

---

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

---

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

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Shenhua Energy Company Limited, you should at once pass this circular to the purchaser, the transferee, the bank, the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of China Shenhua Energy Company Limited.

---



# 中国神华能源股份有限公司

## CHINA SHENHUA ENERGY COMPANY LIMITED

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

**(Stock Code: 01088)**

### DISCLOSEABLE TRANSACTION

### CONTINUING CONNECTED TRANSACTIONS

### ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT ENTERING INTO FINANCIAL SERVICES AGREEMENT AMENDMENTS TO THE ARTICLES OF ASSOCIATION PROPOSED APPOINTMENT OF DIRECTOR AND SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

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



川盟融資有限公司  
Chancetown Capital Partners Limited

---

The Board recently received supplemental proposals from China Energy, the controlling shareholder of the Company, to nominate a candidate of director. In accordance with the relevant laws and regulations and the Articles of Association of the Company, the Board hereby submit the above mentioned supplemental proposals to the AGM for consideration and approval as an ordinary resolution, details of which are set forth in this circular.

This circular should be read together with the circular of the Company dated 6 May 2019 (the **"First Circular"**). Notices convening the AGM to be held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People's Republic of China at 9:30 a.m. on Friday, 21 June 2019 is set out in the First Circular. A supplemental notice notifying the AGM to be held as originally scheduled and containing additional proposed resolutions is set out on pages 96 to 97 of this circular. A second proxy form (the **"Second Proxy Form"**) containing the originally proposed resolutions and additional proposed resolution of appointment of director is also enclosed herewith.

A letter from the Board is set out on pages 1 to 62 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 63 to 64 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 65 to 89 of this circular.

Shareholders who intend to appoint a proxy to attend the meetings are requested to complete the Second Proxy Form in accordance with the instructions printed thereon. The proxy form shall be lodged with the registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the relevant meeting (i.e. 9:30 a.m. on 20 June 2019) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the meeting(s) or any adjournment thereof should you so wish.

10 May 2019

---

## TABLE OF CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	ii
<b>LETTER FROM THE BOARD</b> .....	1
1    INTRODUCTION .....	2
2    ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT .....	2
3    ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT .....	12
4    ENTERING INTO FINANCIAL SERVICES AGREEMENT .....	23
5    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION.....	44
6    PROPOSED APPOINTMENT OF DIRECTOR .....	58
7    THE ANNUAL GENERAL MEETING .....	60
8    RECOMMENDATION.....	61
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	63
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	65
<b>APPENDIX I — GENERAL INFORMATION</b> .....	90
<b>SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING</b> .....	96

---

## DEFINITIONS

---

*The following expressions have the following meanings unless the context requires otherwise:*

“Abstained Directors”	Dr. Li Dong, Mr. Gao Song, Mr. Mishuhua and Mr. Zhao Jibin, who had abstained from voting as Directors on the relevant board resolution(s);
“AGM”	the 2018 annual general meeting of the Company to be convened and held by the Company;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors of the Company;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“China Energy Group”	collectively, China Energy and its subsidiaries (excluding the Group);
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Current Financial Services Agreement”	the Financial Services Agreement dated 24 March 2016 entered into between the Company and China Energy;
“Current Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 24 March 2016 entered into between the Company and China Energy;
“Current Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 24 March 2016 entered into between the Company and China Energy;
“Director(s)”	the director(s) of the Company;
“Finance Company”	Shenhua Finance Co., Ltd. (神華財務有限責任公司), a limited liability company incorporated in the PRC;

---

## DEFINITIONS

---

“Financial Services Agreement”	the Financial Services Agreement entered into between the Company and China Energy on 22 March 2019;
“GD Power”	GD Power Development Co., Ltd. (國電電力發展股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange;
“Group”	the Company and its subsidiaries;
“Guodian Group”	Guodian Group Co and its subsidiaries;
“Guodian Group Co”	China Guodian Corporation (中國國電集團有限公司);
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors;
“Independent Financial Adviser”	Chanceton Capital Partners Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the general meeting under the Hong Kong Listing Rules;
“Joint Venture Company”	the joint venture company has be established by the Company and GD Power;
“Latest Practicable Date”	9 May 2019, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;

---

## DEFINITIONS

---

“Members of China Energy Group”	including China Energy, its subsidiaries in which China Energy holds over 51% equity interests (the “China Energy Subsidiaries”), companies in which China Energy and the China Energy Subsidiaries individually or jointly hold(s) over 30% equity interests, public institution(s) or social organisation(s) with legal person(s) status under China Energy and its subsidiaries, but excluding the Group;
“Merger of the Group Companies”	Shenhua Group Co has changed its company name to China Energy Investment Corporation Limited and merged with Guodian Group Co by way of merger by absorption of Guodian Group Co;
“Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement entered into between the Company and China Energy on 22 March 2019;
“Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement entered into between the Company and China Energy on 22 March 2019;
“NDRC”	the National Development and Reform Commission;
“PBOC”	People’s Bank of China;
“PRC”	the People’s Republic of China;
“Prospectus”	prospectus of the Company dated 2 June 2005 published by the Company, in accordance with the Hong Kong Listing Rules, at the time of its listing;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on the Shanghai Stock Exchange;
“Shareholder(s)”	the shareholder(s) of the Company;
“Supervisory Committee”	the supervisory committee of the Company.

---

## LETTER FROM THE BOARD

---



# 中国神华能源股份有限公司

## CHINA SHENHUA ENERGY COMPANY LIMITED

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

**(Stock Code: 01088)**

*Executive Directors:*

Li Dong  
Gao Song  
Mi Shuhua

*Registered Office:*

22 Andingmen Xibinhe Road  
Dongcheng District  
Beijing, PRC

*Non-executive Directors:*

Zhao Jibin

*Independent Non-executive Directors:*

Tam Wai Chu, Maria  
Peng Suping  
Jiang Bo  
Zhong Yingjie, Christina  
Huang Ming

10 May 2019

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION**

### **CONTINUING CONNECTED TRANSACTIONS**

**ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT  
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT  
ENTERING INTO FINANCIAL SERVICES AGREEMENT  
AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
PROPOSED APPOINTMENT OF DIRECTOR  
AND  
SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

---

## LETTER FROM THE BOARD

---

### INTRODUCTION

Reference is made to the announcements made by the Company on 22 March 2019 on entering into the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement.

Reference also is made to the announcement made by the Company on 22 March 2019 on amendments to the Articles of Associations.

The Board recently received supplemental proposals from China Energy, the controlling shareholder of the Company, to nominate a candidate of director. In accordance with the relevant laws and regulations and the Articles of Association of the Company, the Board hereby submit the above mentioned supplemental proposals to the AGM for consideration and approval as an ordinary resolution, details of which are set forth in this circular.

This circular should be read together with the First Circular of the Company dated 6 May 2019.

The purpose of this circular is to provide you with further information in relation to the above matters and the recommendation from the Independent Board Committee and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions.

### ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT

#### Background

The Company is a world-leading coal-based integrated energy company. The main business of the Company and its subsidiaries includes production and sales of coal and power, railway, port and ship transportation, and coal-to-olefins and other coal related chemical processing business.

China Energy and its subsidiaries operate eight business segments including coal, thermal power, new energy, hydropower, transportation, chemical industry, environmental technology and finance, and are principally engaged in coal liquefaction, coal-related chemical processing business, coal production, power generation business and investment and financing activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.45% interest in the Company.

As disclosed in the announcement dated 24 March 2016 and 1 March 2018, and the circulars dated 29 April 2016 and 12 March 2018, the Company has entered into the Current Mutual Coal Supply Agreement with China Energy on 24 March 2016 to provide for the mutual supply of coal between the Group and China Energy Group, the term of which will expire on 31 December 2019.

---

## LETTER FROM THE BOARD

---

The Company has entered into a new Mutual Coal Supply Agreement with China Energy on 22 March 2019. Pursuant to the Mutual Coal Supply Agreement, the Group has agreed to supply coal to the China Energy Group and the China Energy Group has agreed to supply coal to the Group. The Mutual Coal Supply Agreement will be effective from 1 January 2020.

### **Mutual coal supply agreement**

#### ***Date***

22 March 2019

#### ***Parties***

The Company and China Energy

#### ***Details of the transaction***

Pursuant to the Mutual Coal Supply Agreement:

- (1) the Group has agreed to supply coal to the China Energy Group; and
- (2) the China Energy Group has agreed to supply coal to the Group.

#### ***Term and termination***

The Mutual Coal Supply Agreement is conditional on the Company's compliance of all announcement, and/or independent shareholders' approval and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules in respect of the Mutual Coal Supply Agreement and is effective from 1 January 2020 and will expire on 31 December 2022.

#### ***Price determination***

The supply price under the Mutual Coal Supply Agreement is the result of unit price RMB/tonne multiplied by actual weight. The unit price of coal shall be determined by both parties after arm's length negotiation with reference to the market price and conditions and the following factors, and the transaction terms shall not be less favourable than those provided by third parties.

- (i) the national industrial policy as well as industry and market conditions in the PRC;
- (ii) the specified guidelines issued by NDRC setting out the coal purchase prices (if any);



---

## LETTER FROM THE BOARD

---

- (iii) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable quality that is offered to or offered by independent third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of 中國煤炭市場網(www.cctd.com.cn) organised by China Coal Transportation & Sale Society(《中國煤炭運銷協會》)in the PRC; (ii) the sale price of local large coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of one or more other enterprises with comparable quality, quantity and location;
- (iv) the quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);
- (v) the quantity of coal; and
- (vi) the transportation fees.

### ***Proposed annual caps and past transactions***

The Company proposes that the annual caps of the Mutual Coal Supply Agreement for the years ending 31 December 2020, 31 December 2021 and 31 December 2022, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same category for the years ended 31 December 2017 and 31 December 2018 and the period from 1 January 2019 to 31 January 2019.

Pursuant to the Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited (Guo Zi Fa Gai Ge [2017] No. 146) (《關於中國國電集團公司與神華集團有限責任公司重組的通知》(國資發改革[2017]146 號)) issued by SASAC dated 28 August 2017, after Shenhua Group Corporation Limited changed its company name to China Energy Investment Corporation Limited, China Energy would merge with Guodian Group Co by way of merger by absorption of Guodian Group Co. Since 28 August 2017, legacy Guodian Group becomes a related party of the Company under the Shanghai Listing Rules and the Guidelines of Shanghai Stock Exchange for Related Transactions of Listed Companies (《上海證券交易所上市公司關聯交易實施指引》). China Energy has completed the merger by absorption of Guodian Group Co in August 2018. Therefore, since September 2018, legacy Guodian Group becomes a related party/connected person of the Company under the Shanghai Listing Rules and Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

Therefore, the mutual coal supply transactions between the Group and legacy Guodian Group during the period from 28 August 2017 to the completion of the Merger of the Group Companies constitute daily related transactions of the Company under the Shanghai Listing Rules, while it does not constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. Since September 2018, the mutual coal supply transactions between the Group and legacy Guodian Group constitute daily related/continuing connected transactions of the Company under the Shanghai Listing Rules and Hong Kong Listing Rules.

Even if the historical transaction amounts between the Group and legacy Guodian Group are included in the aggregate transaction amounts, the aggregate transaction amounts under the Current Mutual Coal Supply Agreement are within the existing annual caps.

### *Supply of Coal by the Group to the China Energy Group*

#### (1) Historical transaction amounts

<b>Year ended</b>	<b>Year ended</b>	<b>Period from</b>
<b>31 December 2017</b>	<b>31 December 2018</b>	<b>1 January 2019 to</b>
<i>Aggregated</i>	<i>Aggregated</i>	<i>Aggregated</i>
<i>transaction amount</i>	<i>transaction amount</i>	<i>transaction amount</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
6,257	18,708	Approximately 3,343

The above historical transaction amounts are exclusive of the historical transaction amounts between the Group and the legacy Guodian Group for the year ended 31 December 2017 and the eight months ended 31 August 2018. During the period from 28 August 2017 to 31 December 2017, the transaction amount of coal supplied by the Group to the Guodian Group amounted to approximately RMB3,224 million. For the eight months ended 31 August 2018, the transaction amount of coal supplied by the Group to the Guodian Group amounted to approximately RMB14,239 million.

## LETTER FROM THE BOARD

(2) Proposed annual caps

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
11,300	65,500	65,500	65,500	65,500	65,500

*Supply of Coal by the China Energy Group to the Group*

(1) Historical transaction amounts

Year ended 31 December 2017	Year ended 31 December 2018	Period from 1 January 2019 to 31 January 2019
<i>Aggregated transaction amount</i>	<i>Aggregated transaction amount</i>	<i>Aggregated transaction amount</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
8,048	8,608	Approximately 945

The above historical transaction amounts are exclusive of the historical transaction amounts between the Group and the legacy Guodian Group for the year ended 31 December 2017 and eight months ended 31 August 2018. During the period from 28 August 2017 to 31 December 2017, the coal supplied by the Guodian Group to the Group amounted to approximately RMB25 million. For the eight months ended 31 August 2018, the coal supplied by the Guodian Group to the Group amounted to approximately RMB766 million.

