公司) (SH600587)	Yes. 50%	Yes	24/36/48 months	Yes	0.02% to 0.03%	1.480%



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No.	Date of announcement	Company name (Stock code)	Was the initial grant price determined with reference to the benchmark price (Note 1)? If yes, the percentage of the benchmark price	Are there any unlocking arrangements?	Lock-up period from the date on which the grant has been registered	Any conditions for unlocking the restricted A shares which are based on, among others, the participants' performance and/or financial performance of the listed company?	Proportion of the restricted A shares to be granted to individual director/senior management to the total share capital of the listed company	Proportion of restricted A shares to be granted to the total issued share capital of the listed company as at the date of the announcement of the draft incentive scheme
19	27 November 2021	China Three Gorges Renewables (Group) Co., Ltd. (中國三峽新能源(集團)股份有限公司) (SH600905)	Yes. 50%	Yes	24/36/48 months	Yes	0.001% to 0.002%	0.213%
20	30 November 2021	Orient International Enterprise, Ltd. (東方國際創業股份有限公司) (SH600278)	Yes. 50%	Yes	24/36/48 months	Yes	Nil to 0.023%	2.020%
	1 December 2021	<b>The Company</b>	<b>Yes. 50%</b>	<b>Yes</b>	<b>24/36/48 months</b>	<b>Yes</b>	<b>0.003% to 0.004%</b>	<b>1.290%</b>
		<b>Maximum percentage</b>	<b>60%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.95%</b>	<b>3.840%</b>
		<b>Minimum percentage</b>	<b>50%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Nil</b>	<b>0.213%</b>

*Source: Announcements of the draft incentive scheme of each company*

*Note 1:* According to the Administrative Measures, under the restricted share incentive schemes, the grant price shall not be lower than (i) the nominal value of the shares; and (ii) the higher of 50% of:

- (a) the average trading price of the company's shares on the trading day immediately preceding the date of the announcement of the draft incentive scheme; and
- (b) one of the average trading price of the company's shares for 20, 60, or 120 trading days immediately preceding the date of the announcement of the draft incentive scheme.

*(Collectively, the "Benchmark Price")*

### **1. The number of Restricted A Shares to be granted to the Participants**

As depicted from the above table, (i) the proportion of the restricted A shares to be granted to individual director/senior management under the Comparable Schemes to the total share capital of the respective companies ranged from nil to 0.95%; and (ii)

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the proportion of the restricted A shares to be granted to the total issued share capital of the listed company as at the date of the announcement of the draft incentive scheme ranged from 0.213% to 3.840% (collectively, the “**Comparable Percentage Ranges**”). The percentages of the above two criteria of the Company fall within the Comparable Percentage Ranges.

Having considered the above, we are of the view that the number of Restricted A Shares to be granted to the Participants (including the Connected Participants) is fair and reasonable so far as the Independent Shareholders are concerned.

### ***2. The Grant Price***

As advised by the Directors, the Grant Price has to comply with the requirements set out under the Administrative Measures as disclosed in “Note 1” above. We have recalculated the Grant Price according to the requirements under the Administrative Measures as disclosed under the section headed “PRINCIPAL FACTORS AND REASONS CONSIDERED – D. Principal terms of the Incentive Scheme – 2. The Grant Price” in this letter, and is of the view that the Grant Price complies with the requirements under the Administrative Measures.

As demonstrated in the above table, the grant price of most of the Comparable Schemes were determined based on 50% of the Benchmark Price.

In view of the above, given that the Grant Price complies with the requirements under the Administrative Measures and its determination is in line with the market practice, we consider that the Grant Price is fair and reasonable so far as the Independent Shareholders are concerned.

### ***3. The Lock-up Periods and unlocking conditions***

With reference to the Letter from the Board, the Lock-up Periods shall be 24 months, 36 months and 48 months from the date of registration of the Restricted A Shares. We note that the lock-up periods under the Comparable Schemes are similar to that of the Incentive Scheme.

In respect of the unlocking conditions, we understood from the Company that all the requirements under the unlocking conditions must be fulfilled before the Restricted A Shares granted to the Participants can be unlocked. As shown in the above table, it is a common practice to make the attribution of restricted shares conditional on, amongst others, the awardees’ performance and/or financial performance of the companies. We are of the view that the unlocking conditions will strengthen the incentive for the Participants (including the Connected Participants) to put their efforts to achieve the performance targets, which will contribute to the growth and development of the Company.

Based on the above, we consider that the Lock-up Periods and the unlocking conditions of the Incentive Scheme are fair and reasonable so far as the Independent Shareholders are concerned.

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### **4. *Method of adjusting the number of the Restricted A Shares and the Grant Price***

The number of Restricted A Shares and the Grant Price are subject to adjustment according to various situations (e.g. conversion of capital reserve into share capital, bonus issue, share split, rights issue, or share consolidation) during the period from the date of the announcement of the draft Incentive Scheme to the completion of registration of the Restricted A Shares held by the Participants. For details, please refer to the sections headed “II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME – 8. Methods and procedures of the Incentive Scheme – (I) Methods of adjusting the number of Restricted Shares” and “II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME – 8. Methods and procedures of the Incentive Scheme – (II) Methods of adjusting the Grant Price” in the Letter from the Board.

We noted that all the Comparable Schemes have adjustment mechanism on the number of restricted A shares and the price of the grant (the “Adjustment Mechanism”). Therefore, we have compared the Adjustment Mechanism under the Incentive Scheme with that under the Comparable Schemes. We note that terms of the Adjustment Mechanism under the Incentive Scheme, including the situation applicable for and the calculation formulae under the Adjustment Mechanism, are substantially identical to those under the Comparable Schemes. Thus, the Adjustment Mechanism under the Incentive Scheme is comparable to that under the Comparable Schemes.

Considering that the Adjustment Mechanism under the Incentive Scheme (i) will be applied to all the Participants (including the Connected Participants); and (ii) is comparable to that under the Comparable Schemes, we are of the view that the Adjustment Mechanism under the Incentive Scheme is fair and reasonable.

### **5. *Black-out periods***

As disclosed in the Letter from the Board, the requirements for black-out periods under the Incentive Scheme shall be implemented in accordance with the Company Law, the Securities Law and other relevant laws, regulations and regulatory documents and the Articles of Association. For details, please refer to the section headed “II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME – 6. Schedule of the Incentive Scheme – (V) Black-out periods” in the Letter from the Board.

We noted that the requirements for the black-out periods are included in all the Comparable Schemes. Therefore, we have compared the requirements for the black-out periods under the Incentive Scheme with those under the Comparative Schemes. We noted that the requirements for the black-out periods under the Incentive Scheme are substantially identical to those under the Comparative Schemes. Thus, the requirements of the black-out periods under the Incentive Scheme are comparable to those under the Comparable Schemes.

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Considering that the requirements of the black-out periods under the Incentive Scheme (i) will be applied to all the Participants (including the Connected Participants); (ii) are comparable to those under the Comparable Schemes; and (iii) are in line with the requirements under Company Law and Securities Law, we are of the view that the requirements of the black-out periods under the Incentive Scheme are fair and reasonable.

### 6. *Remuneration package of the Connected Participants*

The following table set out (i) the number of Restricted A Shares to be granted to the Connected Participants; and (ii) the estimated total remuneration of the Connected Participants, having considered the Grant, for illustration purpose:

Name of the Participants	Number of Restricted A Shares to be granted <i>Thousand Shares</i> a	Percentage of Restricted A Shares to be granted to the Connected Participants over those to be granted to the Participants c=a/b	Estimated total amortized cost of the grant of the Restricted A Shares during the Lock-up Periods RMB'000 e=c*d	Average amortized cost of the grant of the Restricted A Shares during each year of the Lock-up Periods RMB'000 f=e/4	Total remuneration for the year ended 31 December 2020 as shown in the Company's accounting record for the year ended 31 December 2020 RMB'000 g	Estimated total remuneration after taking the share-based payment into account <i>(Note 1)</i> RMB'000 h=f+g	Percentage of estimated total remuneration over the operating cost of the Group for the year ended 31 December 2020 <i>(Note 2)</i> %
Connected Participants:							
Mr. Xiao	200	0.32	2,418	605	1,155 <i>(Note 3)</i>	1,760	0.0028
Mr. Wang	160	0.25	1,889	472	1,225 <i>(Note 4)</i>	1,697	0.0027
Mr. Zhao	160	0.25	1,889	472	1,030 <i>(Note 4)</i>	1,502	0.0024
Mr. Huang	160	0.25	1,889	472	410 <i>(Note 5)</i>	882	0.0014
Other Participants	62,300	98.93	747,675	186,919			
Total	62,980(b)	100	755,760(d)	188,940			

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. It is assumed that total remunerations of the Connected Participants (excluding the Connected Grant) during each year of the Lock-up Periods would remain the same as those for the year ended 31 December 2020.
2. The operating cost of the Group for the year ended 31 December 2020 amounted to approximately RMB63,464 million, consisting of cost of sales and selling, general and administrative expenses.
3. Mr. Xiao's total remuneration for the year ended 31 December 2020 consisted of salaries, allowance, other benefits in kind, and retirement benefit scheme contributions.
4. Mr. Wang and Mr. Zhao's total remuneration for the year ended 31 December 2020 has been disclosed in the 2020 Annual Report.
5. Mr. Huang joined the Company in August 2021. For four months ended 30 November 2021, his monthly average remuneration amounted to approximately RMB34,000, consisting of salaries, allowance, other benefits in kind, and retirement benefit scheme contributions. Mr. Huang's annual remuneration was calculated on a pro rata basis with reference to the above monthly average remuneration for illustration purpose.

As shown in the above table, the estimated total remuneration of the Connected Participants ranged from approximately RMB882,000 to approximately RMB1.8 million, whereas the percentage of estimated total remuneration over the operating cost of the Group for the year ended 31 December 2020 ranged from 0.0014% to 0.0028%.

In order to assess the fairness and reasonableness of the remuneration package of the Connected Participants, we have conducted searches on the remuneration of the executive directors of other listed companies fulfilling the following criteria (the “Comparable Companies”):

- (i) the Comparable Companies shall be dual listed in the PRC and Hong Kong;
- (ii) the Comparable Companies shall be mainly engaged in coal-related business, including but not limited to the mining, processing, and/or sales of the coal;
- (iii) the Comparable Companies shall be operated mainly in the PRC;
- (iv) the Comparable Companies shall be under normal business operation and not be under provisional liquidation; and
- (v) the Comparable Companies have implemented restricted A share incentive schemes up to the date of the announcement of the draft Incentive Scheme.

To the best of our knowledge, we could not find any Comparable Companies which met the aforementioned criteria. Therefore, we have revised the criteria of the Comparable Companies as follows:

- (i) the Comparable Companies shall be listed on the Stock Exchange;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the Comparable Companies shall be mainly engaged in coal-related business, including but not limited to the mining, processing, and/or sales of the coal;
- (iii) the Comparable Companies shall be operated mainly in the PRC; and
- (iv) the Comparable Companies shall be under normal business operation and not be under provisional liquidation.

