



14 September 2023

*To: the Independent Board Committee and the Independent Shareholders of
Yancoal Australia Ltd*

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE COAL SALES TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the 2023 Yankuang Energy Framework Agreement For Coal Sales, 2023 YIT Framework Agreement For Coal Sales (together with the 2023 Yankuang Energy Framework Agreement For Coal Sales, the “**Framework Agreements**”) and the annual caps. Details of the 2023 Yankuang Energy Framework Agreement For Coal Sales, 2023 YIT Framework Agreement For Coal Sales and the annual caps are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 14 September 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The Coal Sales Transactions

Reference is made to the announcement of the Company dated 14 September 2023 and the Circular relating to, among other things, the 2023 Yankuang Energy Framework Agreement For Coal Sales, 2023 YIT Framework Agreement For Coal Sales and the annual caps. On 14 September 2023, the Company entered into (1): the 2023 Yankuang Energy Framework Agreement For Coal Sales with Yankuang Energy, pursuant to which the Yancoal Group agreed to continue to sell coal to Yankuang Energy and/or their subsidiaries (excluding the Yancoal

Group); and (2) the 2023 YIT Framework Agreement For Coal Sales with YIT, pursuant to which the Yancoal Group agreed to continue to sell coal to YIT and/or its associates (excluding the Yankuang Energy Group), in each case for the period from 1 November 2023 to 31 October 2026.

These Framework Agreements renew the Current Framework Agreements (as defined below) for coal sales entered into by the Company on 19 November 2020, being: (1) the framework agreement with Yankuang Energy for the sale of coal to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for a three-year period commencing 1 January 2021 and ending 31 December 2023 (the “**2021 YK Framework Agreement**”); and (2) the framework agreement with YIT for the sale of coal to YIT and/or its associates (excluding the Yankuang Energy Group) for a three-year period commencing 1 January 2021 and ending 31 December 2023 (the “**2021 YIT Framework Agreement**”,) together with the 2021 YK Framework Agreement, the “**Current Framework Agreements**”).

As a result of China re-commencing imports of Australian coal from February 2023, the Company has increased coal sales to YIT in 2023. In view of the increased coal sales coupled with the relatively high market price of coal in 2023, the Company expects to exceed the annual cap for coal sale transactions with YIT under the 2021 YIT Framework Agreement before the end of October 2023. Accordingly, the Company has entered into the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement for Coal Sales, which will each be effective from 1 November 2023 to 31 October 2026, and the Current Framework Agreements will terminate with effect from 1 November 2023.

As at the Latest Practicable Date, Yankuang Energy is a controlling shareholder of the Company, holding approximately 62.26% of the total issued shares of the Company. Accordingly, Yankuang Energy is a connected person of the Company and the transactions contemplated under the 2023 Yankuang Energy Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As at the Latest Practicable Date, YIT is a wholly-owned subsidiary of Shandong Energy, the controlling shareholder of Yankuang Energy. Accordingly, YIT is a connected person of the Company by virtue of being an associate of Yankuang Energy and the transactions contemplated under the 2023 YIT Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the Coal Sales Transactions will be entered into by the Company with parties who are connected with one another, the Coal Sales Transactions are required to be aggregated pursuant to Rule 14A.81 of the Hong Kong Listing Rules. As the highest applicable percentage ratio in respect of the aggregate annual caps for the continuing connected transactions contemplated under the Coal Sales Transactions is more than 5%, such continuing connected transactions will be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Mr. Baocai Zhang, Mr. Gang Ru, Mr. Yaomeng Xiao, Mr. Xiaolong Huang declared that they hold certain positions in Yankuang Energy or Shandong Energy. However, the articles of association of the Company does not preclude such Directors from voting. In addition, although the Board has established the Independent Board Committee to perform the duties as set out under “9. Independent Board Committee” in the Letter from the Board, which the Independent Board Committee has done, and the Independent Board Committee has also unanimously approved those documents and has unanimously recommended the Independent Shareholders to vote in favour of the Resolutions, as is reflected in the Letter from the Independent Board Committee, considering that none of the above Directors (i) receives substantial remuneration or some other benefit from the Coal Sales Transactions, or (ii) is a director of two companies which transact with each other under the Coal Sales Transactions and receives director’s fees from both companies and the remuneration is performance-related in a way which is relevant to the transactions, or (iii) considers that adopting a particular stance on the matter would jeopardise his/her future remuneration or career prospects with his/her employer, the Board is of the view that none of the above Directors has a material interests in the Coal Sales Transactions, and none of them should abstain from voting on the relevant resolutions of the Board. Accordingly, none of the Directors abstained from voting on the relevant resolutions of the Board approving the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) and the Proposed Coal Sales Agreements.