(2) Proposed annual caps

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
9,400	20,700	24,500	16,000	16,000	16,000

---

## LETTER FROM THE BOARD

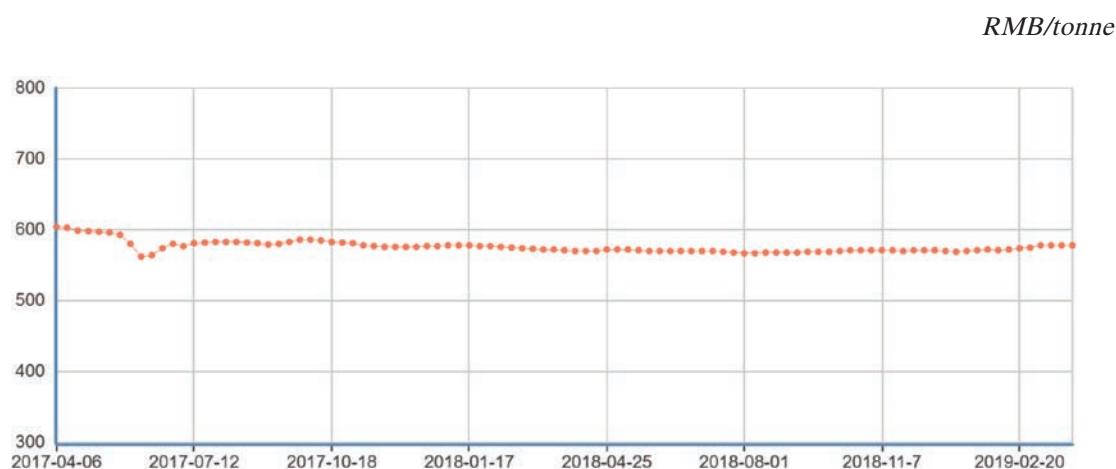
---

The terms of the Mutual Coal Supply Agreement have been reached after arm's length negotiation between the Company and China Energy.

The proposed annual caps of the Mutual Coal Supply Agreement for the supply of coal by the Group to the China Energy Group have been set taking into account the following factors:

- (a) Bohai Bay Thermal Coal Index (i.e. 5,500 kcal thermal coal price) has been stable since the end of 2016. In the week of 22 March 2019, the Bohai Bay Thermal Coal Index was approximately RMB578 per tonne. The Company expects that there is a high possibility that the coal price in the coming three years will remain stable at the current level. The commercial coal sold by the Group includes various commercial coals with different calorific values, the sales price of which vary with the amount of calorific value generated. As disclosed in the announcement of annual results for the year ended 31 December 2018, the average coal sales price of the Group was RMB 429/tonne (exclusive of tax) in 2018, which is used to estimate proposed annual caps.

The chart of the historical changes of the Bohai Bay Thermal Coal Price Index during the last two years is set out below:



- (b) For the year of 2018, the Group supplied approximately 70 million tonnes of coal to the China Energy Group. The Company expects that such transactions will continue.
- (c) Following the business integration of subsidiaries of the China Energy Group after the Merger of the Group Companies, it is estimated that the coal purchased by the China Energy Group from the Group will increase by approximately 18 million tonnes for the years of 2020, 2021 and 2022, compared to the year of 2018.

---

## LETTER FROM THE BOARD

---

- (d) The Company has contributed the equities and assets of the relevant coal-fired power generation companies held by the Company (“**Shenhua Contributed Assets**”) and GD Power has contributed the equities and assets of the relevant coal-fired power generation companies held by the GD Power to establish the Joint Venture Company. After the establishment of the Joint Venture Company, GD Power will control the Joint Venture Company. After the establishment of the Joint Venture Company, the Group will continue to supply coal to the Shenhua Contributed Assets, and such transactions constitute continuing connected transactions of the Company. On 3 January 2019, the Joint Venture Company has completed the commercial and industrial registration. It is estimated that the Group will supply approximately 47 million tonnes of coal per year to the Shenhua Contributed Assets for the years of 2020, 2021 and 2022.
- (e) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. Based on the actual transaction amount for the year of 2018, despite the coal supplied by the Group to the China Energy Group will increase for the years of 2020, 2021 and 2022, the proposed annual caps for the years of 2020, 2021 and 2022 has been maintained the same as that of for the year of 2019. Same as the actual implementation of the continuing connected transactions previously, the Group and the China Energy Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the China Energy Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year’s annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

---

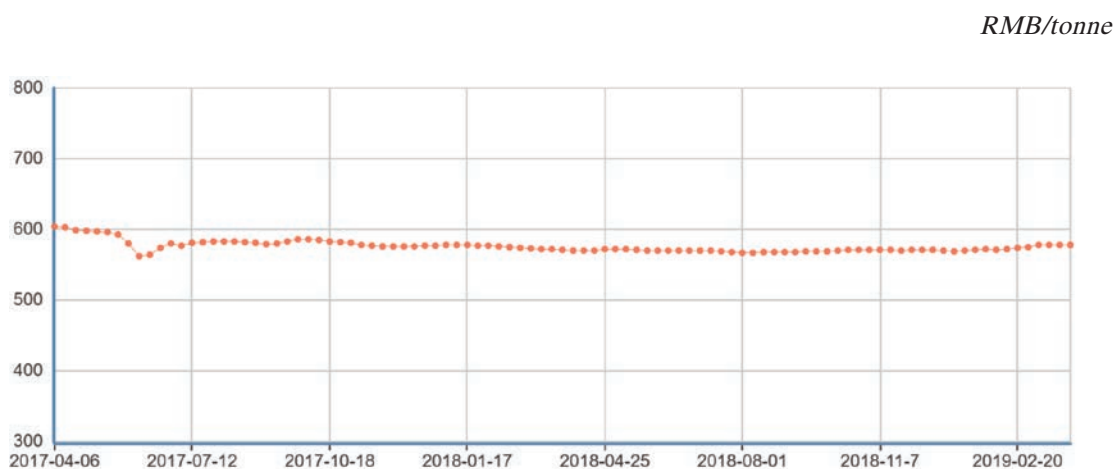
## LETTER FROM THE BOARD

---

The proposed annual caps of the Mutual Coal Supply Agreement for the supply of coal by the China Energy Group to the Group have been set taking into account the following factors:

- (a) Bohai Bay Thermal Coal Index (i.e. 5,500 kcal thermal coal price) has been stable since the end of 2016. In the week of 22 March 2019, the Bohai Bay Thermal Coal Index was approximately RMB578 per tonne. The Company expects that there is a high possibility that the coal price in the coming three years will remain stable at the current level. The commercial coal purchased by the Group includes various commercial coals with different calorific values, the purchase price of which vary with the amount of calorific value generated. As disclosed in the announcement of annual results for the year ended 31 December 2018, the average price of coal purchased by the Group was RMB352/tonne (exclusive of tax) in 2018, which is used to estimate proposed annual caps.

The chart of the historical changes of the Bohai Bay Thermal Coal Price Index during the last two years is set out below:



- (b) For the year of 2018, the Group purchased approximately 32 million tonnes of coal from the China Energy Group. The Company expects that such transactions will continue.
- (c) It is estimated that for the purpose of satisfying market demands, the Group will increase the purchase of coal from the China Energy Group by 20 million tonnes for the years of 2022, 2021 and 2022, compared to the year of 2018.

---

## LETTER FROM THE BOARD

---

- (d) After the establishment of the Joint Venture Company, GD Power will control the Joint Venture Company. After the establishment of the Joint Venture Company, the Shenhua Contributed Assets will continue to purchase coal from the China Energy Group, and such transactions will no longer constitute continuing connected transactions of the Company. It is estimated that the Shenhua Contributed Assets will purchase approximately 9 million tonnes of coal from the China Energy Group for the years of 2020, 2021 and 2022. Therefore, the Company estimates that the coal purchased by the Group from the China Energy Group will reduce by approximately 9 million tonnes per year for the years of 2020, 2021 and 2022, compared to the year of 2018.
- (e) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. Therefore, the proposed annual caps for the years of 2020, 2021 and 2022 has been decreased by RMB8,500 million compared to the year of 2019. Same as the actual implementation of the continuing connected transactions previously, the Group and the China Energy Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the China Energy Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

### **Implementation agreements and payment**

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Mutual Coal Supply Agreement with China Energy and each subsidiary of China Energy. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Mutual Coal Supply Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Mutual Coal Supply Agreement and the annual caps.

---

## LETTER FROM THE BOARD

---

All payment made pursuant to the Mutual Coal Supply Agreement and its implementation agreements will be in cash.

### **Reasons for entering into the mutual coal supply agreement and their benefits to the company**

The Group continues to sell thermal coals of various calorific value to a number of power plants, coal to liquid and coal-based chemical subsidiaries owned by the China Energy Group. In return, the Group receive payment for the supply of coal as in any other ordinary commercial transaction. The China Energy Group also continue to supply the Group with thermal coals of various calorific value for the purposes of coal blending and re-sale. The Group sells and purchases different types of coal and also same types of coal to and from the China Energy Group. The reason for this is that considering the distance between coal mines, and power plants, coal-to-liquid and coal-based chemical plants, purchasing coal from nearby coal mines owned by the other party is sometimes more convenient. These continuing connected transactions ensure that the Group and the China Energy Group receive a reliable supply of high quality coal. These continuing connected transactions also reduce business risks and costs, which ultimately benefits the operations of the Company.

Upon completion of the Merger of the Group Companies and establishment of the Joint Venture Company, the demand of coal and corresponding transportation services to the Group has increased due to the scale expansion of coal-fired power plants of the China Energy Group, the quantity, quality and flow of which will maintain relatively stable; the demand of relevant products and services has increased as well. Entering into Mutual Coal Supply Agreement and Mutual Supplies and Services Agreement and deepening the long-term stable cooperative relationship is conducive to the Group's annual plan for properly arranging coal production and coal purchase, optimizing transportation scale and operation flow, ensuring integrated and balanced high-level operation, improving production efficiency, transportation efficiency and capital turnover rate, reducing operational risks and costs, and benefiting the ordinary production and operation of the Group.

### **Hong Kong listing rules implications**

China Energy holds 69.45% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the Mutual Coal Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Mutual Coal Supply Agreement, as one or more of the applicable percentage ratio exceeds 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Mutual Coal Supply Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.



---

## LETTER FROM THE BOARD

---

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Mutual Coal Purchase Agreement) entered into between the Group and the China Energy Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the Mutual Coal Supply Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

### **General information**

The Directors consider that the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

### **ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT**

#### **Background**

The Company is a world-leading coal-based integrated energy company. The main business of the Company and its subsidiaries includes production and sales of coal and power, railway, port and ship transportation, and coal-to-olefins and other coal related chemical processing business.

China Energy and its subsidiaries operate eight business segments including coal, thermal power, new energy, hydropower, transportation, chemical industry, environmental technology and finance, and are principally engaged in coal liquefaction, coal-related chemical processing business, coal production, power generation business and investment and financing activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.45% interest in the Company.

As disclosed in the announcement dated 24 March 2016 and 1 March 2018, and the circulars dated 29 April 2016 and 12 March 2018, the Company has entered into the Current Mutual Supplies and Services Agreement with China Energy on 24 March 2016 to provide for the mutual supply of products and services between the Group and the China Energy Group, the term of which will expire on 31 December 2019.

The Company has entered into a new Mutual Supplies and Services Agreement with China Energy on 22 March 2019. Pursuant to the Mutual Supplies and Services Agreement, the Group has agreed to supply products and provide services to the China Energy Group and the China Energy Group has agreed to supply products and provide services to the Group. The Mutual Supplies and Services Agreement will be effective from 1 January 2020.

---

## LETTER FROM THE BOARD

---

### **Mutual supplies and services agreement**

#### ***Date***

22 March 2019

#### ***Parties***

The Company and China Energy

#### ***Mutual Supplies and Services***

Pursuant to the Mutual Supplies and Services Agreement:

- (a) the Group has agreed to supply products and provide services to the China Energy Group, including:
  - (i) production: power trading and other related or similar services.
  - (ii) supplies: chemical products, production equipment and spare parts, office products and other related or similar product supplies or services.
  - (iii) ancillary production services: rail transportation, hardware and software equipment and related services, information technology services, logistics and support services, training and other related or similar services.
  - (iv) administrative services: various daily administrative services and other ancillary production services to the headquarter of China Energy (exclusive of financial management and services).
- (b) the China Energy Group has agreed to supply products and provide services to the Group, including:
  - (i) production: power trading and other related or similar services.
  - (ii) supplies: oil products, and other related or similar production supplies and services.

---

## LETTER FROM THE BOARD

---

- (iii) ancillary production services: construction, logistics and support services, training, tendering services, technical consulting and other related or similar services.
- (iv) administrative services: social security and pension management services and staff data recording services.

### ***Term and termination***

The Mutual Supplies and Services Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules in respect of the Mutual Supplies and Services Agreement and is effective from 1 January 2020 and will expire on 31 December 2022.

### ***Price determination***

The pricing of the products and services provided under the Mutual Supplies and Services Agreement shall be determined in accordance with the general principles and order of this section:

- (a) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price.
- (b) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.
- (c) Market price: the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third party for the same period when determining whether the price for any product transaction under the Agreement is market price.
- (d) Agreed price: to be determined by adding a reasonable profit over a reasonable cost. The management shall consider at least two comparable deals with independent third party for the same period when determining the reasonable profit of any product transaction under the Agreement.

---

## LETTER FROM THE BOARD

---

In addition to the above, for certain type of product or service, specific pricing policy is adopted as follows:

- (a) Rail transportation: price prescribed by NDRC or other related government authorities.
- (b) Construction: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, market price.
- (c) Oil products: government-guided price.
- (d) Power trading: Where a government-guided price is available, the government guided price will be applied. Market standard price will be applied for call auction transactions. Off market transactions will take reference of recent comparable market price.
- (e) Hardware and software equipment and related services: market price (including tender and bidding price).
- (f) Chemical products: market price.
- (g) Production equipment and spare parts, office products: market price.
- (h) Tendering service: price prescribed by NDRC.
- (i) Technical consulting service: agreed price with a profit margin of approximately 10%.
- (j) Information technology services: the budget is reviewed by professional institution with pricing reviewing qualification according to relevant rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to market custom of information technology industry, actual standards and market price, taking into account the actual condition of the company's information technology construction. The parties negotiate and agree on service price within the scope of budget.
- (k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%).

---

## LETTER FROM THE BOARD

---

- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%).
- (m) Various daily administrative services and other ancillary production services to the headquarter of the China Energy (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

If the price of products or services mutually provided by the Group and the China Energy Group cannot apply the price determination principles agreed in the Mutual Supplies and Services Agreement, due to the changes of laws, regulations, policies and markets, both parties may adjust the price determination principles of the corresponding products or services in accordance with the aforementioned changes.