Based on the above criteria, we have selected 14 Comparable Companies. We are of the view that (i) the list of the Comparable Companies represented an exhaustive list of the companies fulfilling the above selection criteria; and (ii) the sample size is meaningful and representative. Although the details with respect to each Comparable Company and its executive director(s) such as responsibilities, experience and year of tenure of each executive director as well as the scale of each Comparable Company may vary, we consider that the Comparable Companies can provide a general reference for common market practice in determining the remuneration packages of executive directors of the companies engaging in coal business.

The following table set out the details of the remuneration package of the executive directors of the Comparable Companies:

No.	Name	Stock Code	Currency and unit	Financial year in which the remunerations and the operating cost of the company were recognized	Highest remuneration of all the executive directors as stated in the annual reports of the Comparable Company/ accounting record of the Company	Percentage of the highest remuneration over the total operating cost of the company (Note 2, 3) %	Lowest remuneration of all the executive directors as stated in the annual reports of the Comparable Company/ accounting record of the Company	Percentage of the lowest remuneration over the total operating cost of the company (Note 2, 3) %
1	Green Leader Holdings Group Limited	61.HK	HK\$'000	31 December 2020	1,581	0.1080	255	0.0174
2	Grand Ocean Advanced Resources Company Limited	65.HK	HK\$'000	31 December 2020	1,752	1.0264	–	–
3	Shougang Fushan Resources Group Limited	639.HK	HK\$'000	31 December 2020	3,311	0.1231	–	–
4	Huscoke Holdings Limited	704.HK	HK\$'000	31 December 2019 (Note 1)	4,178	0.2547	517	0.0315
5	China Qinfu Group Limited	866.HK	RMB'000	31 December 2020	2,740	0.1283	984	0.0461
6	China Shenhua Energy Company Limited	1088.HK	RMB'000	31 December 2020	510	0.0003	–	–
7	Nan Nan Resources Enterprise Limited	1229.HK	HK\$'000	31 March 2021 (Note 4)	1,652	1.4875	1,352	1.2173
8	Kinetic Mines and Energy Limited	1277.HK	RMB'000	31 December 2020	3,000	0.1655	625	0.0345
9	Hidili Industry International Development Limited	1393.HK	RMB'000	31 December 2020	1,471	0.1535	317	0.0331

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Name	Stock Code	Currency and unit	Financial year in which the remunerations and the operating cost of the company were recognized	Highest remuneration of all the executive directors as stated in the annual reports of the Comparable Company/ accounting record of the Company	Percentage of the highest remuneration over the total operating cost of the company (Note 2, 3) %	Lowest remuneration of all the executive directors as stated in the annual reports of the Comparable Company/ accounting record of the Company	Percentage of the lowest remuneration over the total operating cost of the company (Note 2, 3) %
10	E-Commodities Holdings Limited	1733.HK	HK\$'000	31 December 2020	12,607	0.0592	5,330	0.0250
11	Feishang Anthracite Resources Limited	1738.HK	RMB'000	31 December 2020	323	0.0328	–	–
12	China Coal Energy Company Limited	1898.HK	RMB'000	31 December 2020	– (Note 5)	– (Note 5)	– (Note 5)	– (Note 5)
13	Perennial Energy Holdings Limited	2798.HK	RMB'000	31 December 2020	2,865	0.3135	511	0.0559
14	Inner Mongolia Yitai Coal Co., Ltd.	3948.HK	RMB'000	31 December 2020	2,641	0.0096	24	0.0001
	<b>The Company</b>	<b>1171.HK</b>	<b>RMB'000</b>	<b>31 December 2020</b>	<b>1,760</b>	<b>0.0028</b>	<b>883</b>	<b>0.0014</b>
	<b>Highest percentage</b>					<b>1.4875</b>		<b>1.2173</b>
	<b>Lowest percentage</b>					<b>–</b>		<b>–</b>
	<b>Average</b>					<b>0.2759</b>		<b>0.1044</b>
	<b>Median</b>					<b>0.1257</b>		<b>0.0212</b>

Source: The annual reports of the respective Comparable Company

Notes:

- As at the Latest Practicable Date, the company has not published the audited annual results for the year ended 31 December 2020. As such, the remuneration represented the executive directors' emolument paid by the Comparable Company during the year ended 31 December 2019.
- The operating costs of the Comparable Companies consisted of cost of sales, selling and distribution expenses, and administrative and other operating expenses of the financial year.
- The remuneration of the executive directors of the Comparable Companies consisted of (i) fees; (ii) salaries, allowances, and benefits; (iii) discretionary bonus; and/or (iv) retirement benefit schemes.
- The remuneration represented the executive directors' emolument paid by the Comparable Company during the year ended 31 March 2021.
- No remuneration was paid to the directors for the year ended 31 December 2020 as the remuneration was paid by its controlling shareholder.
- Save for Comparable Company 4 (i.e., Huscoke Holdings Limited, as disclosed in Note 1 above) and Comparable Company 7 (i.e., Nan Nan Resources Enterprise Limited, as disclosed in Note 4 above), the remuneration represented the executive directors' emolument paid by the remaining respective Comparable Companies during the year ended 31 December 2020.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the table above, the percentage of the highest and lowest remuneration of the Connected Participants, including (a) salaries; (b) allowance; (c) other benefits in kind; (d) retirement benefit scheme contributions; and (e) amortized cost of the grant of the Restricted A Shares, over the total operating cost of the Company (i) both fall within the respective ranges of the Comparable Companies; and (ii) are both lower than the average and median of the respective percentages of the Comparable Companies. Based on the above, we are of the view that the remuneration package for the Connected Participants upon completion of the Grant is fair and reasonable.

### 7. Conclusion

Based on our assessment on (i) the number of Restricted A Shares to be granted to the Participants; (ii) the Grant Price; (iii) the Lock-up Periods and unlocking conditions of the Incentive Scheme; (iv) the Adjustment Mechanism of the Incentive Scheme; (v) the black-out periods; and (vi) the remuneration package of the Connected Participants, we are of the view that terms on the Incentive Scheme is fair and reasonable so far as the Independent Shareholders are concerned.

### F. Financial impact of the Incentive Scheme to the Group

With reference to the letter of the Board, the estimated total amortization expenses of the Incentive Scheme amounted to approximately RMB755.8 million, assuming that (i) the Grant under the Incentive Scheme will take place since January 2022; (ii) the Restricted A Shares will be unlocked during the Lock-up Periods without any lapse; and (iii) the Restricted A Shares will not be repurchased or cancelled during the Lock-up Periods. The details of the total amortization expenses are set forth in the following table for illustration purpose:

Financial year	Estimated amortization expenses of the Incentive Scheme RMB'000 a	Required earnings per Share of the Group under the unlocking conditions of the Incentive Scheme (Note 1) RMB b	Number of issued Shares of the Company (Note 2) Thousand Shares c	Required net profit after taxation of the Group under the unlocking conditions of the Incentive Scheme (the "Targeted Net Profit") (Note 3) RMB'000 d=b*c	Percentage of the estimated amortization expenses of the Incentive Scheme over the required net profit after taxation of the Group under the unlocking conditions of the Incentive Scheme % e=a/d
For the year ending 31 December:					
2022	272,074	1.95	4,874,184	9,504,659	2.9
2023	272,074	2.05	4,874,184	9,992,077	2.7
2024	147,372	2.15	4,874,184	10,479,496	1.4
2025	64,240	N/A	N/A	N/A	N/A
Total	<u>755,760</u>			<u>29,976,232</u>	2.5



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. The required earnings per Share of the Group under the unlocking conditions of the Incentive Scheme is extracted from the table regarding the performance appraisal conditions under the section headed “II. PROPOSED ADOPTION OF THE RESTRICTED A SHARE INCENTIVE SCHEME – 7. Conditions of Grant and unlocking of Restricted Shares under Incentive Scheme – (II) Unlocking Conditions – 3. Performance appraisal requirements at the Company’s level” of the Letter from the Board.
2. For illustration purpose, it is assumed that the number of the issued Shares of the Company will remain unchanged during each of the four years ending 31 December 2025.
3. The Targeted Net Profit represents the profit, after excluding any profit or loss of the Group generated by activities outside the ordinary and usual course of the business of the Group, attributable to the Shareholders.
4. The final amortization expenses of the Incentive Scheme incurred in each of the year ending 31 December 2022 to 2025 will be subject to the audit.

Before the Company incurs the amortized expenses in the respective financial year, the Company must achieve the Targeted Net Profit in respective financial years to fulfill the unlocking conditions under the Incentive Scheme. If all of the unlocking conditions under the Incentive Scheme are fulfilled, the Group should achieve at least an aggregate Targeted Net Profit of approximately RMB29,976 million for the three years ending 31 December 2024.

As shown in the table above, the estimated amortization expenses represent only (i) approximately 2.5% of the aggregated Targeted Net Profit for the three years ending 31 December 2024; and (ii) approximately 1.4% to 2.9% of the Targeted Net Profit in each of the three years ending 31 December 2024. Given that the estimated amortization expenses are immaterial to the profitability of the Group, we are of the view that the Incentive Scheme is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

### **G. Dilution effect on the shareholding interests of the existing Shareholders of the Company**

As disclosed in the table under the section headed “III. CONNECTED TRANSACTION – GRANT OF RESTRICTED A SHARES TO THE CONNECTED PARTICIPANTS UNDER THE INCENTIVE SCHEME – Impact of adoption of the Restricted A Share Incentive Scheme on the shareholding structure of the Company” in the Letter from the Board, an aggregate of 62,980,000 Restricted A Shares will be granted to the Participants under the Incentive Scheme, representing approximately 1.29% of the total share capital of 4,874,184,060 Shares of the Company as at the Latest Practicable Date. Accordingly, the dilution effect on the shareholding interests of the existing Shareholders of Company will be immaterial.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Connected Grant are on normal and commercial terms and are fair and reasonable; (ii) although the Connected Grant is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM and Class Meetings (as the case may be) to approve the Connected Grant, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

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

*Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 20 years of experience in corporate finance advisory.*

**Yankuang Energy Group Company Limited\***  
**2021 Restricted A Share Incentive Scheme (Revised Draft)**

**Yankuang Energy Group Company Limited\***

**December 2021**

*\* For identification purposes only*

### **DISCLAIMER**

The Company and all directors and supervisors warrant that there are no false entries, misleading statements or material omissions in the Scheme, and accept individual and joint legal responsibility for its truthfulness, accuracy and completeness.

### **SPECIAL REMINDER**

- I. The Incentive Scheme is formulated in accordance with the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Securities Law of the People's Republic of China (《中華人民共和國證券法》), the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》), the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175號)), the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171號)) and the Articles of Association of Yankuang Energy Group Company Limited\* ("Yankuang Energy" or the "Company") as well as other relevant laws, regulations and regulatory documents.
- II. None of the following circumstances under which the implementation of the share incentive shall not be conducted as stipulated in Article 7 of the Management Measures for Share Incentives of Listed Companies has occurred to the Company:
  - (i) issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
  - (ii) issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  - (iii) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  - (iv) prohibition from implementation of a share incentive scheme by laws and regulations;
  - (v) other circumstances as determined by the CSRC.