Yankuang Energy, which are interested in an aggregate of approximately 62.26% of the total issued Shares of the Company as at the Latest Practicable Date, will abstain from voting on the resolutions regarding the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales at the EGM and the Proposed Coal Sales Agreements.

Save for the above, as far as the Directors are aware having made all reasonable enquiries, no other Shareholders are required to abstain from voting on the resolutions to be proposed regarding the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales at the EGM.

Proposed Coal Sales Agreements and Independent Expert’s Report

Pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales and the 2023 YIT Framework Agreement for Coal Sales, the Company proposes to enter into the Proposed Coal Sales Agreements with three trading companies associated with Yankuang Energy and its controlling shareholder Shandong Energy, being YIT, YLIL and HII, respectively, among which (i) the coal sales transactions with YLIL for the proposed volume of 2 million tonnes per annum will be made pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales and (ii) the coal sales transactions with YIT and HII for the proposed volume of 2 million tonnes per annum each (i.e. a total of 4 million tonnes per annum) will be made pursuant to the 2023 YIT Framework Agreement for Coal Sales.

The Proposed Coal Sales Agreements will be subject to the Independent Shareholders' approval at the EGM pursuant to the requirements of the ASX Listing Rules. Details of the Proposed Coal Sales Agreements as required under ASX Listing Rules are set out in the Circular.

The ASX Listing Rules require that the Notice of Meeting includes an independent expert's report that sets out whether the Proposed Coal Sales Agreements are fair and reasonable to the Shareholders whose votes in favour of the Proposed Coal Sale Agreements are not to be disregarded (Independent Shareholders). The Company has appointed Lonergan Edwards & Associates Limited to prepare the independent expert's report (the Independent Expert Report) providing an opinion as to whether the Proposed Coal Sale Agreements are fair and reasonable to the Independent Shareholders, which will be set out in the Circular.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies, has been established by the Company for the purpose of advising the Independent Shareholders on: (i) whether the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) are fair and reasonable, the Coal Sales Transactions are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the Resolutions at the EGM. We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Yancoal Group, Yankuang Energy, Shandong Energy, YIT, YLIL, HII or any other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to this letter, save for the the current appointment, we have not acted as a financial adviser or an independent financial adviser to the Company. Apart from the normal independent financial advisory fees in connection with the current appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Yancoal Group, Yankuang Energy, Shandong Energy, YIT, YLIL, HII or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

1. the 2023 Yankuang Energy Framework Agreement For Coal Sales;
2. the 2023 YIT Framework Agreement For Coal Sales;
3. the Company's annual reports for the three years ended 31 December ("FY") 2020 (the "**2020 Annual Report**"), 2021 (the "**2021 Annual Report**") and FY2022 (the "**2022 Annual Report**");
4. the Current Framework Agreements;
5. the Proposed Coal Sales Agreements; and
6. other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Yancoal Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Yancoal Group or its future prospects. We also have not considered the taxation implications on the Yancoal Group as a result of the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the transactions contemplated thereunder.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps), 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 purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps), we have taken into consideration the following principal factors and reasons:

1. Information of the parties

The Company

The Company's principal business activity is the production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets. The shares of the Company have been listed on the Australian Securities Exchange and the Hong Kong Stock Exchange since 2012 and 2018, respectively.

Yankuang Energy

Yankuang Energy is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. Yankuang Energy'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 pulverized coal injection. The H Shares and A Shares of Yankuang Energy are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively. As at the Latest Practicable Date, Shandong Energy is the controlling shareholder of Yankuang Energy.

YIT

YIT was established in 2011 and is principally engaged in the business of sales of coal and coal chemicals in the PRC. As at the Latest Practicable Date, YIT is a wholly owned subsidiary of Shandong Energy, the controlling shareholder of Yankuang Energy.