### ***Proposed annual caps and past transactions***

The Company proposes that the annual caps of the Mutual Supplies and Services Agreement for the years ending 31 December 2020, 31 December 2021 and 31 December 2022, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2017 and 31 December 2018 and the period from 1 January 2019 to 31 January 2019.

Pursuant to the Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited (Guo Zi Fa Gai Ge [2017] No. 146) (《關於中國國電集團公司與神華集團有限責任公司重組的通知》(國資發改革[2017]146 號)) issued by SASAC dated 28 August 2017, after Shenhua Group Corporation Limited changed its company name to China Energy Investment Corporation Limited, China Energy would merge with Guodian Group Co by way of merger by absorption of Guodian Group Co. Since 28 August 2017, legacy Guodian Group becomes a related party of the Company under the Shanghai Listing Rules and the Guidelines of Shanghai Stock Exchange for Related Transactions of Listed Companies (《上海證券交易所上市公司關聯交易實施指引》). China Energy has completed the merger by absorption of Guodian Group Co in August 2018. Therefore, since September 2018, legacy Guodian Group becomes a related party/connected person of the Company under the Shanghai Listing Rules and Hong Kong Listing Rules.

Therefore, the mutual supplies and services transactions between the Group and legacy Guodian Group during the period from 28 August 2017 to the completion of the Merger of the Group Companies constitute daily related transactions of the Company under the Shanghai Listing Rules, while it does not constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. Since September 2018, the mutual supplies and services transactions between the Group and legacy Guodian Group constitute daily related/continuing connected transactions of the Company under the Shanghai Listing Rules and Hong Kong Listing Rules.

## LETTER FROM THE BOARD

Even if the historical transaction amounts between the Group and legacy Guodian Group are included in the aggregate transaction amounts, the aggregate transaction amounts under the Current Mutual Supplies and Services Agreement are within the existing annual caps.

### ***Supply of products and provision of services by the Group to the China Energy Group***

#### ***(1) Historical transaction amounts***

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Period from 1 January 2019 to 31 January 2019</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
6,749	6,959	Approximately 613

The above historical transaction amounts are exclusive of the historical transaction amounts between the Group and the legacy Guodian Group for the year ended 31 December 2017 and the eight months ended 31 August 2018. During the period from 28 August 2017 to 31 December 2017, the transaction amount of products and services supplied by the Group to the Guodian Group amounted to approximately RMB21 million. For the eight months ended 31 August 2018, the transaction amount of products and services supplied by the Group to the Guodian Group amounted to approximately RMB16 million.

#### ***(2) Proposed annual caps***

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2019</b>	<b>Year ending 31 December 2020</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
11,800	13,000	13,000	13,000	13,000	13,000

## LETTER FROM THE BOARD

### *Supply of products and provision of services by the China Energy Group to the Group*

*(1) Historical transaction amounts*

<b>Year ended</b> <b>31 December 2017</b> <i>Aggregated transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2018</b> <i>Aggregated transaction amount</i> <i>(RMB million)</i>	<b>Period from</b> <b>1 January 2019 to</b> <b>31 January 2019</b> <i>Aggregated transaction amount</i> <i>(RMB million)</i>
2,327	3,590	Approximately 66

The above historical transaction amounts are exclusive of the historical transaction amounts between the Group and the legacy Guodian Group for the year ended 31 December 2017 and eight months ended 31 August 2018. During the period from 28 August 2017 to 31 December 2017, the transaction amount of products and services supplied by the Guodian Group to the Group amounted to approximately RMB79 million. For the eight months ended 31 August 2018, the transaction amount of products and services supplied by the Guodian Group to the Group amounted to approximately RMB79 million.

*(2) Proposed annual caps*

<b>Year ended</b> <b>31 December 2017</b> <i>Annual cap</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2018</b> <i>Annual cap</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2019</b> <i>Annual cap</i> <i>(RMB million)</i>	<b>Year ending</b> <b>31 December 2020</b> <i>Proposed annual cap</i> <i>(RMB million)</i>	<b>Year ending</b> <b>31 December 2021</b> <i>Proposed annual cap</i> <i>(RMB million)</i>	<b>Year ending</b> <b>31 December 2022</b> <i>Proposed annual cap</i> <i>(RMB million)</i>
8,800	23,500	23,500	9,000	9,000	9,000

The terms of the Mutual Supplies and Services Agreement have been reached after arm's length negotiation between the Company and China Energy.

The proposed annual caps of the Mutual Supplies and Services Agreement for supply of products and provision of services by the Group to the China Energy Group have been set taking into account the following factors:

- (a) The aggregated transaction amount of products and services provided by the Group to the China Energy Group was approximately RMB6,975 million for the year of 2018. The Company expects that such transactions will continue.

---

## LETTER FROM THE BOARD

---

- (b) Following the Group integration and business scale expansion, products and services provided by the Group to the China Energy Group and its subsidiaries is expected to increase in the future. For example, Shenhua Bayan Nur Energy Co.,Ltd. (神華巴彥淖爾公司), a subsidiary of the Company, sell products such as coke, tar and benzol to China Energy Group Coal and Coking Co., Ltd (國家能源集團煤焦化有限責任公司), a subsidiary of China Energy. The aggregated transaction amount of products and services was approximately RMB600 million for the year of 2018, which is estimated to increase to approximately RMB1,400 million per year for the years of 2020, 2021 and 2022. The Group will provide more transportation services to China Energy Group Coal and Coking Co., Ltd and other subsidiaries, the relevant transaction amount of which was approximately RMB300 million for the year of 2018 and is estimated to increase to approximately RMB1,200 million per year for the years of 2020, 2021 and 2022. Shenhua Information Technology Co., Ltd (神華信息技術有限公司), a subsidiary of the Company, will provide hardware and software sales and related technological services to the China Energy Group, the aggregated transaction amount of which was approximately RMB200 million for the year of 2018 and is estimated to increase to RMB600 million per year for the years of 2020, 2021 and 2022. Shenhua Materials Group Co., Ltd. (神華物資集團有限公司), a subsidiary of the Company, provides supply of materials and related services to the China Energy Group, the aggregated transaction amount of which was approximately RMB900 million in 2018 and is estimated to increase to approximately RMB1,200 million per year for the years of 2020, 2021 and 2022.
- (c) The Group has contributed the equities and assets of the relevant coal-fired power generation companies held by the Group and GD Power has contributed the equities and assets of the relevant coal-fired power generation companies held by the GD Power to establish the Joint Venture Company. After the establishment of the Joint Venture Company, GD Power will control the Joint Venture Company. After the establishment of the Joint Venture Company, the Group will continue to provide transportation services, information technology service and other related or similar products and services to the Shenhua Contributed Assets, and such transactions constitute continuing connected transactions of the Company. On 3 January 2019, the Joint Venture Company has completed the commercial and industrial registration. It is estimated that the transaction will be approximately RMB2,100 million per year for the years of 2020, 2021 and 2022, among which, the transaction amount of coal transportation services provided by Shenhua Shipping Co., Ltd (神華航運公司), a subsidiary of the Company, to Shenwan Energy Co., Ltd. (神皖能源有限責任公司) and Zhejiang Guohua Zhejiang Power Co., Ltd. (浙江國華浙能發電有限公司) is approximately RMB1,900 million per year.



---

## LETTER FROM THE BOARD

---

- (d) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. Based on the actual transaction amount for the year of 2018, despite the transaction amount of products and services provided by the Group to the China Energy Group will increase for the years of 2020, 2021 and 2022, the proposed annual caps for the years of 2020, 2021 and 2022 has been maintained the same as that of for the year of 2019. Same as the actual implementation of the continuing connected transactions previously, the Group and the China Energy Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the China Energy Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

The proposed annual caps of the Mutual Supplies and Services Agreement for supply of products and provision of services by the China Energy Group to the Group have been set taking into account the following factors:

- (a) The aggregated transaction amount of products and services provided by the China Energy Group to the Group was approximately RMB3,669 million for the year of 2018. The Company expects that such transactions will continue.
- (b) For the years of 2020, 2021 and 2022, the Group will carry out infrastructure projects and entrust the China Energy Group to provide related services. For example, a coal-to-olefin upgrading demonstration project and a high-alumina coal fly ash integrated utilization demonstration project, etc. It is estimated that the aggregated transaction amount will be increased by RMB6,000 million per year for the years of 2020, 2021 and 2022.
- (c) For the years of 2020, 2021 and 2022, the open pit mines of the Group are expected to increase oil consumption by approximately 60,000 tonnes per year, which is expected to increase the connected transaction amount by approximately RMB500 million per year accordingly.
- (d) Wuhai Energy Xilaifeng Nitrate Co., Ltd (烏海能源西來峰硝銨有限責任公司), a subsidiary of China Energy, will be officially put into operation in 2019, from which the Group will procure civilian chemicals. The transaction amount of connected transactions will increase by approximately RMB200 million per year accordingly.

---

## LETTER FROM THE BOARD

---

- (e) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. Therefore, the proposed annual caps has been decreased by RMB14,500 million per year for the years of 2020, 2021 and 2022 compared to the year of 2019. Same as the actual implementation of the continuing connected transactions previously, the Group and the China Energy Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the China Energy Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

### **Implementation agreements and payment**

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Mutual Supplies and Services Agreement with China Energy and each subsidiary of China Energy. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of products and provision of services as contemplated by the Mutual Supplies and Services Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Mutual Supplies and Services Agreement and the annual caps.

All payment made pursuant to the Mutual Supplies and Services Agreement and its implementation agreements will be in cash.

### **Reasons for entering into the mutual supplies and services agreement and their benefits to the company**

As disclosed in the Prospectus, the China Energy Group retained certain assets and businesses which are supplemental and necessary to the business of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's length basis after the listing of the Company. In addition, the Group provides certain goods and services to the China Energy Group on an arm's length basis to support the businesses retained by the China Energy Group. Due to the long-term cooperation relationship between the Company and the China Energy Group and the advantages, good reputation and gigantic scale of the China Energy Group in various aspects, the continuing connected transactions ensure

---

## LETTER FROM THE BOARD

---

that the Group and China Energy Group receive a steady supply of high quality products and services which ultimately benefit the operations of the Group. The Board is of the opinion that the entering into such transactions on an continuing basis is essential to the continuation of the Group's business and will be beneficial to the Group as the transactions under the Mutual Supplies and Services Agreement facilitate and will facilitate the business operation and growth of the Group and reduce the unnecessary risks which might incur during the course of operation.

Upon completion of the Merger of the Group Companies and establishment of the Joint Venture Company, the demand of coal and corresponding transportation services to the Group has increased due to the scale expansion of coal-fired power plants of the China Energy Group, the quantity, quality and flow of which will maintain relatively stable; the demand of relevant products and services has increased as well. Entering into Mutual Coal Supply Agreement and Mutual Supplies and Services Agreement and deepening the long-term stable cooperative relationship is conducive to the Group's annual plan for properly arranging coal production and coal purchase, optimizing transportation scale and operation flow, ensuring integrated and balanced high-level operation, improving production efficiency, transportation efficiency and capital turnover rate, reducing operational risks and costs, and benefiting the ordinary production and operation of the Group.

### **Hong Kong listing rules implications**

China Energy holds 69.45% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the Mutual Supplies and Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Mutual Supplies and Services Agreement, as one or more of the applicable percentage ratios exceeds 0.1% but all are below 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Mutual Supplies and Services Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but are exempted from independent shareholders' approval requirement. However, according to Shanghai Listing Rules, the Mutual Supplies and Services Agreement and the transactions contemplated thereunder are subject to independent shareholders' approval requirement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Mutual Supplies and Services Agreement) entered into between the Group and the China Energy Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the Mutual Supplies and Services Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

### General information

The Directors consider that the terms, proposed annual caps of and the transactions contemplated under the Mutual Supplies and Services Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

### ENTERING INTO FINANCIAL SERVICES AGREEMENT

#### Background

The Company is a world-leading coal-based integrated energy company. The main business of the Company and its subsidiaries includes production and sales of coal and power, railway, port and ship transportation, and coal-to-olefins and other coal related chemical processing business.

China Energy and its subsidiaries operate eight business segments including coal, thermal power, new energy, hydropower, transportation, chemical industry, environmental technology and finance, and are principally engaged in coal liquefaction, coal-related chemical processing business, coal production, power generation business and investment and financing activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.45% interest in the Company.

Finance Company is principally engaged in the provision of financial consultation services, credit appraisal and other related consultancy and agency services to Members of China Energy Group and the Group; assistance to members in the collection and payment of transaction amount; authorised insurance agency services; provision of guarantee between members; providing entrusted loans and entrusted investments between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement planning to members; accepting deposits from members; provision of loans and finance leasing to members; provision of inter-bank lending; authorised issue of bonds; underwriting of corporate bonds of members; equity investments in financial institutions; investments in negotiable securities; provision of consumer credit facilities, buyers' credit and finance leasing. As at the date hereof, the Company directly and indirectly holds 100% interest in Finance Company.

As disclosed in the announcement dated 24 March 2016 and the circular dated 29 April 2016, the Company has entered into the Current Financial Services Agreement with China Energy on 24 March 2016 under which the Company has agreed to provide, through Finance Company, financial services to Members of China Energy Group, and the China Energy Group has agreed to provide, at the request of the Group and through Finance Company, entrustment loans to the Group. The term of the Current Financial Services Agreement will expire on 31 December 2019.

---

## LETTER FROM THE BOARD

---

The Company has entered into a new Financial Services Agreement with China Energy on 22 March 2019. Pursuant to the Financial Services Agreement, the Company has agreed to provide, through Finance Company, financial services to Members of China Energy Group, and the China Energy Group has agreed to provide, at the request of the Group and through Finance Company, entrustment loans to the Group. The Financial Services Agreement will be effective from 1 January 2020.