\* For identification purposes only

- III. None of the following circumstances under which one is unqualified as a participant as stipulated in Article 8 of the Management Measures for Share Incentives of Listed Companies has occurred to a Participant under the Incentive Scheme:
- (i) having been determined to be an inappropriate candidate by the Stock Exchange in the past 12 months;
  - (ii) having been determined to be an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
  - (iii) having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
  - (iv) being prohibited from acting as a director or senior management member of the Company by the Company Law;
  - (v) being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
  - (vi) other circumstances as determined by the CSRC.
- IV. The incentive instruments under the Incentive Scheme are the Restricted Shares which shall be ordinary A shares of the Company issued by the Company to the Participants under the Incentive Scheme.
- V. The Restricted Shares that may be granted to the Participants under the Incentive Scheme shall be 62,980,000 shares, representing 1.29% of the total share capital of the Company of 4,874,184,100 shares.
- The total number of the Restricted Shares to be granted under the Incentive Scheme to any one of the Participants shall not exceed 1% of the Total Share Capital of the Company prior to the date on which the Incentive Scheme was proposed to the general meetings for consideration.
- VI. The Grant Price of the Restricted Shares shall be RMB11.72 per share.
- VII. The total number of Participants under the Incentive Scheme shall be 1,268, which includes directors, senior management, middle-level management and key personnel of the Company, and do not include the external directors, supervisors and any shareholder or actual controller, whether jointly or individually, holding more than 5% of the Shares of the Company, or their respective spouses, parents and children.

- VIII. The Validity Period of the Incentive Scheme shall commence on the date on which the registration of the grant of the Restricted Shares is completed and end on the date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled, which shall not exceed 60 months.
- IX. The subscription for the Restricted Shares by the Participants shall be funded by themselves. The Company shall undertake not to provide loans, loan guarantee and any other form of financial assistances to the Participants for the acquisition of the Restricted Shares granted under the Scheme.
- X. The Participants shall undertake that where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of rights, they shall return to the Company all interests gained through the Incentive Scheme when it is confirmed that the relevant information disclosure documents of the Company contain false statements or misleading statements or material omissions.
- XI. The implementation of the Incentive Scheme is subject to the following conditions: verification and approval of the Shandong Energy Group, filing by the State-owned Assets Supervision and Administration Commission of the State Council of Shandong Province and consideration and approval at the general meetings.
- XII. Within 60 days after the Incentive Scheme is considered and approved at the general meetings of the Company, the Company shall grant the Restricted Shares to the Participants and complete the registration, announcement and other relevant procedures. If the Company fails to complete the above work within 60 days, the implementation of the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.
- XIII. The implementation of the Incentive Scheme shall not result in the shareholding structure of the Company to fail to meet listing requirements.

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**CHAPTER I DEFINITION**

Unless otherwise requires, the following expressions herein shall have the following meanings:

Administrative Measures	the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》)
Articles of Association	Articles of Association of Yankuang Energy Group Company Limited*
Company Law	the Company Law of the People's Republic of China (《中華人民共和國公司法》)
CSRC	the China Securities Regulatory Commission
Grant Date	the date on which the Company grants the Restricted Shares to the Participants, which must be a trading day
Grant Price	the price at which each Restricted Share is granted by the Company to the Participants
Incentive Scheme, Scheme	the 2021 Restricted A Share Incentive Scheme
Lock-up Period	the period during which the Restricted Shares are restricted to be transferred or assigned or used as guarantee or for repayment of debts, if the conditions for exercise of entitlements by the Participants are not satisfied
Notice	the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171號))
Participant(s)	employees of the Company who are eligible to be granted a certain number of the Restricted Shares in accordance the provisions of the Incentive Scheme
Restricted Shares	a certain number of shares of the Company granted to the Participants by the Company under the conditions and at the price as stipulated in the Incentive Scheme, which are subject to the Lock-up Period and can only be unlocked for trading when the Unlocking Conditions under the Incentive Scheme are satisfied

\* For identification purposes only



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**APPENDIX I 2021 RESTRICTED A SHARE INCENTIVE SCHEME (REVISED DRAFT)**

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RMB	Renminbi
SASAC	State-owned Assets Supervision and Administration Commission of Shandong Province
Securities Depository and Clearing Company	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
Securities Law	the Securities Law of the People's Republic of China (《中華人民共和國證券法》)
Shandong Energy Group	Shandong Energy Group Company Limited* (山東能源集團有限公司)
SSE	the Shanghai Stock Exchange
Total Share Capital	the total issued share capital of the Company at the time of announcement of the Incentive Scheme
Trial Measures	the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175 號))
Unlocking Condition(s)	the conditions prescribed under the Incentive Scheme which have to be satisfied to unlock the Restricted Shares granted to the Participants
Unlocking Period	the period during which the Restricted Shares held by the Participants can be unlocked and transferred after all the Unlocking Conditions prescribed under the Incentive Scheme are satisfied
Validity Period	the period commencing on the date on which the registration of the grant of the Restricted Shares is completed and ending on the completion date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled
Yankuang Energy, Company	Yankuang Energy Group Company Limited*

*Notes:*

1. Unless otherwise stated, the financial data and financial indicators referenced herein shall mean the financial data on a consolidated basis and financial indicators calculated based on such financial data;
2. Some figures shown as totals herein may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

\* For identification purposes only

**CHAPTER II PURPOSE AND PRINCIPLES OF THE RESTRICTED SHARE  
INCENTIVE SCHEME****I. PURPOSE OF THE INCENTIVE SCHEME**

For the purpose of further perfecting the medium-term to long-term incentive mechanism, fully mobilizing the enthusiasm of the management and key personnel of Yankuang Energy Group Company Limited\*, effectively aligning the interests of the Shareholders, the Company and the core team, and enhancing the Company's market competitiveness and sustainable development, the Company intends to implement the 2021 Restricted A Share Incentive Scheme in accordance with relevant requirements of the Company Law, the Securities Law, the Trial Measures, the Notice and the Administrative Measures.

**II. THE INCENTIVE SCHEME ADHERES TO THE FOLLOWING PRINCIPLES**

- (i) Being lawful, open and transparent, and abiding by laws, regulations and the requirements of the Articles of Association;
- (ii) Safeguarding the interests of the Shareholders and the Company, improving value preservation and appreciation of state-owned assets, and contributing to the Company's sustainable development;
- (iii) Combining incentives with constraints, making risks commensurate with returns and enhancing incentives for the Company's management team;
- (iv) Being practicable and standardized, rolling out step by step and improving constantly.

\* For identification purposes only

**CHAPTER III ADMINISTRATIVE BODIES OF THE INCENTIVE SCHEME**

- I. The general meeting, as the body vested with the supreme authority of the Company, is responsible for consideration and approval of the implementation, change and termination of the Incentive Scheme.
- II. The board of directors shall act as the executive and administrative body for the Incentive Scheme. The subordinate Remuneration Committee under the Board of Directors is responsible for drafting and revising the Incentive Scheme and submitting the same to the board of directors for consideration. Upon consideration and approval of the Incentive Scheme, the board of directors will submit the Incentive Scheme to the general meeting of the Company for consideration. The board of directors may handle matters related to the Incentive Scheme within its scope of authority as delegated by the general meeting.
- III. The Supervisory Committee shall act as the supervisory authority for the Incentive Scheme, and shall be responsible for verifying the list of Participants, and shall supervise the implementation of the Incentive Scheme as to whether it is in compliance with the relevant laws, administrative regulations, departmental regulations and operational rules of SSE.
- IV. The independent directors shall issue independent opinions as to whether the Incentive Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the Shareholders as a whole, and shall solicit voting rights by proxy from all shareholders in respect of the Incentive Scheme.
- V. Where amendments have been made to the Share Incentive Scheme before the Share Incentive Scheme is passed at the general meeting, the independent directors and the Supervisory Committee shall issue independent opinions as to whether the amended Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the shareholders as a whole.
- VI. Before any entitlements are granted to a Participant, the independent directors and the Supervisory Committee shall issue clear opinions as to whether the conditions stipulated for the Participant to receive such entitlements as set out in the Share Incentive Scheme have been fulfilled. In the event of any discrepancy between the entitlements granted to a Participant and the arrangement under the Incentive Scheme, the independent directors and the Supervisory Committee (where there are changes the Participants) shall simultaneously issue clear opinions thereon.
- VII. Before the exercise of the any entitlement by a Participant, the independent directors and the Supervisory Committee shall issue clear opinions as to whether the conditions stipulated under the Share Incentive Scheme for the Participant to exercise such entitlements have been fulfilled.

**CHAPTER IV BASIS FOR DETERMINING THE PARTICIPANTS  
AND THE SCOPE OF THE PARTICIPANTS**

**I. BASIS FOR DETERMINING THE PARTICIPANTS**

**(i) Legal Basis for Determining the Participants**

The Participants of the Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, the Notice as well as other relevant laws, regulations, regulatory documents and the relevant requirements of the Articles of Association by taking into account the actual situation of the Company.

**(ii) Position Basis for Determining the Participants**

The Participants under the Incentive Scheme shall include the directors (excluding external directors), senior management, middle-level management and key personnel of the Company. All Participants under the Incentive Scheme are nominated by the Remuneration Committee of the board of directors of the Company and verified by the Supervisory Committee of the Company.

**II. SCOPE OF THE PARTICIPANTS**

The number of Participants under the Incentive Scheme shall be 1,268, specifically includes:

- (i) Directors (excluding external directors) and senior management;
- (ii) Middle-level management;
- (iii) Key personnel.
  - a. Key technical staffs: technical experts of the Company and professional technology (discipline) leaders.
  - b. Key skilled staffs: outstanding skilled production personnel who own various workshops such as “innovative workshop” and “model worker workshop”, or are honoured as the “great country craftsmen”, “craftsmen of Shandong Energy” or above, or are awarded titles at the Shandong provincial level and above.
  - c. Key business personnel: employees who are at the deputy head level or above in their departments or sections, and have worked in the Company for three years. Also, their annual appraisal results of management and technical personnel should be “competent” or above in 2019 and 2020, and “excellent” for at least one year. Among them, priority will be given to underground team leaders, production line workshop leader, outstanding professional and technical personnel, and model workers (at the Group and prefectural level).

Talents of criteria a and b are directly included in the scope of the Participants and those of criteria c are determined to be included in the scope of the Participants after investigation in accordance with relevant procedures.

The Participants under the Incentive Scheme do not include the external Directors, the Supervisors and any Shareholder or actual controller, whether jointly or individually, holding more than 5% of the Shares of the Company, or their respective spouses, parents and children.

Among the above Participants, Directors and senior management must be elected by the Shareholders at general meetings or appointed by the Board of Directors of the Company. All Participants must be employed by the Company or a controlled subsidiary upon the grant of the Scheme and have entered into a labour contract or an employment contract with the Company or a controlled subsidiary.

All Participants of the Incentive Scheme shall not participate in share incentive schemes of other listed companies at the same time and those who have already participated in incentive schemes of any other listed companies shall not participate in the Incentive Scheme. If the intended Participant has participated in the mid-term to long-term incentive scheme of an affiliated subsidiary, he/she can only choose between the Incentive Scheme and mid-term and long-term incentive schemes of subsidiaries and should, in principle, choose the Incentive Scheme.