Shandong Energy

Shandong Energy is a controlling shareholder of Yankuang Energy, holding approximately 54.67% of the shares in Yankuang Energy as of the Latest Practicable Date. Shandong Energy is one of the largest coal mining and energy companies in China. Shandong

Energy (former Yankuang Group Co., LTD., renamed as Shandong Energy Group Co., Ltd. in April 2021), is a company with limited liability reformed and established under the laws of the PRC in 1996. Shandong Energy is a large state-owned energy enterprise in Shandong Province, China.

Shandong Energy is primarily engaged in mining, high-end chemicals, electric power, new energy and new materials, high-end equipment manufacturing, and modern logistics and trade. Shandong Energy owns more than 20 second-level subsidiaries, including Yankuang Energy, Xinwen Mining Group and Zaozhuang Mining Group and 10 public companies listed in China and abroad, with a 220,000-strong workforce. Shandong Energy was rated as the 69th on 2022 Global Fortune 500 List, the 23rd on China Top 500 Companies List and the 5th among China Top 500 Energy Companies.

Shandong Energy's annual production capacity of coal in China and abroad totals 340 million tonnes, and its coal output ranks the third in China's coal industry.

HII

HII was established in September 2018 and is 44.8% owned by Shandong Energy, 43% owned by Hainan Taizhong Group, 10.2% owned Yankuang Energy Group Co., Ltd and 2% owned by China Huaneng Group Fuel Co., Ltd. To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, Hainan Taizhong Group and China Huaneng Group Fuel Co., Ltd are third parties independent of the Company.

HII's main business models include bulk commodity trading, intelligent trading finance services (i.e., ability to accept RMB) and warehouse logistics. HII has an extensive sales channel in the Southern part of China (i.e., Hainan and surrounding provinces) and provides various services that could not be provided by Yancoal in China.

YLIL

YLIL engages in domestic and international trading and logistics of bulk commodities including iron ore, coal, steel and steel scrap. YLIL has a registered capital of RMB200 million with 51% of its share capital owned by Yankuang Energy and 49% owned by Century Lucky Group Corporation. To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, Century Lucky Group Corporation is a third party independent of the Company.

In 2022, YLIL traded a total of 12.25 million tonnes of iron ore, 2.38 million tonnes of coal and 4.2 million tonnes of steel (including steel scrap). YLIL has extensive relationships with power plants, general industry customers and steel plants in China.

2. Reasons for and benefits of renewal of the continuing connected transactions

As discussed in the Letter from the Board, the Company's principal business activity is the production of thermal and metallurgical coal. Yankuang Energy, a controlling shareholder of the Company, is engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. YIT is engaged in the business of sales of coal and coal chemicals. Each of Yankuang Energy and YIT has been a consistent and reliable customer of the Company in the PRC.

The Company believes that through supplying coal to Yankuang Energy (including its subsidiaries but excluding the Yancoal Group) and YIT (including its associates but excluding the Yankuang Energy Group) in the Company's ordinary and usual course of business, the Company could benefit of (i) the lift of the trade restriction of importing coal from Australia to China, (ii) there is a stable offtake of coal from Yankuang Energy and YIT, (iii) the Yancoal Group has the production ability to supply 6 million tons per year to Yankuang Energy and YIT, and (iv) the entering into of the Coal Sales Transactions with Yankuang Energy and YIT enables the Yancoal Group have a stable source of coal offtake for FY2024, FY2025 and the 10 months ending 31 October 2026.

As noted from the news published by The Guardian, a British news publisher, dated 14 December 2020, The National Development and Reform Commission met major power companies and granted approval for them to import coal without clearance restrictions except for Australia (the "**Trade Restriction**"). After two years of the Trade Restriction, as noted from the news published by Australian Broadcasting Corporation dated 5 January 2023, China's state planner has reportedly allowed three central government-backed utilities and its top steelmaker to resume coal imports from Australia. As noted from the news published by Reuters dated 20 July 2023, the import of coal from Australia to China eased in June 2023 from the 33-month-high in May 2023 but remained supported by attractive prices and strong demand from utilities for high-quality thermal coal from Australia during a scorching summer. China's power plants favour Australian coal for its high-energy content which allows the power plants to produce more electricity in comparison with lower quality coal. Moreover, the persistent heat waves across China since June 2023 have driven up power demand for cooling, which in turn pushed the maximum daily power load for several regions to record highs. The entering into of the Framework Agreements provides the Yancoal Group to capture market share after the resumption of import of coal from Australia to China.