### **Financial services agreement**

#### ***Date***

22 March 2019

#### ***Parties***

The Company and China Energy

#### ***Financial Services***

Pursuant to the Financial Services Agreement, the Company has agreed to provide, through Finance Company, the following financial services to Members of China Energy Group:

- (1) financial consultation, credit appraisal and other relevant advice and agency services to Members of China Energy Group;
- (2) provision of assistance to Members of China Energy Group to receive and pay transaction proceeds;
- (3) provision of financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of China Energy Group;
- (4) entrustment investments between Members of the China Energy Group and associates of China Energy;
- (5) bill acceptance and discount services to Members of China Energy Group;
- (6) internal settlement and settlement planning services between Members of the China Energy Group and associates of China Energy;

---

## LETTER FROM THE BOARD

---

- (7) taking deposits from Members of China Energy Group;
- (8) granting loans, consumption credit, buyer's credit and finance leasing to Members of China Energy Group;
- (9) underwriting corporate bonds of Members of China Energy Group.

Pursuant to the Financial Services Agreement, China Energy has agreed that the China Energy Group may provide entrustment loans through Finance Company to the Group on the conditions that any such entrustment loans must be granted on normal commercial terms and with no security being given on assets of the Group.

### ***Term and termination***

The Financial Services Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules in respect of the Financial Services Agreement and is effective from 1 January 2020 and will expire on 31 December 2022.

### ***Price determination***

- (1) Subject to compliance with the terms and conditions of the Financial Services Agreement, Finance Company shall be appointed as one of the financial institutions to provide financial services to Members of China Energy Group. Members of China Energy Group may obtain financial services from other financial institutions in addition to or instead of Finance Company, as it thinks fit;
- (2) the interest rates for deposits placed by Members of China Energy Group with Finance Company under the Financial Service Agreement are negotiated on arm's length terms and by reference the interest rate prescribed by the PBOC for the same type of deposit and interest rates charged by major commercial banks in the PRC for comparable deposits provided to Members of China Energy Group;
- (3) the interest rates for loans granted by Finance Company to Members of China Energy Group under the Financial Service Agreement are negotiated on arm's length terms and by reference the interest rate prescribed by the PBOC for the same type of loan and interest rates charged by major commercial banks in the PRC for comparable loans provided to Members of China Energy Group;

---

## LETTER FROM THE BOARD

---

- (4) the service fees charged by Finance Company for the provision of the financial services to Members of China Energy Group are determined according to the fee rates fixed by the PBOC or the CBIRC, and if such fixed fee rates are not available, the service fees are negotiated on arm's length taking into account the market conditions and by reference the fee rates charged by major commercial banks for comparable services provided to Members of China Energy Group.

### *Capital Risk Control Measures*

1. Finance Company will implement periodic evaluation system and establish internal control system and risk monitoring indicators to ensure the secure operation of its fund settlement and clearance network, protect the safety of funds, and control risk exposure.
2. Finance Company will ensure that it is in strict compliance with the risk control indicators and risk monitoring indicators for finance companies issued by the CBIRC. For risk control indicators, standard values are set, and they are the minimum requirements for finance companies. Risk control indicators include eleven indicators such as capital adequacy ratio, non-performing assets ratio, non-performing loans ratio, capital loss coverage ratio, loan loss coverage ratio, liquidity ratio, fixed assets ratio, short-term securities investments ratio, long-term investments ratio, inter-bank lending ratio and guarantee ratio. Risk monitoring indicators include five indicators such as deposit-to-loan ratio, credit concentration of a single client, rate of return on capital, asset profit ratio and renminbi excess reserves rate. Detailed calculation methods and standard values for risk control indicators are set out in Interim Measures on Assessing Risk Control Indicators for Enterprise Group Finance Companies issued by the CBIRC on 29 December 2006.

### *Risk Control Indicators*

Capital adequacy ratio is the ratio of net capital to risk-weighted asset plus 12.5 times of market risk capital. Net capital is the difference of the sum of the calculated value of core capital and supplementary capital minus capital deduction. The capital adequacy ratio of finance companies shall not be lower than 10%.

Non-performing assets ratio is the ratio of bad credit risks asset to credit risks asset. Credit risks asset is the assets that undertakes credit risk, including loans, call loans to banks, redemptory monetary capital for sale, deposits of interbank, bond investment in bank accounts, interest receivable, other receivables and irrevocable commitment and contingent liabilities. Non-performance credit risks asset is that the five-class classification of the credit risks assets is in subordinated class, doubtful class and loss class. The non-performing assets ratio of finance companies shall not be higher than 4%.

---

## LETTER FROM THE BOARD

---

Non-performing loans ratio is the ratio of non-performing loan to each loan. Loan is the asset formed by the monetary capital that finance companies provide to borrowers, mainly including loans, bill financing, finance lease, purchases of resale securities from non-financial institution, advance in cash and so on. Non-performing loan is the sum of loan in subordinated class, doubtful class and loss class that included in the five-class classification. The non-performing loans ratio of finance companies shall not be higher than 5%.

Capital loss coverage ratio is the ratio of the actual provisions for credit risks asset to the required provisions for credit risks asset. The loss coverage of credit risks asset is the reserves withdrawn by finance companies for each credit risks assets. It is not required to consider the adequacy of general coverage and special coverage when calculating asset loss coverage. Capital loss coverage ratio of finance companies shall not be lower than 100%.

Loan loss coverage ratio is the ratio of the actual provision for loans and the required provision for loans. The loan loss coverage is the coverage of loan loss withdrawn that may happen to loans by finance corporations. The loan loss coverage ratio only reflects whether the special coverage of loan loss is adequate. Loan loss coverage ratio of finance companies shall not be lower than 100%.

Liquidity ratio is the ratio of liquid assets to liquid liabilities. The liquidity ratio of finance companies shall not be less than 25%.

Fixed assets ratio is the ratio of self-owned asset to the total capital. Self-owned asset is the net value after depreciation of fixed asset, which is the difference of the original value of fixed asset minus accumulated depreciation. Total capital is the difference of the sum of calculated value of core capital and supplementary capital minus backlog part of loan loss reserves. Fixed assets ratio of finance companies shall not be higher than 20%.

Short-term securities investments ratio is the proportion of short-term securities investments to the total capital. Short-term securities investments is the portfolio investment in national debts, debentures of the central bank and bills, financial bonds, enterprise bonds, stocks, funds and others that are calculated under “short-term investments” according to the Financial Firms Accounting System (Cai Kuai [2001] No. 49). The other short-term investments calculated under “short-term investments” shall also be included in the assessment. Short-term securities investments ratio of finance companies shall not be higher than 40%.

Long-term investments ratio is the proportion of long-term investments to the total capital. Long-term investments are the investments that are calculated under “long-term investments” according to the Financial Firms Accounting System, including long-term bonds investments, long-term equity investments and other long-term investments. Long-term investments ratio of finance companies shall not be higher than 30%.



---

## LETTER FROM THE BOARD

---

Inter-bank borrowing ratio is the proportion of interbank borrowing to the total capital. Borrowing funds are the interbank borrowings, funds sold for repurchase and other external debts of finance corporations. Inter-bank borrowing ratio of finance companies shall not be higher than 100%.

Guarantee ratio is the proportion of guarantee risk exposure to the total capital. Guarantee risk exposure is the balance of the deduction of cash deposit and pledged bank deposit receipt and national debt value from giving credit equivalent to loan. The calculation of guarantee percentage excludes the contingent items related to trade and transaction, such as bid bonds, performance bonds and so on. Guarantee ratio of finance companies shall not be higher than 100%.

### *Risk Monitoring Indicators*

Deposit-to-loan ratio is the ratio of each loan to each deposit. Each deposit is the deposit taken by finance companies from each member company, including corporate deposits, margin deposits for security and the difference between entrusted funds/entrusted loans and entrusted investments.

Credit concentration of a single client is the ratio of the credit sum of the largest client to the net capital. The credit sum of the largest client is the credit balance (whether internal or external) of the client with the largest credit sum at the end of a report period. Credit is the financial support provided by finance corporations for clients, or the guarantees for the loss or expenses which may be caused in the related business activities, including loans, bill financing, finance leases, advances in cash and other internal businesses and bill acceptance, letters of guarantee, guarantees of the bond issuance, loan guarantees, asset sale with recourse, unused and irrevocable loan commitments and other external businesses.

Rate of return on capital is the ratio of after-tax profits to the average balance of the sum of ownership equity and minority equity.

Asset profit ratio is the ratio of the after-tax profits to the average balance of assets.

Renminbi excess reserves ratio is the ratio of the sum of excess reserves deposit, cash and deposit of interbank in the PBOC to the various types of deposits in Renminbi.

---

## LETTER FROM THE BOARD

---

3. When Finance Company provides financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of China Energy Group, the principal will be required to provide security deposit as counter-guarantee.
4. For bill acceptance and discount services to Members of China Energy Group, the risk control measures adopted by Finance Company include: the loan department shall exam bills to ensure the bills are real; loan department shall conduct detailed due diligence on bill acceptance and discount; the risk control department shall assess compliance risk of bill acceptance and discount and monitor risk monitor ratios that may be affected by bill acceptance and discount business, such as capital adequacy ratio and liquidity ratio; application shall be made to loan review committee for loan review.
5. For loans, consumption credit, buyer's credit and financial leasing granted by Finance Company to Members of China Energy Group, the maximum daily balance will be capped by maximum daily balance of deposits placed by Members of China Energy Group with Finance Company. The risk control measures adopted by Finance Company includes: loan department shall conduct detailed loan due diligence; risk control department shall assess compliance risk of loan and monitor risk monitor ratios that may be affected by loan services, such as capital adequacy ratio and liquidity ratio; application shall be made to loan review committee for loan review.
6. When the loan department verifies the authenticity of bills and conducts detailed due diligence according to the provisions of Administrative Measures on Commercial Bill Acceptance and Discount of Shenhua Finance Company Limited, the handlers shall examine the legality, reasonability and recoverability of the paper commercial bills submitted by the clients, and place emphasis on examination of whether the bill drawing, endorsement, negotiation and guarantee comply with the Law of the People's Republic of China on Negotiable Instruments item by item; use certain instruments to authenticate the bills; carefully examine whether the bills' elements are clear, correct, complete and free of alterations.

When the risk control department assesses compliance risk, the risk control department shall check the Compliance Review Form and other compliance materials submitted by the loan department and give compliance comments and suggestions on the Compliance Review Form. The contents of compliance review conducted by the risk control department include whether the elements of credit business are complete, whether the applicants are qualified and whether the credit report submitted by the loan department is complete.

---

## LETTER FROM THE BOARD

---

When the risk control department examines whether the elements of credit business are complete, the elements that should be examined include credit type, credit line, term of validity, loan amount, purpose, duration, interest rate, way of guarantee, bill's credit line, handling rate for entrusted loan and whether the entrusted loan is a budget item of the Company's connected transaction, and decide whether the setting of such elements is compliant in accordance with the supervision laws and regulations including General Provision Of Loan (People's Bank of China Decree [1996] No. 2), the Interim Measures for the Administration of Fixed Asset Loans (CBRC Decree [2009] No. 2), the Interim Measures for the Administration of Working Capital Loans (CBRC Decree [2010] No. 1) as well as Finance Company's systems for the credit businesses.

When the risk control department examines whether the applicants are qualified, it shall place the emphasis of examination on whether the applicants are legal and validly existing member units of the China Energy Group by checking the validity of the applicant's Business License and then make decisions according to the shareholding relationship between the applicant and China Energy or the Company provided in the Compliance Review Form by the loan department, the provisions of the Interim Measures on Assessing Risk Control Indicators for Enterprise Group Finance Companies as well as Finance Company's systems for credit businesses.

When the risk control department examines the completeness of the contents of credit reports, it shall examine whether the report analyses the borrower's equity structure, production management and economic benefit, financial situation, the relationship with the banks, financing demand, situation of risks, credit standing, state of operation and management, industrial status, project context and content, preparations of project, project investment, the project's financial status and economic benefits and so forth, and verify if the contents of credit reports are consistent with the elements of credit business provided in the Compliance Review Form by the loan department.

### ***Proposed annual caps and past transactions***

For the purpose of regulating the financial service cooperative relationship between the Group and Members of China Energy Group and satisfying the needs of continuous development of the China Energy Group, the Company proposes that the annual caps of the Financial Services Agreement for the years ending 31 December 2020, 31 December 2021 and 31 December 2022, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2017 and 31 December 2018 and the period from 1 January 2019 to 31 January 2019.

## LETTER FROM THE BOARD

The aggregate transaction amounts under the Current Financial Services Agreement are within the existing annual caps.

***Total amount of financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) provided by Finance Company to Members of China Energy Group***

*(1) Historical transaction amounts*

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Period from 1 January 2019 to 31 January 2019</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
0	0	0

*(2) Proposed annual caps*

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2019</b>	<b>Year ending 31 December 2020</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
4,290	4,420	4,550	3,500	3,500	3,500

***Annual total transaction amount of bill acceptance and discount services handled by Finance Company for Members of China Energy Group***

*(1) Historical transaction amounts*

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Period from 1 January 2019 to 31 January 2019</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
54	67	Approximately 30

---

## LETTER FROM THE BOARD

---

(2) *Proposed annual caps*

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
10,400	10,400	10,400	10,000	10,000	10,000

***Maximum daily balance (including interests accrued thereon) of deposits placed by Members of China Energy Group with Finance Company***

(1) *Historical transaction amounts*

Year ended 31 December 2017	Year ended 31 December 2018	Period from 1 January 2019 to 31 January 2019
<i>Aggregated transaction amount</i>	<i>Aggregated transaction amount</i>	<i>Aggregated transaction amount</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
21,621	30,674	Approximately 25,281

(2) *Proposed annual caps*

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
52,000	58,500	65,000	65,000	65,000	65,000

## LETTER FROM THE BOARD

**Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including relevant accrued interests incurred) granted by Finance Company to Members of China Energy Group**

**(1) Historical transaction amounts**

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Period from 1 January 2019 to 31 January 2019</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
15,151	16,301	Approximately 17,634

**(2) Proposed annual caps**

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2019</b>	<b>Year ending 31 December 2020</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
26,000	28,600	32,500	30,000	30,000	30,000

**Annual total fee charged by Finance Company for providing Members of China Energy Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services**

**(1) Historical transaction amounts**

<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2018</b>	<b>Period from 1 January 2019 to 31 January 2019</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
37	24	0

---

## LETTER FROM THE BOARD

---

(2) *Proposed annual caps*

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
182	221	267	200	200	200

The terms of the Financial Services Agreement have been reached after arm's length negotiation between the Company and China Energy.