### **III. VERIFICATION OF THE PARTICIPANTS**

- (i) After the Incentive Scheme is reviewed and approved by the Board, the Company shall internally announce the name and position of the Participants prior to the conversion of general meeting(s) for not less than 10 days.
- (ii) The Supervisory Committee of the Company shall review the list of the Participants and take sufficient consideration of the public opinions. The Company shall disclose the explanation of the Supervisory Committee regarding the review of the list of Participants and the status of announcement 5 days prior to the consideration of the Incentive Scheme at the general meeting of the Company. Any adjustments to the lists of the Participants made by the Board shall also be subject to verification by the Supervisory Committee of the Company.

**CHAPTER V SOURCE, NUMBER AND DISTRIBUTION OF RESTRICTED SHARES****I. SOURCE OF UNDERLYING SHARES**

The source of underlying Shares under the Incentive Scheme shall be the Company's RMB-dominated ordinary A Shares to be issued specifically by the Company to the Participants.

**II. NUMBER OF UNDERLYING SHARES**

The Restricted Shares that may be granted to the Participants under the Incentive Scheme shall be 62,980,000 shares, representing approximately 1.29% of the total share capital of the Company of 4,874,184,100 shares.

During the period from the date of the Incentive Scheme announcement to the completion of registration of the Restricted Shares of the Participants, in case of any conversion of capital reserve into share capital, bonus issue, share split or share consolidation or rights issue made by the Company, the number of Restricted Shares to be granted will be adjusted accordingly in accordance with the provisions of Chapter 9 of the Incentive Scheme.

**III. ALLOCATION OF THE RESTRICTED SHARES TO BE GRANTED AMONG THE PARTICIPANTS**

The allocation of the Restricted Shares to be granted among the Participants under the Incentive Scheme is set out in the table below:

Name	Position	Total number of the Restricted Shares to be granted (10,000 shares)	Proportion of the Restricted Shares to be granted to the total number of the Restricted Shares	Proportion of the Restricted Shares to the total share capital
Xiao Yaomeng	Secretary to the Party Committee, director and general manager	20	0.32%	0.004%
Wang Ruolin	Deputy secretary to the Party Committee, chairman of the Labour Union and employee director	16	0.25%	0.003%
Gong Zhijie	Deputy general manager	16	0.25%	0.003%
Zhang Yanwei	Deputy general manager	16	0.25%	0.003%
Zhao Qingchun	Director and chief financial officer	16	0.25%	0.003%
Zhang Chuanchang	Deputy general manager	16	0.25%	0.003%

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Name	Position	Total number of the Restricted Shares to be granted (10,000 shares)	Proportion of the Restricted Shares to be granted to the total number of the Restricted Shares	Proportion of the Restricted Shares to the total share capital
Tian Zhaohua	Deputy general manager	16	0.25%	0.003%
Liu Qiang	Deputy general manager	16	0.25%	0.003%
Li Weiqing	Deputy general manager	16	0.25%	0.003%
Huang Xiaolong	Director and secretary to the Board	16	0.25%	0.003%
Total of the above directors and senior management (10 persons)		164	2.60%	0.03%
Total of other Participants (1,258 persons)		6,134	97.40%	1.26%
Total		6,298	100.00%	1.29%

*Note:*

1. The Participants under the Incentive Scheme do not include the external Directors, the Supervisors and any Shareholder or actual controller, whether jointly or individually, holding more than 5% of the Shares of the Company, or their respective spouses, parents and children.
2. The total number of the Restricted Shares to be granted under the Incentive Scheme to any one of the Participants shall not exceed 1% of the total share capital of the Company prior to the date on which the Scheme was proposed to the general meeting for consideration.
3. Any difference between the figures shown as totals and the sum of the corresponding figures above results from the rounding of the above data.

**CHAPTER VI TIME ARRANGEMENT FOR THE INCENTIVE SCHEME****I. VALIDITY PERIOD OF THE INCENTIVE SCHEME**

The validity period of the Incentive Scheme is from the date of completion of registration of the Grant of the Restricted Shares to the date when all the Restricted Shares which have been granted to the Participants are unlocked or repurchased and cancelled, and shall not exceed 60 months in any event.

**II. GRANT DATE OF THE INCENTIVE SCHEME**

The Grant Date shall be determined by the Board of Directors of the Company after the Incentive Scheme has been reviewed and approved by Shandong Energy Group, filed by SASAC, and considered and approved at the general meetings of the Company. The Grant Date shall be a trading day. Within 60 days after the Scheme is considered and approved at the general meetings of the Company, and the conditions for the grant are satisfied, the Company shall convene a Board meeting to grant the Restricted Shares to Participants under the Incentive Scheme according to relevant provisions and complete registration, announcement and other relevant procedures. If the Company fails to complete the aforesaid tasks within 60 days, the Incentive Scheme will be terminated and the ungranted Restricted Shares shall lapse.

The Restricted Shares shall not be granted to the Participants by the Company in the following periods:

- (i) 30 days prior to the publication of periodic reports of the Company. Where there is a delay in publishing such reports due to special circumstances, the period shall be 30 days prior to the original date of publication to the day before the actual date of publication.
- (ii) 10 days prior to the publication of the Company's estimated operating results announcements and preliminary performance results announcements.
- (iii) the period from the date of occurrence of any significant event which may have a material impact on the trading prices of the Company's Shares and their derivatives or the date on which the relevant decision-making procedures begin, to the second trading day after disclosure is made in accordance with laws.
- (iv) other periods as stipulated by the CSRC and SSE.

The abovementioned periods within which the Company is restricted from granting the Restricted Share are excluded from the 60-day limit.



**III. LOCK-UP PERIODS OF THE INCENTIVE SCHEME**

The Lock-up Periods of the Incentive Scheme shall be 24 months, 36 months and 48 months from the date of completion of registration of the grant of the Restricted Shares. The Restricted Shares granted to the Participants under the Scheme shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

The Shares and dividends obtained by the Participants due to the grant of the Restricted Shares not yet unlocked to them arising from conversion of capital reserve into share capital, bonus issue, share split, etc. shall be subject to locking in accordance with this Incentive Scheme. If the Company repurchases the Restricted Shares not yet unlocked, such shares shall be repurchased and cancelled at the same time.

**IV. UNLOCKING ARRANGEMENTS OF THE INCENTIVE SCHEME**

The Unlocking Periods of the Restricted Shares to be granted under Incentive Scheme and arrangements for each Unlocking Period are set out in the table below:

<b>Unlocking arrangements</b>	<b>Unlocking Periods</b>	<b>Proportion of Restricted Shares to be unlocked</b>
First Unlocking Period	Commencing from the first trading day upon the expiry of 24 months from the date of the completion of registration of the Restricted Shares to the last trading day upon the expiry of 36 months from the date of the completion of registration of the Restricted Shares	33%
Second Unlocking Period	Commencing from the first trading day upon the expiry of 36 months from the date of the completion of registration of the Restricted Shares to the last trading day upon the expiry of 48 months from the date of the completion of registration of the Restricted Shares	33%
Third Unlocking Period	Commencing from the first trading day upon the expiry of 48 months from the date of the completion of registration of the Restricted Shares to the last trading day upon the expiry of 60 months from the date of the completion of registration of the Restricted Shares	34%

The Participants corresponds to the Restricted Shares that cannot be unlocked during the Unlocking Period, and cannot be deferred to the future years to unlock the Restricted Shares. These Restricted Shares shall be repurchased by the Company for cancellation at the Grant Price.

**V. PROVISIONS FOR BLACK-OUT OF THE INCENTIVE SCHEME**

The black-out period refers to the period during which the shares are restricted from being sold after the grant of shares to the Participants. The provisions for black-out periods under the Incentive Scheme shall be implemented in accordance with the Company Law, the Securities Law and other relevant laws, regulations and regulatory documents and the Articles of Association, including but not limited to:

- (i) If a Participant is a director or a senior management member of the Company, the number of shares that may be transferred each year during his/her term of office shall not exceed 25% of the total number of shares held by him/her. He/she shall not transfer any of his/her shares within 6 months after his/her departure.
- (ii) If a Participant, who is a director or a senior management member of the Company, disposes any shares within six months after the acquisition, or re-purchases within six months after disposition, all gains arising therefrom shall belong to the Company and be recovered by the Board.
- (iii) If, during the Validity Period of the Incentive Scheme, there is any change to the requirements regarding the transfer of shares by a director or a senior management member of the Company under the Company Law, the Securities Law and other relevant laws, regulations and regulatory documents and the Articles of Association, a Participant shall comply with the relevant amended regulations upon transfer of his/her shares held by him/her.

**CHAPTER VII GRANT PRICE AND BASIS OF DETERMINATION OF  
THE GRANT PRICE OF RESTRICTED SHARES**

**I.    GRANT PRICE OF THE RESTRICTED SHARES TO BE GRANTED UNDER  
THE INCENTIVE SCHEME (THE SPECIFIC GRANT PRICE IS CALCULATED  
BASED ON THE DRAFT ANNOUNCEMENT)**

The Grant Price of the Restricted Shares shall be RMB11.72 per share. A Participant who has satisfied the conditions of grant may purchase the Company's ordinary A shares to be issued by the Company to the Participant at a price of RMB11.72 per share.

In the event of any conversion of capital reserve into share capital, bonus issue, share split or share consolidation, rights issue or dividend distribution of the Company during the period from the date on which the Incentive Scheme is announced to the date on which the registration of the Restricted Shares is completed by the Participants, the number and the Grant Price of the Restricted Shares shall be adjusted in accordance with the Incentive Scheme accordingly.

**II.   BASIS FOR DETERMINING THE GRANT PRICE OF THE RESTRICTED  
SHARES TO BE GRANTED UNDER THE INCENTIVE SCHEME**

The Grant Price shall not be lower than the nominal value of the Shares, and shall not less than 50% of the fair market price, the fair market price being determined at the higher of:

Basis 1: the average trading price of the Company's underlying Shares on the trading day preceding the date of the announcement of the draft Incentive Scheme;

Basis 2: one of the average trading prices of the Company's underlying Shares in the 20 trading days, 60 trading days or 120 trading days prior to the date of the announcement of the draft Incentive Scheme.

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Details are set out in the table below:

*Currency: RMB Unit: Yuan/Share*

	Basis 1	Basis 2			The lowest Grant Price
	Average trading price of the Company's Shares on the trading day preceding the date of the announcement of the draft Incentive Scheme	Average trading price of the Company's Shares in the 20 trading days prior to the date of the announcement of the draft Incentive Scheme	Average trading price of the Company's Shares in the 60 trading days prior to the date of the announcement of the draft Incentive Scheme	Average trading price of the Company's Shares in the 120 trading days prior to the date of the announcement of the draft Incentive Scheme	
A Shares	23.44	23.29	27.03	22.55	11.72

**CHAPTER VIII CONDITIONS FOR GRANT AND UNLOCKING OF  
THE RESTRICTED SHARES**

**I. CONDITIONS OF THE GRANT OF THE RESTRICTED SHARES**

Restricted Shares shall only be granted to Participants when the following conditions of the Grant are satisfied. In other words, no Restricted Shares shall be granted to the Participants if any of the following conditions of grant has not been satisfied.