As noted from the prospectus of the Company dated 26 November 2018, the Yancoal Group has been selling coal to Yankuang Energy Group (formerly known as Yanzhou Coal Mining Company Limited as noted from the announcement of Yankuang Energy dated 31 December 2021) and YIT (which ceased to be a subsidiary of Yankuang Energy and became a wholly-owned subsidiary of Shandong Energy (formerly known as Yankuang Group Company Limited as noted in the announcement of Yankuang Energy dated 1 April 2021) as stated in the 2020 Annual Report) prior to the Yancoal Group's listing in Hong Kong. The Framework Agreements and the continuation of which are regarded as crucial to the carrying out of the businesses of the Yancoal Group, the Yankuang Energy Group and YIT in terms of facilitating business growth and development.

We have been provided an internal assessment prepared by the Company in relation to the entering into of the Framework Agreements (the “**Internal Assessment**”). As from our review of the Internal Assessment and our discussion with the Management, we understand that the annual quantity of coal to be supplied to Yankuang Energy Group and YIT under the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales respectively accounts for: (i) less than one-fifth of the Yancoal Group’s total production of coal; and (ii) less than one-third of the Yancoal Group’s total production of coal for the same quality. As the Yancoal Group has sufficient production capacity to supply the quantity of coal to Yankuang Energy Group and YIT, the entering into of the Framework Agreements provides the Yancoal Group with a stable source of revenue.

In view of the above, we consider that the entering into of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Framework Agreements

2023 Yankuang Energy Framework Agreement For Coal Sales

The material terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales are summarised as below.

(i) Subject Matter

The 2023 Yankuang Energy Framework Agreement For Coal Sales sets out the framework for how the Coal Sales Transactions between the parties will be conducted and provides that all transactions in relation to the sale of coal by the Yancoal Group to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) must be (i) in the ordinary and usual course of business of the Yancoal Group, (ii) on an arm’s length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Hong Kong Listing Rules and applicable laws. The terms of the actual Coal Sales Transactions will be set out in separate agreements to be entered into by the parties.

The 2023 Yankuang Energy Framework Agreement For Coal Sales will become effective after and subject to the Company obtaining the approval of the independent Shareholders for the transactions contemplated under the agreement (including the annual caps in respect of such transactions) and the receipt of all regulatory and corporate approvals required by Yankuang Energy for entering into the agreement.

(ii) Term and Termination

The 2023 Yankuang Energy Framework Agreement For Coal Sales shall commence on 1 November 2023 and shall continue up to and including 31 October 2026 (the “**Yankuang Energy Initial Term**”), unless terminated earlier according to the agreement. Subject to compliance with the applicable requirements of the Hong Kong Listing Rules and the ASX Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the Yankuang Energy Initial Term or subsequent renewal term, the 2023 Yankuang Energy Framework Agreement For Coal Sales is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Hong Kong Listing Rules and the ASX Listing Rules).

Any renewal of the 2023 Yankuang Energy Framework Agreement For Coal Sales is subject to compliance with the then relevant requirements of the laws, rules and regulations to which either of the Company and Yankuang Energy is subject to.

(iii) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference (i) to industry index prices, being McCloskey API 5 Index (“**API5**”), which is an internationally recognised, US dollar currency index representing sales and offers from Newcastle for 5500 kcal/kg NAR coal on a Free On Board basis and which is well-recognised as the basis for pricing coal for sales into China, (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. The Management will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any coal sales transaction under the 2023 Yankuang Energy Framework Agreement For Coal Sales.

(iv) Historical Amounts

The aggregate annual transaction amounts received by the Yancoal Group from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for the sale of coal for FY2020, FY2021, FY2022 and the six months ended 30 June 2023 (“**2023 1H**”, together with FY2020, FY2021 and FY2022 are referred as the “**Historical Period**”) were approximately US\$53.2 million, nil, nil and nil, respectively.