The proposed annual caps of the Financial Services Agreement have been set taking into account the following factors:

- (a) Looking into the future, China's economy will continue to retain its upward trend in the long run, and industries such as coal, electricity and renewable resources will remain as the most important fundamental industries. The efforts made at the state level to improve orderly competition and reduce excessive production capacity will provide favourable conditions for industries such as coal, electricity and renewable resources to achieve sustainable and robust development and improve operation environment of enterprises.
- (b) Based on discussion with the China Energy Group, the macro economy and coal industry development trends, rules and regulations of regulatory authorities, the financing management policy of the China Energy Group, medium term note issuance plan, and the implications on the number of Members of China Energy Group and class of service provided by Finance Company after the Merger of Group Companies, the status and development planning of Finance Company, it is estimated that the demand of Members of China Energy Group for financial services of Finance Company will gradually increase during the next three years.
- (c) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. The proposed annual caps for the years of 2020, 2021 and 2022 have been decreased compared to that of for the year of 2019. The Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. However, same as the actual implementation of the continuing connected transactions previously, Finance Company and the China Energy Group will conduct continuing connected transactions in strict

---

## LETTER FROM THE BOARD

---

accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that Finance Company and the China Energy Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

More details are set out below:

For the proposed annual caps of financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) provided by Finance Company to Members of China Energy Group, the members of legacy Shenhua Group currently have no relevant service needs as a result of strict guarantee management of legacy Shenhua Group, and Finance Company did not provide financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of China Energy Group for the years ended 31 December 2017 and 31 December 2018 and the period from 1 January 2019 to 31 January 2019. However, as financial services of guarantee are daily businesses of financial institutions, Finance Company is therefore likely to provide such financial services to Members of China Energy Group in the next three years. With a view to strictly control risk level while satisfying customers' business needs, the proposed annual caps for the years ending 31 December 2020, 31 December 2021 and 31 December 2022 is RMB3,500 million each year.

For bill acceptance and discount services provided by Finance Company to Members of China Energy Group, despite that the historical transaction amounts were at a relatively low level, with the increasingly centralized management of funds and bills of China Energy, it is estimated that the quantity of bill services provided by Finance Company to Members of China Energy Group will experience a substantial growth. Finance Company is proactively applying the membership of Shanghai Commercial Paper Exchange, the relevant software and hardware supporting facilities of which are also steadily advancing. With the gradual improvement of information system of Finance Company, the business carrying capacity will also be significantly improved, which is conducive to carrying out larger scale of bill acceptance and discount services. After communicating with Members of China Energy Group, the total amount of current external margin of the China Energy Group is more than RMB2 billion. The potential demand of bill services, calculated according to the 20% margin level, from Members of China Energy Group to Finance Company is more than RMB10 billion. Therefore, the proposed annual caps for the years ending 31 December 2020, 31 December 2021 and 31 December 2022 is RMB10,000 million each year.



---

## LETTER FROM THE BOARD

---

For maximum daily balance (including interests accrued thereon) of deposits placed by Members of China Energy Group with Finance Company, the maximum daily balance (including interests accrued thereon) of deposits placed by Members of China Energy Group with Finance Company in 2018 was RMB58,500 million, while the actual maximum daily balance was RMB30,674 million, the implementation rate of which was approximately 52.43%. In consideration of Merger of the Group Companies and the integration of Members of China Energy Group, in particular, it is learned that the maximum daily balance of deposits of Guodian Finance Corporation (國電財務有限公司) in 2018 was around RMB35 billion, the Company thus estimates that there will be more deposits placed by Members of China Energy Group with Finance Company. Therefore, the proposed annual caps for the years ending 31 December 2020, 31 December 2021 and 31 December 2022 is RMB65,000 million each year.

For the maximum daily balance of loans, consumption credits, buyer's credits and financial leasing granted by Finance Company to Members of China Energy Group (including relevant accrued interests incurred), the loan-to-deposit ratio assessment index of Finance Company is estimated to be 65% in 2019 (around 40.56% at the end of 2018). Calculated by the deposit size of RMB86.129 billion with Finance Company at the end of 2018, the credit business scale of Finance Company may reach RMB56 billion in 2019 (the scale of loan provided by Finance Company was RMB34.945 billion at the end of 2018, among which the scale of loan to Members of China Energy Group was RMB14.961 billion), representing a net increase of RMB21 billion compared with the year of 2018. According to the calculation that 50% of the credit services are granted to Members of China Energy Group, the net increase of loans to Members of China Energy Group may reach RMB10.5 billion or more, i.e. the ending balance of loans to Members of China Energy Group for the year 2019 may reach or exceed RMB25 billion. Additionally, it is estimated that Members of China Energy Group may borrow up to RMB5 billion per year from Finance Company to make capital expenditures in developing wind power, thermal power, shale gas and other renewable energy in the next three years. Therefore, the proposed annual caps for the years ending 31 December 2020, 31 December 2021 and 31 December 2022 is RMB30,000 million each year.

The annual cap of total fee charged by Finance Company for providing Members of China Energy Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services is a result of the voluntary aggregation of the estimated transaction amount of each service by the Company. For such annual cap, the highest applicable percentage ratio as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules is lower than 0.1%, and is not material to the Group.

## LETTER FROM THE BOARD

In respect of the China Energy Group providing, through Finance Company, entrustment loans to the Group on normal commercial terms, it would amount to a provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.89 of the Hong Kong Listing Rules from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group will be granted in respect of the loans. Nevertheless, the Company is required to propose and set annual caps on maximum daily balance in respect of such entrustment loans pursuant to the Shanghai Listing Rules and the Company proposes that the caps for the years ending 31 December 2020, 31 December 2021 and 31 December 2022.

***Maximum daily balance of entrustment loans (including relevant accrued interests incurred) advanced by China Energy Group to the Group through Finance Company***

*(1) Historical transaction amounts*

Year ended 31 December 2017	Year ended 31 December 2018	Period from 1 January 2019 to 31 January 2019
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
3,654	913	877

*(2) Proposed annual caps*

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
13,000	13,000	13,000	10,000	10,000	10,000

---

## LETTER FROM THE BOARD

---

### **Implementation agreements and payment**

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Financial Services Agreement with Members of China Energy Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of services as contemplated by the Financial Services Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Financial Services and the annual caps.

All payment made pursuant to the Financial Services Agreement and its implementation agreements will be in cash.

### **Arrangements on information disclosure regarding the Finance Company**

In order to further improve transparency and provide operational information of the Finance Company to investors in a timely manner, the Company has actively carried out the following information disclosure:

- (1) Since 2010 annual report, the Company has been disclosing the composition and operation of the board of directors and the board committees, risk management and internal control, and deposits and loans (including total deposits and loans, deposits of the top ten customers, loans of the top ten customers, approval of loans, etc.) of the Finance Company in annual report.
- (2) Since 2014, the Company has been disclosing the balance sheet as at 31 December of the previous year and the income statement for the previous year of the Finance Company in January, and the balance sheet as at 30 June of the first half of the year and the income statement for the first half of the year of the Finance Company in July by overseas regulatory announcements on the Hong Kong Stock Exchange on an annual basis. The above information is prepared in accordance with the China Accounting Standards for Business Enterprises.

In accordance with the above-mentioned practices, the Company plans to continue to do well in initiative disclosure under the premise of maintaining its control over the Finance Company to provide investors with open and transparent information.

---

## LETTER FROM THE BOARD

---

### **Deposits and loans of the Group and China Energy Group in and from the Finance Company**

The Finance Company is a subsidiary controlled by the Company. As disclosed in 2018 annual report of the Company, during the period of the year of 2018, the maximum daily balance of deposits placed by the China Energy Group (excluding the Group) in the Finance Company was RMB30.674 billion, the maximum daily balance of loans, consumption credit, buyer's credit and financial leasing granted by the Finance Company was RMB16.301 billion. As at 31 December 2018, the bank deposits among balance of cash and cash equivalents of the Group was RMB72.204 billion (including deposits placed by the China Energy Group (excluding the Group) in the Finance Company), among which RMB49.842 billion was placed in various commercial banks through the Finance Company (the Finance Company as nominal depositor).

### **Reasons for entering into the financial services agreement and their benefits to the company**

Provision of financial services by the Finance Company, which is a wholly-owned subsidiary of the Company, to Members of China Energy Group could fully make use of the function of the internal financing platform and cash management platform within the Group. The demand of financial services to Finance Company will increase accordingly as a result of the Merger of the Group Companies and growth of the assets and capital scale of the China Energy Group. The China Energy Group has a good credit standing and contractual capacity to accept financial services and perform the relative payment obligations, which may help Finance Company increase income while controlling risks. The Financial Services Agreement is therefore in line with the business operations and interests of the Group.

### **Hong Kong listing rules implications**

China Energy holds 69.45% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Financial Services Agreement, as one or more of the applicable percentage ratios exceeds 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Financial Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. In respect of loans, consumption credit, buyer's credit and financial leasing granted by Finance Company to Members of China Energy Group under the Financial Services Agreement, as one or more of the applicable percentage ratios exceeds 5% but all such percentage ratios are less than 25% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, it also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Financial Services Agreement) entered into between the Group and the China Energy Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the Financial Services Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

### **General information**

The Directors consider that the terms, proposed annual caps of and the transactions contemplated under the Financial Services Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

### ***Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions***

The Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions are fair and reasonable and no less favourable than the terms provided by any independent third party, so as to ensure that they serve the interests of the Company and its Shareholders as a whole. Such procedures and internal control measures mainly include:

- (1) The transactions contemplated under the connected transactions agreements are conducted on a non-exclusive basis.
- (2) The Company has adopted internal control rules such as *Connected Transaction Decision Making System, Connected Transaction Management Measures and Connected Transaction Application and Reporting Rules*.

#### ***Connected Transaction Decision Making System of China Shenhua Energy Company Limited***

Connected Transaction Decision Making System (the "Decision Making System") contains seventeen articles. The Decision Making System defines the meaning of "connected person" and "connected transaction". It specifies the situations subject to reporting and examination and the principles to be followed when conducting connected transactions. Abstention measures to be taken when executing the connected transaction contract are also included. The Decision Making System also specifies the powers and duties of the Company's audit committee, board and directors, general meeting of shareholders and its shareholders. The Decision Making System also contains matters such as abstention mechanism when conflict of interest arises, voting procedures of general meetings of shareholders, and so on. Rules in the system are consistent with the connected transactions rules under the Shanghai Listing Rules and the Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

### *Connected Transaction Management Measures of China Shenhua Energy Company Limited*

Connected Transaction Management Measures (the “Management Measures”) consist of thirty articles divided into ten chapters. The Management Measures define the configuration of the connected transaction leading group and the scope of official duties of the company leadership and related departments. The measures also specify the duties of branches and subsidiaries when conducting connected transactions. Rules related to information collection and management are also contained in the Management Measures. The legal department of the Company is responsible for information collection and management and related parties are obliged to provide such information actively and without delay. As to connected transactions which have been disclosed, the Management Measures spell out the key of management is to ensure the annual transaction amounts are within the annual caps with detailed management procedures included. As to new connected transactions, disclosure, examination and approval are necessary before the transactions take place. Detailed management procedures are also included. The Management Measures also contain matters related to self-assessment and supervisory review process.

### *Connected Transaction Application and Reporting Rules of China Shenhua Energy Company Limited*

Connected Transaction Application and Reporting Rules (the “Application and Reporting Rules”) are divided into five parts. Subsidiaries of the Company are required to specify the reason for the transaction, the reason of conducting a connected transaction and offer basic information of connected persons. Furthermore, pricing policy of the connected transaction and measures taken to ensure the fairness of the transaction also require explanations. Applicants are asked to clarify when they have signed the contracts, cleared and issued the notes, and finish the application and reporting process within the required time. According to the Application and Reporting Rules, all of the continuing connected transactions shall be conducted within the annual caps. Besides, the applicable scope and the related documents to be submitted are also provided in the Application and Reporting Rules.

- (3) Under the leadership of the Board, the Company has set up a connected transaction leading group headed by the Chief Financial Officer. This connected transaction leading group is responsible for formulating and overseeing the internal control systems for the connected transactions, negotiating and signing various connected transaction agreements, regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly reviewing the Group’s internal control systems for the connected transactions and offering proposals for modification, organising the training of connected transactions across the Group and periodically conducting supervision and inspection of the connected transactions.

---

## LETTER FROM THE BOARD

---

- (4) Each subsidiary of the Group has established the connected transaction group headed by a senior manager responsible for finance. Specific personnel are arranged to be in charge of the pricing of the continuing connected transactions and required to strictly observe the pricing principles and policies for the continuing connected transaction disclosed in this circular to set the price for each transaction. (i) For the Mutual Coal Supply Agreement, specific personnel seek to obtain information about spot market price of coal through various channels; (ii) For the Mutual Supplies and Services Agreement, according to the Group's internal rules and regulations for procurement and sales, when the government-prescribed price or government-guided price is absent, the Company will seek to obtain information about market price through various channels, for example, considering at least two comparable transactions with independent third parties for the same period, comparable transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Such price is determined by the contracting parties (i.e., the subsidiaries of the Group on the one hand and the subsidiaries of the China Energy Group on the other hand) on normal commercial terms with reference to the information obtained as mentioned above. Where tender and bidding process is necessary under applicable laws, regulations and rules, the Group and the China Energy Group shall entrust professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group and the China Energy Group shall participate fairly. For products and services with agreed prices, the supplier shall provide a cost list and the purchaser conducts comparison with the comparable average cost of similar enterprises in the neighbouring areas or the cost of the same type of products to determine the reasonable cost for ascertaining the price of the connected transaction; (iii) For the Financial Services Agreement, specific personnel shall obtain interest rates and fee rates prescribed by the PBOC or the CRBC and seek to obtain interests rates and fee rates charged by major commercial banks provided to Members of China Energy Group. Once the price is executed, unilateral change is prohibited. The Company's connected transaction leading group reviews the pricing of continuing connected transactions periodically to ensure every transaction is priced strictly according to the pricing principles and policies for the continuing connected transaction disclosed in this circular.
- (5) The Group has adopted the ERP system. When specific personnel recommend pricing of continuing connected transactions, they shall submit the same to the ERP system for the connected transaction groups and finance departments of the subsidiaries of the Group to determine the pricing. The connected transaction groups and finance departments also monitor the pricing through the ERP system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price.