**(i) There is no occurrence of any of the following on the part of the Company:**

1. issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's financial accounting report for the most recent accounting year;
2. issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's internal control over financial reporting for the most recent accounting year;
3. failure to carry out profit distribution in accordance with the laws and regulations, the Articles of Association or public undertakings during the 36 months after listing;
4. prohibition from implementation of any equity incentive scheme by applicable laws and regulations; and
5. any other circumstances as prescribed by the CSRC.

**(ii) A Participant shall not be a person who:**

1. has been deemed as an inappropriate candidate by SSE in the last 12 months;
2. has been deemed as an inappropriate candidate by the CSRC or any of its dispatch agencies in the last 12 months;
3. has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatch agencies due to material breach of laws and regulations in the last 12 months;
4. is prohibited from acting as a director or a member of the senior management of the Company under the Company Law;
5. is not allowed to participate in any equity incentive scheme of a listed company under laws and regulations; or
6. falls under any other circumstances as prescribed by the CSRC.

**(iii) The operation results of the Company shall have reached the appraisal conditions, that is:**

1. In 2020, the net profit of the Company shall not less than RMB6.5 billion, and the growth rate shall not less than the industry average in 2019;
2. The Company's earnings per share in 2020 shall not less than RMB1.3 per share and shall not less than the industry average.

*Notes:*

- (1) With reference to all 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 of Directors of the Company will remove or change such sample during the assessment, hereinafter the same.
- (2) “The growth rate on net profits” indicator is calculated based on the net profits attributable to the Shareholders after deducting non-recurring gains and losses, hereinafter the same.
- (3) Earnings per share refer to the ratio of the net profits attributable to the ordinary Shareholders after deducting non-recurring gains and losses to the total share capital of the Company. During the validity period of the Incentive Scheme, in cases of any conversion of capital reserve into share capital, bonus issue and stock issue which will affect the total number of share capital of the Company, the Company's total number of share capital 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 share capital, hereinafter the same.

**II. UNLOCKING CONDITIONS FOR THE RESTRICTED SHARES**

Within the Unlocking Periods, the Restricted Shares granted to a Participant may be unlocked only when all of the following conditions are satisfied:

**(i) There is no occurrence of any of the following on the part of the Company:**

1. issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's financial accounting report for the most recent accounting year;
2. issuance of an auditors' report with an adverse opinion or a disclaimer of opinion by certified public accountants in respect of the Company's internal control over financial reporting for the most recent accounting year;
3. failure to carry out profit distribution in accordance with the laws and regulations, the Articles of Association or public undertakings during the 36 months after listing;
4. prohibition from implementation of any equity incentive scheme by applicable laws and regulations;
5. any other circumstances as prescribed by the CSRC.

**(ii) A Participant shall not be a person who:**

1. has been deemed as an inappropriate candidate by SSE in the last 12 months;
2. has been deemed as an inappropriate candidate by the CSRC or any of its dispatch agencies in the last 12 months;
3. has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatch agencies due to material breach of laws and regulations in the last 12 months;
4. is prohibited from acting as a director or a member of the senior management of the Company under the Company Law;
5. is not allowed to participate in any equity incentive scheme of a listed company under laws and regulations;
6. falls under any other circumstances as prescribed by the CSRC.

In case of occurrence of any of the circumstances as stipulated in paragraph (i) above to the Company, all the Restricted Shares that have been granted to the Participants but not yet unlocked under the Incentive Scheme shall be repurchased by the Company for cancellation at repurchase price of the Grant Price. In case of

occurrence of any of the circumstances as stipulated in paragraph (ii) to a Participant, the Restricted Shares that have been granted to such Participant but not yet unlocked under the Incentive Scheme shall be repurchased by the Company at repurchase price of the Grant Price.

**(iii) Performance appraisal requirements at the Company's level**

The appraisal period for unlocking the Restricted Shares granted under the Incentive Scheme is the three accounting years from 2022 to 2024. Annual appraisal shall be conducted in each accounting year for Participants to achieve the Company's performance assessment targets as the condition to unlock Restricted Shares.

Performance appraisal targets at the Company's level for each year are set out below:

<b>Unlocking Period</b>	<b>Performance appraisal conditions</b>
First Unlocking Period	<ol style="list-style-type: none"><li>1. On the basis of the net profit for 2020, the growth rate of net profit for 2022 shall not be lower than 45% as well as the industry average level;</li><li>2. Earnings per share for 2022 will be no less than RMB1.95 per share and no less than the industry average level.</li></ol>
Second Unlocking Period	<ol style="list-style-type: none"><li>1. On the basis of the net profit for 2020, the growth rate of net profit for 2023 shall not be lower than 53% as well as the industry average level;</li><li>2. Earnings per share for 2023 will be no less than RMB2.05 per share and no less than the industry average level.</li></ol>
Third Unlocking Period	<ol style="list-style-type: none"><li>1. On the basis of the net profit for 2020, the growth rate of net profit for 2024 shall not be lower than 60% as well as the industry average level;</li><li>2. Earnings per share for 2024 will be no less than RMB2.15 per share and no less than the industry average level.</li></ol>

*Note:*

- (1) "Net profits" refer to the net profit attributable to the shareholders of the listed company after deducting non-recurring gains and losses.
- (2) "Earnings per share" refer to the ratio of the net profits attributable to the shareholders of the listed company after deducting non-recurring gains and losses to the total share capital of the Company.



If the Company's performance assessment targets for a particular Unlocking Period of the Restricted Shares are not met, all the Restricted Shares of the Participants for that period shall not be unlocked and shall be repurchased by the Company for cancellation at the Grant Price.

**(iv) Individual performance appraisal at the Participants level**

Participants are assessed by year in accordance with the Company's "Regulations Governing the Implementation of the 2021 Restricted A Share Incentive Scheme (Revised Version)", and the assessment results are determined in accordance with the individual's performance appraisal indicators, with the following appraisal references:

<b>Assessment Result</b>	<b>Excellent (A)</b>	<b>Good (B)</b>	<b>Pass (C)</b>	<b>Fail (D)</b>
Unlocked Ratio	1.0	1.0	0.8	0

The actual amount of Restricted Shares to be released by an individual in the year = standard coefficient x the amount of Restricted Shares to be unlocked by the individual in the year.

Restricted Shares that cannot be unlocked in the current period due to the results of the individual's performance appraisal shall not be deferred to the next period and shall be repurchased by the Company for cancellation at the Grant Price.

**III. SCIENTIFIC AND REASONABLE BASIS OF APPRAISAL INDICATORS**

The appraisal indicators for the Restricted Shares of the Company are divided into two levels, i.e. performance appraisal at the Company's level and performance appraisal at the Participant's individual level.

Performance appraisal indicators at the Company's level include the growth rate of net profits and earnings per Share. The growth rate of net profits reflects the actual profitability of the company while the earnings per share reflects the return to Shareholders and the level of value creation of the Company, which forms a well-established indicator system. In setting the performance appraisal indicators, the Company has taken into account the development and prospects of the industry in which the Company operates, the level of the Company's future performance and the Company's strategic development directions, and has set the Company's performance appraisal indicators under the Plan in a reasonable manner from the perspective of being conducive to the Company's sustainable development while being feasible and achievable. The setting of the abovementioned performance indicators of the Company is in line with the Company's current operating conditions and future development plans, and is conducive to strengthening the Company's profitability and maximising the interests of all Shareholders.

In addition to the performance appraisal at the Company's level, the Incentive Scheme has established a structured performance appraisal system for individuals, which evaluates comprehensively the performance of the Participants in an accurate and all-round manner. The Company will determine whether the Participants meet the Unlocking Conditions and the specific percentage of Restricted Shares based on their performance appraisal results for the previous year.

**CHAPTER IX METHODS AND PROCEDURES OF THE INCENTIVE SCHEME****I. METHOD OF ADJUSTING THE NUMBER OF RESTRICTED SHARES**

During the period from the date of the announcement of the Incentive Scheme to the completion of registration of the Restricted Shares held by the Participants, in case of any conversion of capital reserve into share capital, bonus issue, share split, rights issue, share consolidation, etc. made by the Company, the number of Restricted Shares shall be adjusted accordingly. The adjustment methods are set out below:

**(i) Conversion of capital reserve into share capital, bonus issue and share split**

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of conversion of capital reserve into share capital, bonus issue or share split per Share (i.e. increase in the number of Shares for each Share held upon conversion of capital reserve into share capital, bonus issue or share split);  $Q$  represents the number of the Restricted Shares after the adjustment.

**(ii) Rights issue**

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e., the ratio of the number of Shares issued under the rights issue to the Company's total share capital before the rights issue);  $Q$  represents the number of the Restricted Shares after the adjustment.

**(iii) Share consolidation**

$$Q=Q_0\times n$$

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the share consolidation ratio (i.e., one Share of the Company will be consolidated into  $n$  Share);  $Q$  represents the number of the Restricted Shares after the adjustment.

**(iv) Issuance of new shares**

In case of issuance of new shares, the number of the Restricted Shares shall not be adjusted.

**II. METHOD OF ADJUSTING THE GRANT PRICE OF THE RESTRICTED SHARES**

During the period from the date of the announcement of the Incentive Scheme to the completion of registration of the Restricted Shares held by the Participants, in case of any conversion of capital reserve into share capital, bonus issue, share split, rights issue, share consolidation, dividend distribution, etc. made by the Company, the Grant Price of the Restricted Shares shall be adjusted accordingly. The adjustment methods are set out below:

**(i) Conversion of capital reserve into share capital, bonus issue and share split**

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the ratio of conversion of capital reserve into share capital, bonus issue or share split per Share;  $P$  represents the Grant Price after the adjustment.

**(ii) Rights issue**

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e., the ratio of the number of Shares issued under the rights issue to the Company's total share capital before the rights issue);  $P$  represents the Grant Price after the adjustment.

**(iii) Share consolidation**

$$P=P_0\div n$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the share consolidation ratio;  $P$  represents the Grant Price after the adjustment.

**(iv) Dividend distribution**

$$P=P_0-V$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $V$  represents the dividend per Share;  $P$  represents the Grant Price after the adjustment.  $P$  shall be larger than 1 after the adjustment for dividend distribution.

**(v) Issuance of new shares**

In case of issuance of new Shares, the Grant Price of the Restricted Shares shall not be adjusted.

**III. ADJUSTMENT PROCEDURES FOR THE INCENTIVE SCHEME**

The general meetings authorise the Board of Directors to make adjustments to the number of Restricted Shares and the Grant Price 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 Administrative 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 of Directors and be considered and approved at the general meetings.

**CHAPTER X ACCOUNTING TREATMENT ON RESTRICTED SHARES****I. ACCOUNTING TREATMENT FOR THE RESTRICTED SHARES**

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 11 – Share-Based Payments, at each balance sheet date within the Lock-up Period, the Company shall revise the number of the Restricted Shares which are expected to be unlocked according to the change in the latest available number of persons eligible to unlock the Restricted Shares, completion of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

**(i) Grant date**

The share capital and capital reserve shall be determined according to the issuance of the Shares to the Participants by the Company.

**(ii) Each balance sheet date within the Lock-up Period**

In accordance with the requirements of the accounting standards, at each balance sheet date within the Lock-up Period, the services provided by the staff will be recognized in the costs or expenses, and the equity or liability will be recognized at the same time.