There were no coal sale transactions since 1 January 2021 due to (a) restrictions placed on China’s imports of coal sourced from Australia from late 2020 to early 2023 and (b) the majority of coal sales in the past few years having been predominately made between the Company and YIT and/or its associates pursuant to the 2021 YIT Framework Agreement following the restructuring of Yankuang Energy Group and Shandong Energy Group on 27 March 2020, whereby ownership of YIT was transferred from Yankuang Energy Group to Shandong Energy Group. Following such restructuring, Yankuang Energy and Shandong Energy commercially decided to purchase coal from the Company through YIT pursuant to the 2021 YIT Framework Agreement. As a result, there were no coal sale transactions between the Company and Yankuang Energy Group from 1 January 2021 to 30 June 2023.

2023 YIT Framework Agreement For Coal Sales

The material terms of the 2023 YIT Framework Agreement For Coal Sales are summarised as below.

(i) Subject Matter

The 2023 YIT Framework Agreement For Coal Sales sets out the framework for how the Coal Sales Transactions between the parties will be conducted and provides that all transactions in relation to the sale of coal by the Yancoal Group to YIT and/or its associates (excluding the Yankuang Energy Group) must be (i) in the ordinary and usual course of business of the Yancoal Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Hong Kong listing Rules and applicable laws. The terms of the actual Coal Sales Transactions will be set out in separate agreements to be entered into by the parties.

The 2023 YIT Framework Agreement For Coal Sales will become effective after and subject to the Company obtaining the approval of the independent Shareholders for the transactions contemplated under the agreement (including the annual caps in respect of such transactions) and receipt of all regulatory and corporate approvals required by Yankuang Energy for entering into the agreement.

(ii) Term and Termination

The 2023 YIT Framework Agreement For Coal Sales shall commence on 1 November 2023 and shall continue up to and including 31 October 2026 (the "**YIT Initial Term**"), unless terminated earlier according to the agreement. Subject to compliance with the applicable requirements of the Hong Kong Listing Rules and the ASX Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the YIT Initial Term or subsequent renewal term, the 2023 YIT Framework Agreement For Coal Sales is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Hong Kong Listing Rules and the ASX Listing Rules).

Any renewal of the 2023 YIT Framework Agreement For Coal Sales is subject to compliance with the then relevant requirements of the laws, rules and regulations to which either of the Company and Yankuang Energy is subject to.

(iii) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference to (i) industry index prices, being API5 (details of which are set out above), (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. The Management will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any coal sales transaction under the 2023 YIT Framework Agreement For Coal Sales.

(iv) Historical Amounts

The aggregate annual transaction amounts received by the Yancoal Group from YIT and/or its associates (excluding the Yankuang Energy Group) for the sale of coal for the Historical Period were approximately US\$13.7 million, US\$49.3 million, US\$123.0 million and US\$139.1 million, respectively.

Notwithstanding China's ban on imports of coal sourced from Australia (which imports subsequently resumed in February 2023), there was a significant increase in coal sales transactions between the Yancoal Group and YIT and/or its associates in the past few years because YIT was able to purchase coal from the Company for sale to buyers in South East Asia. Whilst the volume of coal sold to YIT has remained relatively stable (noting that coal quality sold to YIT varied shipment to shipment and period to period), the aggregate dollar amount of the coal sales transactions to YIT has increased significantly in the past three years; as a result of significant increases in the market price of coal. For the following 12 month periods: (a) 4 September 2020 to 27 August 2021 (the API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2020 and the last Friday of August 2021); (b) 3 September 2021 to 26 August 2022 (the API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2021 and the last Friday of August 2022); and (c) 2 September 2022 to 25 August 2023 (the API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2022 and the last Friday of August 2023), the average market price of coal based on the AP15 Price Index was US\$59.03, US\$162.52 and US\$123.63 per tonne, respectively.

4. Annual caps

(I) Yankuang Energy Annual Caps

The aggregate annual caps for 2023 Yankuang Energy Framework Agreement for Coal Sales (the “**Yankuang Energy Annual Caps**”) for the two months ending 31 December 2023 (“**2023 2M**”), FY2024 and FY2025 and the ten months ending 31 October 2026 (“**2026 10M**”, together with 2023 2M, FY2024 and FY2025 are referred as the “**Relevant Period**”) are as follow:

	2023 2M (US\$)	FY2024 (US\$)	FY2025 (US\$)	2026 10M (US\$)
Yankuang Energy Annual Caps	66.7 million	300.0 million	300.0 million	233.3 million

Basis of determination of the Yankuang Energy Annual Caps

As stated in the Letter from the Board, The Yankuang Energy Annual Caps set out above were determined primarily with reference to the following: (i) taking into consideration the business requirements of Yankuang Energy the current and last three year review of market pricing for the quality of coal to be supplied, the Company expects to maintain such sales volume in future years pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales, (ii) whilst there were no sales transactions between Yancoal Group and Yankuang Group since January 2021, YLIL has committed to purchasing 2 million tonnes of coal per annum over a three year period (see “Additional Information Required under ASX Listing Rules” in the Circular for further details of the Proposed Coal Sales Agreement with YLIL), (iii) the expected additional spot demand for coal from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) over the next three years and (iv) the estimated sale price for the coal the Company typically charges.