---

## LETTER FROM THE BOARD

---

- (6) Under the leadership of the connected transaction leading group, the Company's internal control and risk management departments conduct regular internal assessments on the internal control measures of the Company on an annual basis, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Further, the legal departments conduct prudent review of the connected transaction contracts, the financial departments control pricing of the connected transactions and the contract implementation departments monitor the transaction amounts in a timely manner.
- (7) The Company implements connected transactions in accordance with the internal control process, and requires all of the subsidiaries to submit implementation reports of connected transactions on a monthly basis. The Company consolidates, reviews, sums up and analyses the data, and monitors whether the transaction amounts are within the annual caps, and recommends improvement measures for any issues identified.
- (8) The Board reviews the implementation of the continuing connected transactions on an annual basis and reviews the financial reports which consist of the implementation of the continuing connected transactions on a half-yearly basis on matters mainly including: whether the Company and relevant connected person performed the continuing connected transaction agreement during the relevant period; whether the actual transaction amount incurred are within the annual caps as approved at the general meeting. The independent non-executive directors report to the general meeting of the Company on an annual basis on their performance of duties. Such reports include opinions on (i) whether the actual transaction amount incurred are within the annual caps as approved at the general meeting; (ii) whether the continuing connected transactions are conducted pursuant to the agreements; and (iii) whether the terms of the continuing connected transactions are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Shareholders of the Company as a whole.
- (9) The Supervisory Committee supervises the matters relating to the continuing connected transactions. It reviews the annual financial reports and interim financial reports which consist of the implementation of the continuing connected transactions on an annual basis. It also reviews the domestic and overseas compliance of the connected transactions, whether the prices are fair and reasonable and whether there are any acts which are detrimental to the interests of the Company and the Shareholders.
- (10) The Audit Committee reviews the annual reports, annual financial reports, interim reports and the interim financial reports which consist of the implementation of the continuing connected transactions and opine on the connected transactions during the relevant periods on matters mainly including the fairness of the connected transactions and whether the actual transaction amount incurred are within the annual caps.



---

## LETTER FROM THE BOARD

---

- (11) The external auditor of the Company conducts interim and year-end audit for each financial year, issues its opinions and letters to the Board in relation to the implementation of the pricing policies and whether the actual connected transaction amount incurred is within the annual caps during the preceding year pursuant to the Hong Kong Listing Rules and submits the same to the Stock Exchange.

By implementing the above internal control measures and procedures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing of each transaction will be conducted in strict accordance with the various pricing principles and policies of continuing connected transactions as disclosed in this circular on normal commercial terms or better, and will be fair and reasonable to the Company and the Shareholders as a whole.

### PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

1. Amend Article 1 of the Articles of Association of China Shenhua Energy Company Limited (the “Articles of Association”)

“In order to protect the legitimate rights and interests of the Company, shareholders and creditors and regulate the organization and behavior of the Company, these Articles of Association (or “Articles of Association of the Company”) are formulated pursuant to the Company Law of the PRC (hereinafter, “Company Law”), the Securities Law of the PRC (hereinafter, “Securities Law”), the State Council’s Special Regulations on Overseas Offerings and Listing of Shares by Joint Stock Limited Company (hereinafter, “Special Regulations”), Mandatory Provisions for the Articles of Association of Companies Listed Overseas (hereinafter, “Mandatory Provisions”), Guide to Articles of Association of Listed Companies (Revised in 2006) (hereinafter, “Guide to Articles of Association”) and other relevant regulations.”

to:

“In order to protect the legitimate rights and interests of the Company, shareholders and creditors and regulate the organization and behavior of the Company, these Articles of Association (or “Articles of Association of the Company”) are formulated pursuant to **the Company Law of the PRC (Revised in 2018)** (hereinafter, the “Company Law”), **the Securities Law of the PRC (Revised in 2014)** (hereinafter, the “Securities Law”), the State Council’s Special Regulations on Overseas Offerings and Listing of Shares by Joint Stock Limited Company (hereinafter, “Special Regulations”), Mandatory Provisions for the Articles of Association of Companies Listed Overseas (hereinafter, “Mandatory Provisions”), **the Guide to Articles of Association of Listed Companies (Revised in 2016)** (hereinafter, the “Guide to Articles of Association”) **and Code of Corporate Governance for Listed Companies (Revised in 2018).**”

---

## LETTER FROM THE BOARD

---

2. Amend Paragraph 2 and Paragraph 3 of Article 2 of the Articles of Association

“The Company was established by way of promotion on November 8, 2004 with the approval of the State-owned Assets Supervision and Administration Commission under the PRC State Council (hereinafter, “SASAC”), as evidenced by approval document Guo Zi Gai Ge [2004] No.1005. It was registered with the State Administration for Industry and Commerce, and obtained its business license on November 8, 2004. Its enterprise legal person business license number is 1000001003928.

The promoter of the Company is Shenhua Group Corporation Limited.”

**to:**

“The Company was established by way of promotion on November 8, 2004 with the approval of the State-owned Assets Supervision and Administration Commission under the PRC State Council (hereinafter, “SASAC”), as evidenced by approval document Guo Zi Gai Ge [2004] No.1005. It was registered with **the State Administration for Market Regulation**, and obtained its business license on November 8, 2004. **The Unified Social Credit Code of the Company is 91110000710933024J.**

The promoter of the Company is **China Energy Investment Corporation Limited.**”

3. Amend Article 7 of the Articles of Association

“In accordance with the provisions of the Company Law and the Constitution of the Communist Party of China, an organization of the Communist Party of China (hereinafter the “Party”) shall be established within the Company. The working organs of the Party shall be established, equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organization. The leading Party members group or Party committee of the Company shall play a leadership role, set the right direction, keep in mind the big picture, ensure the implementation of Party policies and principles, and discuss and decide on major issues of the Company in accordance with regulations.”

**to:**

“In accordance with the provisions of the Company Law and the Constitution of the Communist Party of China, **a Party Committee** shall be established within the Company. The working organs of the Party shall be established, equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organization. The **Party Committee** of the Company shall play a leadership role, set the right direction, keep in mind the big picture, ensure the implementation of Party policies and principles, and discuss and decide on major issues of the Company in accordance with regulations.”

---

## LETTER FROM THE BOARD

---

4. Amend Article 12 of the Articles of Association

“The Company’s objectives are: to become a value-creating integrated energy company of international standards with sustainable growth that concentrates on the energy industry. Also, it aims to be market- oriented, efficient and to yield positive results, to create value for the society and its staff, and to generate returns for shareholders.”

**to:**

“The Company’s objectives are: **to fulfill and implement the development concept that focuses on innovation, coordination, green, open and sharing**, to become a value-creating integrated energy company of international standards with sustainable growth that concentrates on the energy industry. Also, it aims to be market- oriented, efficient and to yield positive results, to create value for the society and its staff, and to generate returns for shareholders.”

5. Amend Article 20 of the Articles of Association

“Upon incorporation, 3,398,582,500 H shares were issued to the public, including the issuance of 3,089,620,455 new shares and the sale of 308,962,045 state-owned shares. The total share capital of the Company was 18,089,620,455 shares upon its initial public offering, of which, Shenhua Group Corporation Limited, the promoter, held 14,691,037,955 shares, representing 81.213% of the total share capital. Holders of H Shares held 3,398,582,500 shares, representing 18.787% of the total share capital.

Upon completion of the issue of H Shares as referred to in the preceding paragraph, the Company issued 1,800,000,000 A Shares upon approval by special resolutions at general meeting of shareholders, and approval by the regulatory authority authorized by the State Council. Shareholding structure of the Company after the aforesaid additional issue of A Shares:

The Company issued a total of 19,889,620,455 ordinary shares, including 14,691,037,955 held by Shenhua Group Corporation Limited, representing approximately 73.86% of the total ordinary shares issued by the Company; 1,800,000,000 held by other shareholders of domestic shares, representing approximately 9.05% of the total ordinary shares issued by the Company; and 3,398,582,500 held by shareholders of H Shares, representing approximately 17.09% of the total ordinary shares issued by the Company.”

---

## LETTER FROM THE BOARD

---

**to:**

“Upon incorporation, 3,398,582,500 H shares were issued to the public **in 2005**, including the issuance of 3,089,620,455 new shares and the sale of 308,962,045 state-owned shares. **The Company issued 1,800,000,000 A Shares in 2007 upon approval by special resolutions at general meeting of shareholders, and approval by the regulatory authority authorized by the State Council.**

**The capital structure of the Company is:** The Company issued a total of 19,889,620,455 **ordinary shares**, including **16,491,037,955 held by shareholders of A Shares, representing approximately 82.91% of the total share capital of the Company;** 3,398,582,500 held by shareholders of H Shares, representing approximately 17.09% of the total share capital of the Company. **13,812,709,196 A Shares are held by the promoter, China Energy Investment Corporation Limited, representing approximately 69.45% of the total share capital of the Company.”**

6. Amend Paragraph 1 of Article 28 of the Articles of Association

“The Company may, according to the procedures set forth in these Articles of Association and upon the approval by the relevant governing authorities of the PRC, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the purpose of reducing its capital;
- (2) merging with other companies that hold shares in the Company;
- (3) awarding shares to Company staff;
- (4) shareholders objecting to resolutions of the general meeting of shareholders concerning merger or division of the Company, requiring the Company to buy their shares;
- (5) other circumstances permitted by laws and administrative regulations.”

**to:**

“The Company may, according to the procedures set forth in these Articles of Association and upon the approval by the relevant governing authorities of the PRC, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the purpose of reducing its capital;

---

## LETTER FROM THE BOARD

---

- (2) merging with other companies that hold shares in the Company;
  - (3) **allocating shares for the purpose of the Employee Stock Ownership Plan or Share Option Incentive;**
  - (4) shareholders objecting to resolutions of the general meeting of shareholders concerning merger or division of the Company, requiring the Company to buy their shares;
  - (5) **allocating shares for the conversion of corporate bonds which are convertible into shares issued by the Company;**
  - (6) **as necessary for maintaining the value of the Company and safeguarding the rights and interests of shareholders.”**
7. Add a new paragraph after Paragraph 1 of Article 29 of the Articles of Association:
- “Repurchase of the Company’s shares in the circumstances set out in Clauses (3), (5) and (6) of Paragraph 1 of Article 28 of the Articles of Association shall be executed through public centralized trading.”**
8. Amend Paragraph 1 and Paragraph 2 of Article 31 of the Articles of Association

“Repurchase of the Company’s shares for reasons set out in Clauses (1) to (3) of Article 28 of these Articles of Association shall be subject to resolution at a general meeting of shareholders. After the Company has repurchased its shares in accordance with Article 28, such shares shall be cancelled within ten (10) days after repurchase in the circumstance set out in (1), or shall be transferred or cancelled within six (6) months in the circumstances set out in (2) and (4).

Shares repurchased by the Company in accordance with Clause (3) of Article 28 shall not exceed 5% of the total shares issued by the Company; the repurchase cost shall be covered by the after-tax profit of the Company; and the shares repurchased shall be transferred to employees within one (1) year.”

**to:**

“Repurchase of the Company’s shares for reasons set out in Clauses (1) to (2) of Article 28 of these Articles of Association shall be subject to resolution at a general meeting of shareholders. **Repurchase of the Company’s shares in the circumstances set out in Clauses (3), (5) and (6) of Article 28 of the Articles of Association shall be resolved at the Board meeting attended by more than two thirds of Directors.**

---

## LETTER FROM THE BOARD

---

After the Company has repurchased its shares in accordance with Article 28, such shares shall be cancelled within ten (10) days after repurchase in the circumstance set out in (1), or shall be transferred or cancelled within six (6) months in the circumstances set out in (2) and (4); **in the circumstances set out in Clauses (3), (5) and (6), the total number of the Company's shares held by it shall not exceed ten percent (10%) of the total shares issued by the Company, and shall be transferred or canceled within three (3) years.**"

9. Amend Paragraph 2 of Article 52 of the Articles of Association

"The Company shall not otherwise stay or infringe any rights attached to any shares on the sole basis that the holders of such shares with direct or indirect interests in such shares have failed to disclose the said interests to the Company."

**to:**

**"The Articles of Association, resolutions of the shareholders' meeting or board meeting shall comply with laws and regulations, and shall not deprive or restrict shareholders' legal rights.** The Company shall not otherwise stay or infringe any rights attached to any shares on the sole basis that the holders of such shares with direct or indirect interests in such shares have failed to disclose the said interests to the Company."

10. Add a new paragraph after Paragraph 2 of Article 52 of the Articles of Association:

**"The Company shall establish and execute an information disclosure system. Directors, Supervisors, and Senior Management of the Company shall guarantee that the Company's information disclosure system is true, accurate, complete, timely and fair. The Company shall also guarantee that users could access information in an economic and convenient manner."**

11. Add a new paragraph under Article 63 of the Articles of Association

**"The general meeting of shareholders shall not authorize the Board to exercise the functions and powers to be exercised by the general meeting of shareholders as stipulated by law."**

12. Amend Paragraph 2 of Article 73 of the Articles of Association

"The general meeting of shareholders may be convened at the residence, listing place of the Company or other places where the Company deems appropriate."