**(iii) Unlocking date**

At the unlocking date, the shares can be unlocked if all conditions of unlocking are satisfied; if all or any part of the Shares are not unlocked and thus become invalid or cancelled, they shall be dealt with according to accounting standards and relevant requirements.

**II. BASIS FOR DETERMINING THE FAIR VALUE OF THE RESTRICTED SHARES**

In accordance with the Accounting Standards for Business Enterprises No. 11 – Share-Based Payments, the difference between the closing price of the shares and the Grant Price on the grant day will be used by the Company as the cost of the share-based payment per each Restricted Share and will be recognized as the final share-based payment under the Incentive Scheme.

**III. THE EXPECTED IMPACT OF THE IMPLEMENTATION OF THE RESTRICTED SHARE INCENTIVE SCHEME ON OPERATING PERFORMANCE IN EACH PERIOD**

The share-based payment expenses incurred by the grant of Restricted Shares by the Company to the Participants will be recognized by installments in proportion to the unlocking percentage during the implementation of Share Incentive Scheme, and will be recorded as expenses in the recurring profit and loss. Assuming a grant date of early January 2022, the impact of Restricted Shares granted under the Scheme on cost in each accounting period is shown in the table below:

<b>Number of Restricted Shares (0'000 shares)</b>	<b>Total share-based payment expenses (RMB0'000)</b>	<b>2022 (RMB0'000)</b>	<b>2023 (RMB0'000)</b>	<b>2024 (RMB0'000)</b>	<b>2025 (RMB0'000)</b>
6,298	75,576.00	27,207.36	27,207.36	14,737.32	6,423.96

*Note:* The above result does not represent the final accounting cost. In addition to the Grant Date, Grant Price and number of Restricted Shares granted, the accounting cost also related to the actual number of Shares that are valid and invalid. The final result of the impact of the implementation of the Share Incentive Scheme on the operating performance of the Company shall be subject to the annual audited report issued by the accounting firm.

**CHAPTER XI PROCEDURES OF IMPLEMENTATION  
OF THE INCENTIVE SCHEME**

**I.    EFFECTIVE PROCEDURES OF THE INCENTIVE SCHEME**

- (i) The Remuneration Committee under the Board is responsible for preparing the Incentive Scheme.
- (ii) The Board shall arrive at a resolution on the Incentive Scheme in accordance with the laws. When the Board is considering the Incentive Scheme or matters in relation to the implementation of the Incentive Scheme, any Director who is a Participant shall abstain from voting.
- (iii) The independent Directors and the Supervisory Committee shall issue opinions in respect of whether the Incentive Scheme is beneficial to the Company's sustainable development and whether there is any apparent prejudice to the interests of the Company and all Shareholders.
- (iv) The Company shall carry out self-investigation on the trading of shares of the Company and its derivatives by insiders during the 6-month period prior to the announcement of the draft Incentive Scheme illustrate whether there is any insider trading. Those who trade in the shares of the Company while possessing insider information shall not become the Participants, except where laws, administrative regulations and relevant judicial interpretations deem not to be insider information. Those who leak insider information that results in insider trading shall not become the Participants.
- (v) The implementation of the Incentive Scheme is subject to the verification and approval of the Shandong Energy Group, filing by the SASAC and consideration and approval at the general meetings of the Company. The Company shall internally publicise the list of Participants through the Company's website or other channels for a period of not less than 10 days prior to the convention of the general meetings of the Company. The Supervisory Committee shall verify the list of Participants and thoroughly consider opinions from the public. The Company shall disclose the explanation of the Supervisory Committee on the verification and publication in respect of the list of Participants 5 days before the Scheme is considered at the general meetings of the Company.
- (vi) When voting on the Restricted Share Incentive Scheme at the general meetings of the Company, independent Directors shall solicit proxy rights from all Shareholders in respect of the Restricted Share Incentive Scheme, and the Company shall provide online voting method when on-site voting is provided. The contents of the Incentive Scheme as stipulated in Article 9 of the Administrative Measures shall be voted at the general meetings of the Company, and shall be approved by more than two-thirds of the voting rights held by the shareholders present at the meeting. The voting of shareholders other than the directors,



supervisors and senior management of the Company and shareholders individually or jointly holding more than 5% of the shares of the Company shall be separately counted and disclosed.

When considering the Incentive Scheme at the general meetings of the Company, the Shareholders who are Participants or have a connected relationship with any Participants shall abstain from voting.

- (vii) When the Incentive Scheme is considered and approved at the general meetings of the Company and the grant conditions stipulated in the Incentive Scheme are satisfied, the Company shall grant the Restricted Shares to the Participants within the prescribed time. The Grant Date shall be on a trading day and in compliance with regulations.

## **II. PROCEDURES FOR GRANTING OF THE RESTRICTED SHARES**

- (i) Upon consideration and approval of the Incentive Scheme at the general meetings of the Company shall sign the Agreement on Grant of Restricted Shares with the Participants to stipulate the rights and obligations of both parties. The Board of Directors of the Company shall handle the specific matters in respect of the grant of the Restricted Shares in accordance with the authorization by the general meetings of the Company.
- (ii) Before the Company grants any Restricted Shares to the Participants, the Board shall consider and announce whether the conditions for the grant of entitlements to the Participants as set out in the Incentive Scheme have been fulfilled before the Company grants benefits to the Participants. The independent Directors and the Supervisory Committee shall issue explicit opinions simultaneously. The law firm shall issue legal opinions on whether the conditions for the grant of entitlements to the Participants have been fulfilled.
- (iii) The Supervisory Committee of the Company shall verify and issue opinions on the date of granting the Restricted Shares and the list of Participants.
- (iv) In the event of any discrepancy between the grant of entitlements by the Company to the Participants and the arrangements under the Incentive Scheme, the independent Directors, the Supervisory Committee (in case of any change of the Participants) and the law firm shall issue explicit opinions simultaneously.
- (v) Upon consideration and approval of the Incentive Scheme at the general meetings, the Company shall grant the Restricted Shares to the Participants and complete the announcement and registration within 60 days. The Board of Directors of the Company shall disclose an announcement on the implementation thereof in a timely manner upon the completion of registration of the Restricted Shares granted. If the Company fails to complete the above work within 60 days, the Incentive Scheme shall be terminated, and the Board shall disclose the reason for such failure in a timely manner and shall not consider and disclose the Incentive

Scheme again within 3 months (the period during which a listed company is prohibited from granting Restricted Shares under the Administrative Measures shall not be counted within 60 days).

- (vi) After the Grant of the Restricted Shares, the Company shall make an application to SSE and the Securities Depository and Clearing Company shall handle the registration and clearing matters upon confirmation by SSE. The Participants shall cooperate with the Company in completing the registration procedures and other matters in accordance with the relevant regulations of the CSRC, SSE and the Securities Depository and Clearing Company.
- (vii) If the registered capital is designated to change upon completion of the registration of the Restricted Shares granted, the Company shall handle the registration procedures in relation to the changes of the Company with the industry and commerce registration department.

### **III. PROCEDURES FOR UNLOCKING THE RESTRICTED SHARES**

- (i) Prior to the date of unlocking, the Company shall confirm whether the Participants have satisfied the conditions for unlocking the Restricted Shares. The Board shall consider whether the conditions for unlocking the Restricted Shares under the Incentive Scheme have been fulfilled, and the independent Directors and the Supervisory Committee shall issue explicit opinions simultaneously. The law firm shall issue legal opinions on whether the conditions for unlocking the Restricted Shares to the Participants have been fulfilled. For the Participants who have fulfilled the conditions for unlocking the Restricted Shares, the Company shall solely handle the matters related to the unlocking of the Restricted Shares; and for the Participants who have not fulfilled the conditions for unlocking the Restricted Shares, the Company shall repurchase the Restricted Shares as held by them correspondingly to the unlocking. The Company shall disclose an announcement on the implementation thereof in a timely manner.
- (ii) The Company shall apply to SSE before unlocking the Restricted Shares held by the Participants. The Securities Depository and Clearing Company will handle the registration and settlement matters upon the confirmation of SSE.
- (iii) Participants may transfer their unlocked Restricted Shares, whereas the transfer of the Restricted Shares held by the Directors and senior management shall comply with the requirements of the relevant laws, regulations and regulatory documents.

### **IV. PROCEDURES FOR AMENDMENTS TO THE INCENTIVE SCHEME**

- (i) In the event that the Company intends to amend the Incentive Scheme before it is considered and approved at the general meeting, such amendment shall be considered and approved by the Board.

- (ii) If the Company intends to amend the Incentive Scheme after it is considered and approved at the general meetings of the Company, such amendment shall be considered and approved at the general meetings of the Company, and shall not include the following circumstances:
  - 1. circumstances leading to early release of lock-up restrictions;
  - 2. reducing the Grant Price.
- (iii) the independent directors and the Supervisors Committee shall express clear opinions on whether the amended proposal is beneficial to the sustainable development of the listed company and whether there is any noticeable damage to the interests of the listed company and all shareholders.
- (iv) The law firm shall issue professional opinions on whether the amended Scheme is in compliance with the requirements of the Administrative Measures and relevant laws and regulations and whether there is any noticeable damage to the interests of the Company and all shareholders.

## **V. PROCEDURES FOR TERMINATION**

- (i) Any proposed termination of the Incentive Scheme by the Company prior to consideration of the Incentive Scheme at the general meetings of the Company shall be subject to consideration and approval of the Board of Directors of the Company.
- (ii) Any proposed termination of the Incentive Scheme by the Company after consideration and approval of the Incentive Scheme at the general meetings of the Company shall be subject to consideration and determination at the general meetings of the Company.
- (iii) The law firm shall issue professional opinions in respect of whether the termination of the Incentive Scheme is in compliance with the provisions of the Administrative Measures, the relevant laws and regulations, and whether there is any apparent prejudice to the interests of the Company and all Shareholders.
- (iv) Upon termination of the Incentive Scheme, the Company shall repurchase the Restricted Shares which have not been unlocked and shall be dealt with in accordance with the requirements under the Company Law.
- (v) The Company shall apply to SSE before repurchasing the Restricted Shares. The Securities Depositary and Clearing Company shall handle the registration and settlement matters upon the confirmation of SSE.
- (vi) When the Company is required to repurchase the Restricted Shares, it shall promptly convene a board meeting to consider the repurchase plan, submit the same to the general meetings of the Company for approval in accordance with the law, and make a timely announcement.