(II) YIT Annual Caps

The aggregate annual caps for 2023 YIT Framework Agreement for Coal Sales (the “**YIT Annual Caps**”) for the Relevant Period are as follow:

	2023 2M (US\$)	FY2024 (US\$)	FY2025 (US\$)	2026 10M (US\$)
YIT Annual Caps	133.4 million	600.0 million	600.0 million	466.6 million

Basis of determination of YIT Annual Caps

As stated in the Letter from the Board, the YIT Annual Caps set out above were determined primarily with reference to (i) taking into consideration the business requirements of YIT and the current and last three year review of market pricing for the quality of coal to be supplied, the Company expects to maintain such sales volume in future years pursuant to the 2023 YIT Framework Agreement for Coal Sales, (ii) the expected additional spot demand for coal from YIT and/or its associates (excluding the Yankuang Energy Group) over the next three years and (iii) the estimated sale price for the coal the Company typically charges.

5. Our analysis

5.1 Annual caps

In assessing the fairness and reasonableness of the Yankuang Energy Annual Caps and the YIT Annual Caps, we have reviewed the Internal Assessment and discussed with the Management with respect to the information provided in respect of the basis of determining the Yankuang Energy Annual Caps and the YIT Annual Caps.

As noted in the Internal Assessment and understand from the discussion with the Management, the determination of the Yankuang Energy Annual Caps of US\$300 million for a 12 months period and the YIT Annual Caps of US\$600 million for a 12 months period is based on the annual offtake quantity of coal, in terms of million tonnes, proposed by Yankuang Energy (the “**Yankuang Energy Offtake**”) and YIT (the “**YIT Offtake**”) respectively and a reference coal price in terms of per metric tonne (the “**Reference Price**”).

For the annual offtake quantity of coal, we noted that the Yankuang Energy Offtake and the YIT Offtake remain unchanged throughout the Relevant Period. We also noted that the Yankuang Energy Offtake is half of the YIT Offtake. After our enquiry and review of the Internal Assessment, we understand that there are two trading companies associated with Shandong Energy, namely, YIT and HII under the YIT Offtake while there is only one trading company associated with Yankuang Energy, being YLIL, under the Yankuang Energy Offtake. We then noted that the YIT Offtake is evenly distributed among YIT and HII. In addition, we noted that the annual offtake quantity of coal is the same among YIT, HII and YLIL. The proposed sales of coal to the three trading companies is consistent with the information as stated in the Letter from the Board. We understand that the annual offtake quantity of coal is proposed by each of YIT, HII and YLIL based on their internal assessment of the business need.

After considering: (i) the annual offtake quantities of coal proposed by YIT, HII and YLIL are based on the assessment of their business need; (ii) the Yankuang Energy Offtake and the YIT Offtake together account for less than one-fifth and less than one-third of the Yancoal Group’s total production of coal and the Yancoal Group’s total production of coal for the same quality respectively as discussed above; (iii) the increase in the need for high-quality thermal coal from Australia in China after the lift of the Trade Restriction and especially during a

scorching summer as discussed above; and (iv) the Yankuang Energy Offtake and the YIT Offtake remain stable throughout the Relevant Period is considered rather conservative, we consider that the determination of the Yankuang Energy Offtake and the YIT Offtake is fair and reasonable.

For the Reference Price, we noted that it remains unchanged throughout the Relevant Period. It is determined by making reference to API5. As stated in the Letter from the Board, the entering into of the Framework Agreements is to renew the Current Framework Agreements for coal sales entered into by the Company with Yankuang Energy and YIT on 19 November 2020. We understand that API5 has been the reference coal price index adopted in the Current Framework Agreements. We noted from the website of Argus Media that API5 was launched in May 2012 and this price assessment is the key price reference used for coal supply agreements in the Australian and Chinese markets for the coal with the same quality as those to be supplied under the Framework Agreements. We also noted from the website of China Coal Economic Research Association that API5 is an effective price index to reflect the coal price in Australia. As API5 is an established price index which has been launched for more than a decade and it has been the reference coal price index adopted in the Current Framework Agreements, we consider that API5 remains as the reference for the Reference Price is reasonable.