---

## LETTER FROM THE BOARD

---

to:

“The general meeting of shareholders may be convened at the residence, listing place of the Company or other places where the Company deems appropriate. **The general meeting of shareholders shall be held at a particular venue, and shall be convened on site with online voting. The time and place for on-site meeting shall be selected to facilitate the attendance of Shareholders. The Company shall guarantee that the general meeting of shareholders is legal and valid, and shall provide convenience for Shareholders to attend the meeting.**”

13. Amend Paragraph 3 of Article 123 of the Articles of Association

“A director who has failed to attend two (2) consecutive meetings of the board in person and has not appointed other director(s) to attend on his behalf shall be deemed to be incapable of performing his duties. The board of directors may propose his removal at a general meeting of shareholders.”

to:

“**A director shall guarantee that he/she invests sufficient time and efforts to perform his/her duties, and** a director who has failed to attend two (2) consecutive meetings of the board in person and has not appointed other director(s) to attend on his behalf shall be deemed to be incapable of performing his duties. The board of directors may propose his removal at a general meeting of shareholders.”

14. Amend Paragraph 1 of Article 124 of the Articles of Association

“The Company shall have independent directors. Independent directors are directors who do not hold any position in the Company other than directors of the Company, and have no connection with the Company and its substantial shareholders, which may influence their independent and objective judgments.”

to:

“The Company shall have independent directors. Independent directors are directors who do not hold any position in the Company other than directors of the Company **and members of Board committees**, and have no connection with the Company and its substantial shareholders, which may influence their independent and objective judgments.”

---

## LETTER FROM THE BOARD

---

15. Add a new article after Article 126 of the Articles of Association

**“Independent directors shall perform their obligations as directors according to the law, fully understand the operation of the Company and subject matters of Board meetings, safeguard the interests of the Company and Shareholders as a whole, and, in particular, shall pay attention to the protection of legitimate interests of minority Shareholders. Independent directors shall report their work to the general meeting of Shareholders annually.**

**Where material impact was caused on the operation and management of the Company due to conflicts among Shareholders or among directors of the Company, independent directors shall actively perform their duties and safeguard the interests of the Company as a whole.**

**The Company shall enable independent directors to perform their duties according to the law.”**

16. Add a new paragraph after Paragraph 1 of Article 130 of the Articles of Association

**“The Chairman, President, and other relevant officers shall not be authorized to exercise the functions and powers to be exercised by the Board as stipulated by law.”**

17. Add a new paragraph after Paragraph 3 of Article 130 of the Articles of Association

**“The Company shall enable the Board to exercise its functions and powers in accordance with the provisions of laws, regulations and the Articles of Association, and shall provide directors with necessary conditions to duly perform their duties.”**

18. Amend Article 131 of the Articles of Association

**“When making decisions on significant matters such as direction of reform and development, key objectives, and priority operational arrangements of the Company, the Board should seek advice from the leading Party members group or Party committee. When the Board appoints the management personnel of the Company, the leading Party members group or Party committee shall consider and provide comments on the candidates for management positions nominated by the Board or the president, or recommend candidates to the Board and/or the president.”**



---

## LETTER FROM THE BOARD

---

**to:**

“When making decisions on significant matters such as direction of reform and development, key objectives, and priority operational arrangements of the Company, the Board should seek advice from the **Party Committee**. When the Board appoints the management personnel of the Company, the **Party Committee** shall consider and provide comments on the candidates for management positions nominated by the Board or the president, or recommend candidates to the Board and/or the president.”

19. Amend Article 138 of the Articles of Association

“Notice of meetings and extraordinary meetings of the board of directors shall be given to the directors by personal delivery, facsimile, courier or registered mail; and such notice shall be delivered, in case of notices of a meeting of the board of directors, at least ten (10) days prior to the meeting; and, in case of notices of an extraordinary meeting of the board of directors, at least three (3) days prior to the meeting.”

**to:**

“Notice of meetings and extraordinary meetings of the board of directors shall be given to the directors by personal delivery, facsimile, courier, registered mail, **email or paperless office system**; and such notice shall be delivered, in case of notices of a meeting of the board of directors, at least ten (10) days prior to the meeting; and, in case of notices of an extraordinary meeting of the board of directors, at least three (3) days prior to the meeting.”

20. Amend Paragraph 1 of Article 142 of the Articles of Association

“Directors shall personally attend the meetings of the board of directors. In the event that a director is unable to attend a meeting for any reason, he may appoint another director by a written power of attorney to attend the meeting on his behalf. The power of attorney shall set out the scope of the authorization.”

**to:**

“Directors shall personally attend the meetings of the board of directors **and express explicit opinions on the matters discussed**. In the event that a director is unable to attend a meeting for any reason, he may appoint another director by a written power of attorney to **vote** on his behalf, at his will. The power of attorney shall set out the scope of the authorization. **The appointer shall solely assume legal responsibilities. An independent director shall not entrust a non-independent director to vote on his behalf.**”

---

## LETTER FROM THE BOARD

---

### 21. Amend Article 144 of the Articles of Association

“The board of directors shall maintain minutes of resolutions passed at meetings of the board of directors. The minutes shall be signed by all the directors present at the meeting and the person who recorded the minutes. The directors shall assume liability for any resolutions of the board of directors. In the event that a resolution of the board of directors violates laws, administrative regulations or these Articles of Association resulting in the Company suffering serious loss, the directors who voted in favor of such a resolution shall compensate the Company for such loss. Notwithstanding the foregoing provision, in the event that it can be proven that a director has expressly objected to such resolution in voting, and that such objection was recorded in the minutes of the meeting, such director shall be duly released from such liability.

The minutes of the meeting of the board of directors shall contain:

- (1) the date and place of, and the name of the convener of the meeting;
- (2) names of directors present and such directors present as proxy at the meeting;
- (3) meeting agenda;
- (4) main points of speeches of the directors;
- (5) the voting method and the result of each resolution (the numbers of affirmative votes, negative votes and abstentions shall all be clearly indicated).

The minutes of the meetings of the board of directors shall be kept as archives of the Company for at least 10 years.

**to:**

“The board of directors shall maintain minutes of resolutions passed at meetings of the board of directors. The minutes shall be signed by all the directors present at the meeting and the person who recorded the minutes. The directors shall assume liability for any resolutions of the board of directors. In the event that a resolution of the board of directors violates laws, administrative regulations, these Articles of Association **or resolutions of the general meeting of Shareholders** resulting in the Company suffering serious loss, the directors who voted in favor of such a resolution shall compensate the Company for such loss. Notwithstanding the foregoing provision, in the event that it can be proven that a director has expressly objected to such resolution in voting, and that such objection was recorded in the minutes of the meeting, such director shall be duly released from such liability.

---

## LETTER FROM THE BOARD

---

The minutes of the meeting of the board of directors **shall be true, accurate and complete**, and contain:

- (1) the date and place of, and the name of the convener of the meeting;
- (2) names of directors present and such directors present as proxy at the meeting;
- (3) meeting agenda;
- (4) main points of speeches of the directors;
- (5) the voting method and the result of each resolution (the numbers of affirmative votes, negative votes and abstentions shall all be clearly indicated).

The minutes of the meetings of the board of directors shall be kept as archives of the Company for at least 10 years.”

22. Add a new chapter after Chapter 10 of the Articles of Association

### **“Chapter 11 PARTY COMMITTEE**

#### **Article 145**

**The Company shall establish the Party Committee, which shall comprise seven members, including one Secretary of the Party Committee and one Deputy Secretary of the Party Committee. Eligible members of the Party Committee may be appointed as directors, supervisors and senior management through legal procedures. Eligible directors, supervisors and senior management who are Party members may be appointed as members of the Party Committee in accordance with relevant regulations and procedures. In addition, the Company shall establish the Commission for Discipline Inspection according to regulations.**

#### **Article 146**

**The Party Committee shall perform its duties in accordance with the Constitution of Communist Party of China and other Party rules:**

- (1) **to guarantee and supervise over the implementation and execution of the guidelines and policies of the Party and the State in the Company, and implement major strategic decisions of the CPC Central Committee and the State Council and relevant important work arrangements of the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council, the Leading Party Group of China Energy Investment Corporation Limited and higher Party organizations.**

---

## LETTER FROM THE BOARD

---

- (2) to insist on the combination of the principle of the Party assuming the responsibility for cadres affairs with the selection of managers by the board of directors according to the law and the exercise of the power to promote or demote staff by managers according to the law. The Party Committee considers and advises on the candidates nominated by the board of directors or the president, or nominate candidates to the board of directors or the president; to investigate proposed candidates jointly with the board of directors, and consider collectively and provide opinions and suggestions.
- (3) to consider and discuss matters in relation to the reform, development and stability of the Company, major operation and management matters and major issues in relation to direct interests of the employees, and provide opinions and suggestions.
- (4) to undertake the main responsibility for exercising full and strict self-governance of the Party; to lead the ideological and political work, united front work, spiritual civilization, building of corporate culture, and the work of groups, including labor union and the Communist Youth League in the Company; to lead in improving Party conduct, building a clean government, and support the implementation of supervisory responsibilities of the Commission for Discipline Inspection.”

23. Amend Clause (4) of Article 146 of the Articles of Association

“(4) to prepare the general meetings of shareholders and the meetings of the board of directors in accordance with legal procedures, and prepare and submit the documents and information for such meetings;”

**to:**

“(4) to prepare the general meetings of shareholders and the meetings of the board of directors in accordance with legal procedures, and prepare, submit, and **maintain** the documents and information for such meetings;”

24. Add a new article after Article 146 of the Articles of Association

**“The secretary to the board of directors, as the senior management of the Company, shall be entitled to attend relevant meetings, review relevant documents, and keep himself abreast of the Company’s financial position and operations to perform duties. The board of directors and other senior management shall support the work of the secretary to the board of directors. Any institution or individual shall not interfere with the secretary to the board of directors in duly performing his duties.”**

---

## LETTER FROM THE BOARD

---

25. Add a new paragraph after Paragraph 1 of Article 148 of the Articles of Association

**“The Company shall have a chief legal counsel, who shall be responsible for the legal affairs of the Company and may be appointed by the board of directors.”**

26. Add a new chapter after Chapter 12 of the Articles of Association

**“Chapter 14 CHIEF LEGAL COUNSEL**

**Article 156**

**The Company shall execute the chief legal counsel system. The chief legal counsel shall be fully responsible for the governance construction and legal affairs of the Company, and shall perform its duties in accordance with relevant regulations, including the Measures for the Administration of In-house Legal Counsels of State-owned Enterprises.**

**Article 157**

**Chief legal counsel shall attend major meetings, including Party Committee meetings, executive meeting of President and office meeting of President, and issue legal opinions on major operation decisions of the Company according to the law.**

**Where matters considered by the board of directors involve legal issues, the chief legal counsel shall attend the meeting and issue legal opinions.”**

27. Amend Clause (3) of Paragraph 1 of Article 163 of the Articles of Association

**“(3) to supervise the work of the directors, President and other senior officers, and propose dismissal of directors, President and other senior officers who have violated laws, administrative regulations, these Articles of Association or the resolutions of general meetings of shareholders;”**

**to:**

**“(3) to supervise the work of the directors, President and other senior officers; supervision records as well as the results of financial examination shall be important basis for performance evaluation on directors and senior management; and propose dismissal of directors, President and other senior officers who have violated laws, administrative regulations, these Articles of Association or the resolutions of general meetings of shareholders;”**

---

## LETTER FROM THE BOARD

---

28. Add two new paragraphs after Paragraph 2 of Article 163 of the Articles of Association

**“The Company shall take measures to safeguard the right to know of supervisors, provide supervisors with necessary assistance to duly perform their duties with no interference nor obstruction from any person. Costs incurred from the performance of duties by supervisors shall be borne by the Company.**

**Supervisors may require directors, senior management, internal and external auditors, etc. to attend the meetings of the board of supervisors and answer the questions concerned.”**

29. Amend Paragraph 1 of Article 164 of the Articles of Association

“Notice of meetings and extraordinary meetings of the board of supervisors shall be given by personal delivery, facsimile, courier or registered mail; and such notice shall be delivered, in case of notices of a meeting of the board of supervisors, at least five (5) days prior to the meeting; and, in case of notices of an extraordinary meeting of the board of supervisors, at least two (2) days prior to the meeting.”

**to:**

“Notice of meetings and extraordinary meetings of the board of supervisors shall be given by personal delivery, facsimile, courier, registered mail, **email or paperless office system**; and such notice shall be delivered, in case of notices of a meeting of the board of supervisors, at least five (5) days prior to the meeting; and, in case of notices of an extraordinary meeting of the board of supervisors, at least two (2) days prior to the meeting.”

30. Add a new clause under Article 172 of the Articles of Association

**“(1) to comply with the relevant provisions of laws, regulations and the Articles of Association, and work honestly and diligently, perform duties prudently, and fulfill relevant undertakings;”**

31. Add a new paragraph after Paragraph 2 of Article 185 of the Articles of Association

**“Compensations for dismissal of directors, supervisors or senior management before the expiry of term of office set out in the Articles of Association or relevant contracts shall be fair, and shall not impair the legitimate rights and interests of the Company nor involve any transfer of benefits.”**

---

## LETTER FROM THE BOARD

---

32. If the serial numbering of the chapters and articles of the Articles of Association is changed due to the addition, deletion or re-arrangement of certain articles made in this amendment, the serial numbering of the chapters and articles of the Articles of Association as so amended shall be changed accordingly, including cross-references.

### **General**

For the avoidance of confusion, when the Company repurchases H Shares, the Company will fully comply with the requirements under the Hong Kong Listing Rules. The repurchase of domestic shares or H Shares is subject to approvals by special resolutions at general meeting of shareholders as well as at each class meeting of shareholders of domestic shares or H Shares respectively.

The proposed amendments to the Articles of Associations must be approved by way of a special resolution of the Shareholders at the General Meeting to become effective.

### **PROPOSED APPOINTMENT OF DIRECTOR**

In accordance with the Articles of Association of the Company, the Company Law of the PRC and applicable laws and regulations, China Energy proposes the appointment of Mr. Wang Xiangxi as an executive director of the fourth session of the Board. The Board agrees with the abovementioned proposal.