**CHAPTER XII RESPECTIVE RIGHTS AND OBLIGATIONS  
OF THE COMPANY AND THE PARTICIPANTS**

**I. RIGHTS AND OBLIGATIONS OF THE COMPANY**

- (i) The Company shall have the right to require the Participants to perform their responsibilities based on the requirements of the positions it employs. If the Participant is incompetency in performing his/her position or fails the examination, the unlocked Restricted Shares of the Participant shall be repurchased by the Company for cancellation upon approval by the Board of Directors of the Company.
- (ii) The Company shall have the right to construe and execute the Incentive Scheme and to appraise the performance of the Participants based on the requirements under the Incentive Scheme. If the Participant fails to fulfill the unlocking conditions required under the Incentive Scheme, the Company will repurchase and cancel the Restricted Shares, which have not been unlocked by the Participants, in accordance with the requirements under the Incentive Scheme.
- (iii) If the Participants violate the laws and professional ethics, leak confidential information of the Company, and are negligent or gross misconduct in performance of duties, which may cause serious damage to the interests or reputation of the Company, the Company shall repurchase and cancel the unlocked Restricted Shares of the Participants and required the Participants to return the gains from the unlocked Restricted Shares upon approval of the Board of Directors.
- (iv) The Company shall withhold and pay, on behalf of the Participants, the individual income tax and other taxes and fees payable in accordance with the provisions of the national tax regulations.
- (v) The Company undertakes not to provide loans, guarantee for loans and any other forms of financial assistance to the Participants for acquiring the Restricted Shares under the Incentive Scheme.
- (vi) The Company shall discharge its obligations in a timely manner in relation to reporting and information disclosure under the Restricted Share Incentive Scheme in accordance with the relevant requirements.
- (vii) The Company shall actively support the Participants who have fulfilled the unlocking conditions to unlock the Restricted Shares in accordance with the relevant requirements including those under the Incentive Scheme, the CSRC, SSE, and the Securities Depository and Clearing Company. However, the Company disclaims any liability for losses incurred by the Participants who fail to unlock the Restricted Shares at their own wills due to reasons on part of the CSRC, SSE and the Securities Depository and Clearing Company.

(viii) The Company confirms that the eligibility of the Participants under the Scheme does not represent the right of such Participants to continue to serve the Company and does not constitute a commitment of employment for a fixed term by the Company. The employment relationship between the Company and a Participant is still governed by the employment contract between the parties.

(ix) Other relevant rights and obligations under the laws and regulations.

## **II. RIGHTS AND OBLIGATIONS OF THE PARTICIPANTS**

(i) The Participants shall comply with the requirements of his/her position as stipulated by the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make contribution to the development of the Company.

(ii) Source of funds shall be self-financed by the Participants.

(iii) The Restricted Shares granted to the Participants shall enjoy the entitlements of the shares after registration of transferal by the Securities Depository and Clearing Company, including but not limited to the rights to dividend and rights issue of such shares etc.

(iv) Prior to the unlocking of the Restricted Shares, the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as guarantee or used for repayment of debts. The shares obtained by the Participants due to the grant of the Restricted Shares not yet unlocked to them arising from conversion of capital reserve into share capital, bonus issue, share split, etc. shall be subject to locking in accordance with the Incentive Scheme.

(v) Any gains of the Participants generated from the Incentive Scheme are subject to the individual income tax and other taxes and fees payable in accordance with the provisions of the national tax regulations.

(vi) The Participants undertake, where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant of the entitlements, the Participants concerned shall return to the Company all interests gained through the Incentive Scheme calculated from the date when it is confirmed that the relevant information disclosure documents of the Company contain false statement or misleading representations or material omissions.

(vii) Upon consideration and approval of the Incentive Scheme at the general meetings of the Company, the Company will enter into the Agreement on Grant of Restricted Shares with each of the Participants to specify their respective rights and obligations under the Incentive Scheme and other relevant matters.

(viii) Other relevant rights and obligations under the laws and regulations.

**CHAPTER XIII HANDLING UNUSUAL CHANGES TO THE COMPANY  
AND PARTICIPANTS**

**I. HANDLING UNUSUAL CHANGES TO THE COMPANY**

- (i) The Incentive Scheme shall be terminated if any of the following events occurs to the Company:
1. issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
  2. issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association of the Company and public undertakings during the 36 months after listing;
  4. prohibition from implementation of a share incentive scheme by laws and regulations;
  5. other circumstances under which the Incentive Scheme shall be terminated as determined by the China Securities Regulatory Commission.

In the event of termination of the Scheme by the Company as described above, the Restricted Shares granted, but not yet unlocked, to such Participant shall be repurchased and cancelled by the Company at the Grant Price.

- (ii) The Incentive Scheme shall be implemented as usual in case any of the following events occurs to the Company:
1. change in control of the Company;
  2. merger and spin-off of the Company.
- (iii) 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 grant or arrangements for unlocking the restrictions, all Restricted Shares which are not yet unlocked shall be repurchased by the Company for cancellation at the Grant Price. In respect of the Restricted Shares granted to the Participants which have been unlocked, all the Participants shall return to the Company all interests granted. If the Participants, who are not liable for the abovementioned events, suffer loss as a result of returning the interests, they may claim for damage from the Company or responsible parties in accordance with the arrangements under the Incentive Scheme.

The Board of Directors shall recover all the profits gained by the Participants in accordance with the preceding provisions and relevant arrangements under the Incentive Scheme.

## **II. CHANGES TO THE INDIVIDUAL CIRCUMSTANCES OF THE PARTICIPANTS**

- (i) When a Participant has a change in job positions, but still works in the Company or a branch or a subsidiary of the Company or is assigned by the Company, the Restricted Share granted to him/her will be fully regulated by the procedures as specified in the Incentive Scheme before the change of his/her job positions. In case a Participant becomes an independent Director or supervisor who cannot hold Restricted Shares of the Company, Restricted Shares that have been granted to, but not yet unlocked, the Participant under the Scheme shall be repurchased by the Company for cancellation at the Grant Price bearing interest on bank deposits for the same period.
- (ii) If the Participants sever or terminate their labour relationship with the Company due to objective reasons such as relocation, removal, retirement, death or loss of civil capacity, provided that the exercisable period limits and the performance appraisal conditions of the granted interests have been fulfilled in the year of such termination, the exercisable portion shall be exercised within a half-year period after the date of such termination (or when exercisable), or else the interests will lapse after the half-year period. If the exercisable period limits and the performance appraisal conditions have not been fulfilled in the year of such termination, it shall no longer be exercised. The Restricted Shares that have not been unlocked shall be repurchased by the Company for cancellation at the Grant Price plus interest with reference to the bank lending rate at the same period.
- (iii) If the Participants sever or terminate their labour relationship with the Company due to personal reasons, the Restricted Shares granted but not yet unlocked shall be repurchased by the Company at the Grant Price.
- (iv) When any of the following events occurs to a Participant, the Company shall have the right to request the Participant to return of gains from the share incentive scheme, whereas the Restricted Shares granted but not yet unlocked shall be repurchased by the Company for cancellation at the Grant Price:
  - 1. there is such conduct as violates national laws and regulations, occupational ethics, or negligence of duty or professional misconduct, which causes severe damage to the interests or the reputation of the Company and causes economic losses or negative effect in society to the Company, whether direct or indirect;
  - 2. where a Participant is dismissed due to violation of the Company's rules and regulation to a severe extent according to relevant provisions of the Company's staff reward and punishment management;

3. where the Company has sufficient evidence to prove a Participant, during his/her terms of office, has taken illegal or unethical actions such as accepting bribes, asking for bribes, corruption, theft and divulging operational and technical secrets, entering into connected transactions to damage the interests and reputation of the Company, which have material negative impact on the Company's image and direct or indirect cause losses or negative effect in society to the Company;
  4. where the Participant is prosecuted as a result of criminal offence;
  5. where the Participant causes improper losses to the Company as a result of violating relevant laws and regulations or the requirements of the Articles of Association.
- (v) For other circumstances not stated above, the handling method thereof shall be determined by the Board of Directors.

### **III. RESOLUTION OF DISPUTES BETWEEN THE COMPANY AND THE PARTICIPANTS**

Any controversy or dispute between the Company and the Participants arising from the execution of the Incentive Scheme and/or the Agreement on Grant of Restricted Shares entered into between both parties or in connection with the Incentive Scheme and/or the Agreement on Grant of Restricted Shares shall be resolved through negotiation and communication between both parties, or mediation by the Remuneration Committee of the Board of Directors of the Company. If relevant controversy or dispute are not solved through the above methods within 60 days from the date of occurrence of the controversy or dispute, either party is entitled to file a lawsuit with the People's Court with jurisdiction in the place where the Company is located.



**CHAPTER XIV PRINCIPLES OF REPURCHASE OF RESTRICTED SHARES**

If the Company repurchases the Restricted Shares under the requirements of the Incentive Scheme, the repurchase price represents the Grant Price unless otherwise provided by the Incentive Scheme and it will be executed in accordance with the relevant regulations of the Incentive Scheme except where an adjustment to the repurchase price is required under the Incentive Scheme.

**I. METHOD FOR ADJUSTMENT OF REPURCHASE QUANTITY**

Upon completion of registration of the Restricted Shares granted to the Participants, in case of conversion of capital reserve into share capital, bonus issue, share split, rights issue, share consolidation or any other matters affecting the total share capital or share price of the Company, in respect of the Restricted Shares granted but not yet unlocked, the repurchase quantity shall be adjusted in accordance with the following methods accordingly:

**(i) Conversion of capital reserve into share capital, bonus issue and share split**

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of conversion of capital reserve into share capital, bonus issue or share split per Share (i.e. increase in the number of Shares for each Share held upon conversion of capital reserve into share capital, bonus issue or share split);  $Q$  represents the number of the Restricted Shares after the adjustment.

**(ii) Rights issue**

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e., the ratio of the number of Shares issued under the rights issue to the Company's total share capital before the rights issue);  $Q$  represents the number of the Restricted Shares after the adjustment.

**(iii) Share consolidation**

$$Q=Q_0 \times n$$

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the share consolidation ratio (i.e., one Share of the Company will be consolidated into  $n$  Share);  $Q$  represents the number of the Restricted Shares after the adjustment.

**(iv) Issuance of new shares**

In case of issuance of new shares, the number of the Restricted Shares shall not be adjusted.

**II. METHODS OF ADJUSTING REPURCHASE PRICE**

Upon completion of registration of the Restricted Shares granted to the Participants, in case of conversion of capital reserve into share capital, bonus issue, share split, rights issue, share consolidation, dividend distribution or any other matters that affecting the total share capital or share price of the Company, in respect of the Restricted Shares granted but not yet unlocked, the repurchase price shall be adjusted by the Company accordingly. The adjustment methods are set out below:

**(i) Conversion of capital reserve into share capital, bonus issue and share split**

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

Where: P represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share; n represents the rate of increase per share resulting from capitalisation issue, bonus issue and stock split (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and stock split).

**(ii) Rights issue**

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

Where:  $P_1$  represents the closing price of shares on the record date;  $P_2$  represents the price of rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the share company prior to the rights issue).

**(iii) Share consolidation**

$$P=P_0\div n$$

Where: P represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share; n represents the ratio of share consolidation per share (i.e. one share shall be consolidated into n share).

**(iv) Dividend distribution**

$$P=P_0-V$$

Where:  $P_0$  represents the repurchase price per Restricted Share prior to adjustment; V represents the amount of dividends per share; P represents the repurchase price per Restricted Share after adjustment. P must remain greater than 1 after adjustment.

**(v) Additional issues**

Under the circumstance of additional issue of new shares, no adjustment will be made to the repurchase price of the Restricted Shares.