When we review the historical trend of API5, we noted that the Reference Price represents the average (after rounding up to the closet dollar) of: (i) the average of API5 in the previous 12 months (from July 2022 to June 2023, both months inclusive); and (ii) the average of API5 in the previous 18 months (from January 2022 to June 2023, both months inclusive). After considering the above, we consider that the Reference Price is fair and reasonable.

After determining the Yankuang Energy Annual Caps of US\$300 million for a 12 months period and the YIT Annual Caps of US\$600 million for a 12 months period, each of the said amounts are then apportioned into two months and 10 months for 2023 2M and 2026 10M respectively with an adjustment of allocating more for 2023 2M due to the impact of lifting the Trade Restriction.

In view of the above, in particular, (i) the Yancoal Group has been supplying coal to Yankuang Energy Group and YIT; (ii) the estimation of the Yankuang Energy Offtake and the YIT Offtake are based on the business need and remains stable throughout the Relevant Period; (iii) the Yancoal Group has sufficient production capacity for the Yankuang Energy Offtake and the YIT Offtake; (iv) the Reference Price is based on an established price index adopted in the Current Framework Agreements; and (v) the Reference Price remains unchanged throughout the Relevant Period and is the average of the averages of API5 in the previous 12 months and 18 months, we consider that the Yankaung Energy Annual Caps and the YIT Annual Caps are fair and reasonable.

5.2 Pricing basis

As stated in the Letter from the Board, the basis of consideration is based on various factors such as the nature of coal and the sale price will be determined with reference to (i) industry index prices, being API5, (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. As further stated in the Letter from the Board, the Management will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any Coal Sales Transaction under each of the Framework Agreements.

From the review of the Internal Assessment and the discussion with the Management, we noted that API5 price index will be adopted as the pricing basis which is consistent with the pricing basis adopted for determining the Yankuang Energy Annual Caps and the YIT Annual Caps as discussed above. An adjustment will then be applied to API5 based on the coal quality characteristics (the “**Price Adjustment**”).

As stated in the Letter from the Board, there was no transaction amount received by the Yancoal Group from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) during the Historical Period due to the Trade Restriction and the majority of coal sales having been predominately made pursuant to the 2021 YIT Framework Agreement. We then randomly obtained four internal approval records (the “**Internal Records**”) before entering into the transactions of sales by the Yancoal Group to YIT in FY2021 and FY2022.

From the review of the Internal Records, it is noted that there were comparisons between the prices proposed by YIT against: (i) the bidding prices received from the independent third parties or the prices adopted in the recent transactions entered into between the Yancoal Group and independent third parties (the “**Independent Party Prices**”) and (ii) the recent market prices. We further noted from the Internal Records that references were made to API5 in both the Independent Party Prices and the prices proposed by YIT. We further noted that the same adjustment was applied to API5 in both the Independent Party Prices and the prices proposed by YIT which is consistent with the Price Adjustment.

We also make reference to the 2021 Annual Report and the 2022 Annual Report and we noted that the independent non-executive Directors and the independent auditor of the Company reviewed the compliance, which included but not limited to the pricing terms, of the continuing connected transactions (including those transactions conducted under the Current Framework Agreements for coal sales entered into by the Company with Yankuang Energy and YIT) in FY2021 and FY2022.

Based on the above, we consider the pricing terms under the Framework Agreements are fair and reasonable.

OPINION AND RECOMMENDATION

Having taken into account the above, we are of the view that the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) are fair and reasonable and the Coal Sales Transactions are in the ordinary and usual course of business of the Yancoal Group, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the Resolutions to be proposed at the EGM in relation to the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder).

Yours faithfully,
For and on behalf of
Opus Capital Limited



Li Lan
Executive Director

Mr. Li Lan is an Executive Director of Opus Capital Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Mr. Li has over 17 years of corporate finance experience in Hong Kong and has participated in and completed various financial advisory and independent financial advisory transactions.