**III. PROCEDURES FOR ADJUSTMENT OF REPURCHASE QUANTITY OR PRICE**

- (i) The Board of Directors of the Company shall be authorized at the general meetings of Company to adjust the repurchase quantity and price of Restricted Shares based on the reasons listed above. After the adjustment according to the above provisions, an announcement shall be made in a timely manner.
- (ii) The adjustment to the repurchase quantity and price of Restricted Shares for other reasons shall be subject to resolution of the Board of Directors and consideration and approval at the general meetings.

**IV. PROCEDURES OF REPURCHASE**

- (i) Upon the occurrence of any circumstances specified in the Incentive Scheme giving rise to a repurchase, the Company shall promptly convene a Board meeting to consider the repurchase plan and submit the involved share repurchase for cancellation to the general meetings for approval, and make a timely announcement. When making a repurchase, the Company shall apply to SSE for unlocking such Restricted Shares. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.
- (ii) The repurchase under the Incentive Scheme shall be subject to the requirements of the Company Law and other relevant laws and regulations.

**CHAPTER XV OTHER MATTERS OF SIGNIFICANCE**

- I. The Company shall not provide loans, guarantee for loans and financial support in any other forms, to the Participants with respect to the acquisition of the Restricted Shares under the Incentive Scheme.
- II. Where any terms of the Incentive Scheme are in conflict with any provision of the relevant PRC laws, regulations and administrative rules and regulatory documents, the provision of such laws, regulations and administrative rules and regulatory documents shall prevail. Where it is not explicitly provided in the Incentive Scheme, it shall be subject to or adjusted pursuant to the relevant PRC laws, regulations and administrative rules and regulatory documents.
- III. Where Participants are in violation of the Incentive Scheme, the Articles of Association or relevant PRC laws, regulations and administrative rules and regulatory documents, all gains arising from the disposal of the shares granted under the Incentive Scheme shall belong to the Company and the Board of Directors of the Company shall be responsible for the implementation.
- IV. The Scheme is subject to the verification and approval by the Shandong Energy Group, filing by the SASAC and consideration and approval at the general meetings.
- V. The Incentive Scheme shall be interpreted by the Board of Directors of the Company.

The Board of  
Yankuang Energy Group Company Limited\*  
31 December 2021

\* For identification purposes only

To ensure the smooth implementation of the Incentive Scheme of the 2021 A Share Restricted Share Incentive Scheme (the “Incentive Scheme”) of Yankuang Energy Group Company Limited\* (the “Company”), further improve the corporate governance structure of the Company, form a sound and balanced value distribution system, motivate directors, senior management, middle-level management, key personnel of the Company to carry out their work with integrity and diligence, ensure the steady improvement of the Company’s performance, and to ensure the realisation of the Company’s development strategy and business objectives, these measures are specially formulated according to the relevant national regulations and the actual situation of the Company.

## **Chapter 1   General Provisions**

### **Article 1   Purpose of Appraisal**

The purpose of the appraisal is to ensure the smooth implementation of the Incentive Scheme of the Company, further improve the corporate governance structure of the Company, establish an incentive and restraint mechanism that is consistent with responsibilities, rights and benefits, while improving the performance evaluation system of the incentive participants of the Company (the “Participants”), promoting the work of the Participants in an honest and diligent manner, ensuring the achieving of the Company’s development strategies and business objectives as well as promoting the sustainable development of the Company.

### **Article 2   Appraisal Principle**

The assessment and evaluation on the appraisal targets’ performance must be conducted in adherence to the principles of justice, openness, and fairness, and in strict compliance with these measures, so as to realise the close combination of the Incentive Scheme with the management performance and contribution of the Participants, thereby improving their work performance and maximise the value and interests of the Company and all shareholders as a whole.

### **Article 3   Appraisal Participants**

These measures apply to all Participants identified in this Incentive Scheme, including directors (excluding external Directors), senior management, middle-level management and key personnel of the Company.

*\* For identification purposes only*

## **Chapter 2 Management Body of the Appraisal Organisation**

### **Article 4 Appraisal Agency**

1. The Remuneration and Assessment Committee under the Board of the Company is responsible for leading and organizing the appraisal of the Participants.
2. The human resources department, finance department and other relevant departments of the Company are responsible for the collection and provision of relevant data, and are accountable for the authenticity and reliability of the data.
3. The human resources department of the Company is responsible for organizing the finance department and other relevant departments to handle the calculation of the appraisal scores of the Participants and the compilation of the appraisal results.
4. The Remuneration and Assessment Committee under the Board of Directors of the Company shall consider and decide on the appraisal results of the Participants.

### **Article 5 Appraisal procedures**

1. Under the guidance of the Remuneration and Assessment Committee under the Board of Directors, the Company's human resources department, finance department and other relevant departments are responsible for the implementation of specific evaluation work, the calculation of the appraisal scores of the Participants and the summary of the performance appraisal results, and the formulation of an appraisal report on this basis.
2. The Remuneration and Assessment Committee under the Board of Directors of the Company reviews and considers and makes resolution on the performance appraisal report.

### **Article 6 Appraisal period and frequency**

1. Appraisal period

The appraisal of the Incentive Scheme is 2022, 2023 and 2024, respectively.

2. Appraisal frequency

The appraisal year for the unlocking of the Incentive Scheme is carried out once a year.

### Chapter 3 Appraisal Content

#### Article 7 Performance indicators

The grant of the Restricted Shares or the unlocking of the Restricted Shares for the year to the Participants is determined based on a combination of company-level and individual-level appraisal results.

##### *1. Appraisal requirements at company-level*

###### *(1) Appraisal conditions at the time of granting:*

- ① In 2020, the net profit of the Company shall not less than RMB6.5 billion, and the growth rate shall not less than the industry average in 2019;
- ② The Company's earnings per share in 2020 shall not less than RMB1.3 per share and shall not less than the industry average.

###### *Note:*

- ① With reference to all 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 of Directors of Yankuang Energy will remove or change such sample during the assessment, hereinafter the same.
- ② “The growth rate on net profits” indicator is calculated based on the net profits attributable to the shareholders of the listed company, net of non-recurring gains and losses, hereinafter the same.
- ③ Earnings per share = net profits attributable to the shareholders of the listed company, net of non-recurring gains and losses/total number of share capital of the Company; in cases of conversion of capital reserve into share capital, bonus issue and share issue, rights issue and issuance of new shares which will affect the total number of share capital of the Company, the total number of share capital of the Company involved in the calculation of earnings per share 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 share capital, hereinafter the same.





**2. Performance appraisal requirements at individual level**

Participants are assessed by year in accordance with the Company's "Regulations Governing the Implementation of the 2021 Restricted A Share Incentive Scheme (Revised Version)", and the assessment results are determined in accordance with the individual's performance appraisal indicators, with the following appraisal references:

Assessment Result	Excellent (A)	Good (B)	Pass (C)	Fail (D)
Unlocked Ratio	1.0	1.0	0.8	0

The actual number of Restricted Shares to be released by an individual in the year = standard coefficient x the amount of Restricted Shares to be unlocked by the individual in the year.

Restricted Shares that cannot be unlocked in the current period due to the results of the individual's performance appraisal shall not be deferred to the next period and shall be repurchased by the Company for cancellation at the Grant Price.

**Chapter 4 Application and Management of the Appraisal Results**

**Article 8 Application of the appraisal results**

1. Actual unlocked individual quota in current year = standard coefficient × individual quota planned to unlock in current year.
2. The Participants are eligible to unlock the Restricted Shares for the current year only after they are up to standard in the assessment for the year.

**Article 9 Management of the appraisal results**

1. Revision of appraisal indicators and results. After the completion of the appraisal, the Remuneration Committee under the Board of Directors of the Company shall revise the appraisal indicators and results that are more affected by factors such as changes in objective circumstances.
2. Feedback on the appraisal results. The appraisal target has the right to know the results of their own appraisal. The Remuneration and Assessment Committee under the Board of Directors shall notify the appraisal target the appraisal results within five working days after the end of the appraisal.
3. Filing of the appraisal results. After the completion of the appraisal, the appraisal results shall be kept as confidential information in the archives for a period of not less than five years.

4. Appeal of the appraisal results. If an appraisal target object to his/her own appraisal results, the objection should first be resolved through communication between the two parties. If it cannot be resolved properly, the appraisal target may appeal to the Remuneration Committee under the Board. The Committee shall respond to the appeal request of the complainant within ten days of the date of receipt of the appeal.

#### **Chapter 5 By-laws**

**Article 10** These measures shall come into effect upon review and approval by the Company's general meeting. The same applies to any amendment. In the event of any conflict between these measures and the laws, administrative regulations, departmental rules and normative documents issued by regulatory authorities, the relevant laws, administrative regulations, departmental rules and normative documents shall prevail.

The Board of  
**Yankuang Energy Group Company Limited\***  
31 December 2021

\* For identification purposes only

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTEREST****Shareholding of Directors, chief executive and Supervisors**

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

Name	Title	Number of A Shares held (Shares)
Li Wei	Director	10,000
Liu Jian	Director	85,800
Xiao Yaomeng	Director	49,500
Wang Ruolin	Director	49,500
Zhao Qingchun	Director	85,800

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

## Share Incentive Mechanism to the Directors and Senior Management

Name	Title	Number of options held as at the Latest Practicable Date
Liu Jian	Director	174,200
Xiao Yaomeng	Director	100,500
Zhao Qingchun	Director	174,200
Wang Ruolin	Director	100,500
Gong Zhijie	Senior Management	174,200
Wang Chunyao	Senior Management	100,500
Tian Zhaohua	Senior Management	100,500
Total	/	924,600

**3. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or operating position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**4. CONSENT AND QUALIFICATION OF EXPERT**

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

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

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

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**5. SERVICE CONTRACTS**

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

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

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

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

**7. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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

**8. MATERIAL LITIGATION**

As at the Latest Practicable Date, the Group was involved in thirteen litigation cases and one arbitration case, among which ten were contractual disputes (five cases as plaintiff, four cases as defendant, and one case as third party), one was in relation to commercial instruments as defendant, one was in relation to commercial instruments as plaintiff and one was a dispute over the exclusion of obstruction as plaintiff. Please refer to page 62 to page 70 of the 2021 interim report of the Company for further details.

As far as the Directors are aware, save as disclosed above (details of which can be found on pages 62 to 70 of the 2021 interim report of the Company), none of the members of the Group was at present engaged in any other litigation or claim or arbitration of material importance and there was no other litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

**9. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, the Directors of the Company are Mr. Li Wei, Mr. Liu Jian, Mr. Xiao Yaomeng, Mr. Zhu Qingrui, Mr. Zhao Qingchun, Mr. Wang Ruolin and Mr. Huang Xiaolong, and the independent non-executive Directors of the Company are Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang, and Mr. Poon Chiu Kwok.
- (b) The registered address of the Company is 949 South Fushan Road, Zoucheng, Shandong Province, PRC, Postal Code: 273500.
- (c) The H Share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) As at the Latest Practicable Date, Mr. Huang Xiaolong is the company secretary of the Company.

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

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

**10. DOCUMENTS AVAILABLE ON DISPLAY**

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

- (a) the Restricted A Share Incentive Scheme for 2021 (Revised Draft), the text of which is set out in Appendix I of this circular;
- (b) the consent letter from Donvex Capital Limited referred to in the paragraph headed "Expert and Consent" in this Appendix; and
- (c) this circular.