The proposed appointment of director is subject to the approval of the shareholders of the Company by way of an ordinary resolution(s) at the general meeting.

The background of Mr. Wang is as follows.

#### **Mr. Wang Xiangxi**

Wang Xiangxi, male, born in August 1962, aged 56, Chinese, a member of the Communist Party and a senior engineer. Mr. Wang received a master's degree of Engineering in Mining Engineering from Department of Resources and Materials Engineering of Jiaozuo Institute of Technology in 2003. Mr. Wang has extensive experience in economic management, laws and regulations as well as management in coal industry.

---

## LETTER FROM THE BOARD

---

Since March 2019, Mr. Wang has been serving as the secretary of the Leading Party Members' Group and chairman of China Energy Investment Corporation Limited. From July 2017 to March 2019, he served as a member of the standing committee of the Party Committee, secretary of the provincial committee of political and legal affairs of Hubei Province. From June 2017 to July 2017, he served as a member of the standing committee of the Party Committee, secretary general and member of the Leading Party Members' Group of the provincial government, secretary and director of the Leading Party Members' Group of the provincial government office of Hubei Province. From July 2012 to June 2017, he served as secretary general and member of the Leading Party Members' Group of the provincial government, secretary and director of the Leading Party Members' Group of the provincial government office of Hubei Province. From May 2010 to July 2012, he successively served as secretary of Municipal Party Committee, chairman of Standing Committee of Municipal People's Congress and secretary of the Leading Party Members' Group of Suizhou, Hubei Province.

Prior to the foregoing, Mr. Wang had also served in various positions, including the deputy secretary of Municipal Party Committee, deputy mayor, acting mayor and mayor of Jingzhou, Hubei Province, director and secretary of the Leading Party Members' Group of Hubei Quality and Technical Supervision Bureau, deputy director and member of the Leading Party Members' Group of Hubei Provincial Economic and Trade Commission, director and secretary of the Leading Party Members' Group of the Coal Industry Management Office of Hubei Province, deputy director and member of the Leading Party Members' Group of Hubei Coal Industry Department and the first deputy director and member of the Party Group' Committee of Hubei Songyi Mining Bureau.

Save as disclosed above, Mr. Wang has not held any directorship in any listed companies in the past three years.

Save as disclosed above, Mr. Wang has no relationship with any directors, members of the senior management or substantial or controlling shareholders of the Company. As at the date of this announcement, Mr. Wang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Upon approval of Mr. Wang appointment by the shareholders of the Company, Mr. Wang will enter into a service contract with the Company till the expiry of the tenure of the fourth session of the Board (on 22 June 2020) commencing from the date of appointment. Pursuant to the articles of association of the Company, Mr. Wang shall be elected and appointed at a general meeting of the Company and may be re-elected and re-appointed at a general meeting of the Company.

Mr. Wang's annual remuneration package will not be fixed in the service contract and will be determined by shareholders at a general meeting of the Company pursuant to the articles of association of the Company and with reference to recommendations of the Remuneration Committee of the Board in accordance with its terms of reference, taking into account, among other matters, his duties and responsibilities.



---

## LETTER FROM THE BOARD

---

Save for disclosed above, there is no any other information required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules, and the Company is not aware of any other matters that need to be brought to the attention of shareholders of the Company.

### THE ANNUAL GENERAL MEETING

An AGM will be convened and held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People's Republic of China at 9:30 a.m. on Friday, 21 June 2019 for the purpose of, inter alia, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), the Mutual Coal Supply Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (2) by the Independent Shareholders, and by way of ordinary resolution(s), the Mutual Supplies and Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (3) by the Independent Shareholders, and by way of ordinary resolution(s), the Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder.
- (4) by the Shareholders, and by way of special resolution(s), the amendments to the Articles of Association.
- (5) by the Shareholders, and by way of ordinary resolution(s), to approve the election of Mr. Wang Xiangxi as an executive director of the fourth session of the Board.

Votes for all resolution(s) at the AGM shall be taken by way of poll.

Notices convening the AGM is set out in the First Circular. A supplemental notice notifying the AGM to be held as originally scheduled and containing additional proposed resolutions is set out on pages 96 to 97 of this circular. A second proxy form (the “**Second Proxy Form**”) containing the originally proposed resolutions and additional proposed resolution of appointment of director is also enclosed herewith.

Shareholders who intend to appoint a proxy to attend the meetings are requested to complete the Second Proxy Form in accordance with the instructions printed thereon. The proxy form shall be lodged with the registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the relevant meeting (i.e. 9:30 a.m. on 20 June 2019) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the meeting(s) or any adjournment thereof should you so wish.

---

## LETTER FROM THE BOARD

---

Pursuant to the Hong Kong Listing Rules, China Energy and its associates will abstain from voting on all resolutions relating to the continuing connected transactions to be proposed, considered and voted on at the AGM. As of the Latest Practicable Date, China Energy and its associates hold in aggregate 13,812,709,196 shares of the Company, which amounts to approximately 69.45% of total issued shares of the Company.

Other than set out above and as of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, there is no connected person of the Company, Shareholder and their respective associates (other than China Energy and its associates) with a material interest in the continuing connected transactions to be proposed, considered and approved at the AGM required to abstain from voting at the AGM, and there is no connected person of the Company, Shareholder and their respective associates with a material interest in the other matters to be proposed, considered and approved at the AGM required to be abstain from voting at the AGM.

Notices convening the AGM and forms of proxy for use at the said meetings have despatched by the Company to the Shareholders on 6 May 2019.

### RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that the terms, the proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

The Board has resolved and approved the resolutions in respect of the above matters. Of the Directors attending the board meetings, the Abstained Directors were considered to have material interests by virtue of being employed by China Energy, and had thus abstained from voting on the board resolutions in respect of the continuing connected transactions.

Accordingly, the Board recommends that the Shareholders vote in favour of all resolution(s) in relation to the above matters to be proposed at the AGM.

Chanceton Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to above continuing connected transactions.

---

## LETTER FROM THE BOARD

---

Having considered the advices given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion that the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all resolution(s) in relation to the continuing connected transactions to be proposed at the AGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 63 to 64, the letter from the Independent Financial Adviser set out on pages 65 to 89 and the other information set out in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**Huang Qing**  
*Secretary to the Board of Directors*



**中国神华能源股份有限公司**  
**CHINA SHENHUA ENERGY COMPANY LIMITED**

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

**(Stock Code: 01088)**

*To the Independent Shareholders*

10 May 2019

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION**

**CONTINUING CONNECTED TRANSACTIONS**

**ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT  
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT  
AND  
ENTERING INTO FINANCIAL SERVICES AGREEMENT**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, are in the interests of the Company and its Shareholders as a whole and how to vote.

Having considered the above and the advice of the Independent Financial Adviser in relation thereto as set out on pages 65 to 89 of this circular, we are of the opinion that the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

<b>Dr. Tam Wai Chu,</b>	<b>Dr. Peng Suping</b>	<b>Dr. Jiang Bo</b>	<b>Ms. Zhong Yingjie,</b>	<b>Dr. Huang Ming</b>
<b>Maria</b>			<b>Christina</b>	
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>Non-executive</i>	<i>Non-executive</i>	<i>Non-executive</i>	<i>Non-executive</i>	<i>Non-executive</i>
<i>Director</i>	<i>Director</i>	<i>Director</i>	<i>Director</i>	<i>Director</i>

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in connection with the Renewed CCT Agreements (including the Annual Caps thereunder), which have been prepared for inclusion in this circular.*



川盟融資有限公司  
Chanceton Capital Partners Limited

Room 801B, 8/F.  
Tsim Sha Tsui Centre, West Wing  
66 Mody Road  
Tsim Sha Tsui, Hong Kong

10 May 2019

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### DISCLOSEABLE TRANSACTION

### CONTINUING CONNECTED TRANSACTIONS

### ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT AND ENTERING INTO FINANCIAL SERVICES AGREEMENT

### INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the continuing connected transactions (the “**Continuing Connected Transactions**”) under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement, and the Financial Services Agreement (collectively, the “**Renewed CCT Agreements**”) and the proposed annual caps thereunder (the “**Annual Caps**”) for each of the three years ending 31 December 2020, 2021 and 2022, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular of the Company dated 10 May 2019 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As stated in the Letter from the Board, the Current Mutual Coal Supply Agreement, the Current Mutual Supplies and Services Agreement, and the Current Financial Services Agreement (collectively, the “**Existing CCT Agreements**”) will expire on 31 December 2019. In view of the continued development of the Group based on estimates of demand and operating conditions, the Company has, on 22 March 2019, entered into Renewed CCT Agreements with China Energy. As at the Latest Practicable Date, China Energy holds 69.45% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules. In turn, the transactions contemplated under the Renewed CCT Agreements (including the Annual Caps thereunder) constitute non-exempt continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules since one or more applicable percentage ratios (as defined in Rule 14.07 under the Hong Kong Listing Rules) in respect of each of the said transactions exceed 5% and, hence, are subject to the reporting, announcement and the Independent Shareholders’ approval requirements. In respect of China Energy providing, through Finance Company, entrustment loans to the Group on normal commercial terms without security over the assets of the Group, it would amount to a provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.89 of the Hong Kong Listing Rules from all reporting, announcement and independent shareholders’ approval requirements. In respect of loans, consumption credit, buyer’s credit and financial leasing granted by Finance Company to Members of China Energy Group under the Financial Services Agreement, as one or more of the applicable percentage ratios exceeds 5% but all such percentage ratios are less than 25% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, it also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

In the last two years, we did not have any engagement with the Group as an independent financial adviser. As at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties that could reasonably be regarded as relevant to the independence of us. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will received any fees or benefits from the Company or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the Continuing Connected Transactions (including the Annual Caps).

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects as at the date of the Circular. We have also relied on our discussion with management of the Company regarding the Group and the respective terms of the Continuing Connected Transactions (including the Annual Caps thereunder), including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs, financial position or future prospect of the Group, the China Energy Group or their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied, representations made or opinion expressed by the Company, the Directors and the management of the Group.

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

In arriving at our opinion and recommendation on the terms of the Continuing Connected Transactions (including the Annual Caps), we have taken the following principal factors and reasons into consideration:

#### **1. Background of and reasons for the Continuing Connected Transactions**

##### ***(i) Information on the Company***

The Company is a world-leading coal-based integrated energy company. The main business of the Group includes production and sales of coal and power, railway, port and ship transportation, and coal-to-olefins and other coal related chemical processing business.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

**(ii) Information on China Energy**

China Energy (formerly known as Shenhua Group Corporation Limited) and its subsidiaries operate a number of business segments including coal, thermal power, new energy, hydropower, transportation, chemical industry, environmental technology and finance, and are principally engaged in coal liquefaction, coal-related chemical processing business, coal production, power generation business and investment and financing activities. China Energy is the controlling shareholder of the Company. As at the Latest Practicable Date, China Energy holds 69.45% interest in the Company.

**(iii) The Existing CCT Agreements**

As part of the restructuring in connection with the initial public offering of the Company in 2005, China Energy transferred substantially all of its businesses including, inter alia, its coal production and sales operations and power generation operations, to the Group. China Energy retained certain coal assets and businesses relating to coal mines and power generation. After completion of the restructuring, the Group continues to sell coal to a number of power plants, coal to liquid and coal-based chemical subsidiaries owned by the China Energy Group. In return, the Group receives payment for the supply of coal as in any other ordinary commercial transaction. China Energy Group also continues to supply the Group with various types of coal for the purpose of coal blending and re-sale. China Energy Group retained certain assets and businesses which are supplemental and necessary to the business of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on arm's-length basis after the listing of the Company in 2005. In addition, the Group provides certain goods and services to China Energy on arm's-length basis to support the business retained by the China Energy Group.

As disclosed in the announcement dated 24 March 2016 and the circulars dated 29 April 2016 and 12 March 2018, the Company has entered into the Existing CCT Agreements with China Energy on 24 March 2016 to provide for the mutual supply of coal, products, ancillary services and financial services between the Group and China Energy Group.

As stated in the Letter from the Board, provision of financial services by the Finance Company to the Members of China Energy Group could fully leverage on its functions as an internal financing platform and capital management platform, further control risk and increase income of the Group.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

In view of (i) ensuring a steady, quality-assured provision of coal, products and ancillary services for the Company and China Energy Group; (ii) reducing business risks and costs which ultimately benefit the operation of the Company; and (iii) leveraging on Finance Company's functions as an internal financing platform and capital management platform, further control risk and increase income of the Group, the Renewed CCT Agreements has been entered into between the Company and China Energy to govern and continue the aforementioned mutual supply of coal, products, ancillary services and financial services for the three years ending 31 December 2022. Having regard to the principal business and operations of the Group and the reasons for and benefits of the entering into the Continuing Connected Transactions above, we concur with the Directors' view that the entering into the Continuing Connected Transactions is commercially justifiable and is in the ordinary and usual course of the business of the Group.

### 2. Principal terms of the Renewed CCT Agreements

#### (i) *The Mutual Coal Supply Agreement*

Pursuant to the Mutual Coal Supply Agreement, the Group and China Energy Group mutually sell and supply thermal coal of various calorific value. The unit price of the coal to be supplied under the Mutual Coal Supply Agreement shall be determined by the Group and China Energy Group Co through arm's length negotiation with reference to various factors, including (i) the national industrial policy as well as industry and market conditions in the PRC; (ii) the specified guidelines issued by NDRC setting out the coal purchase prices (if any); (iii) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable quality that is offered to or offered by third parties under normal market conditions and normal commercial terms in the same or nearby regions; and (iv) the quality, quantity and the estimated transportation fees of the coal, and in any event the transaction terms shall be no less favourable than the terms provided by/to third parties. Details of each of the pricing mechanism are set out in the Letter from the Board.

For our due diligence purpose, we have obtained and compared 3 sets of sample transaction agreements/invoices for each of the Group's sales/procurement of coal supplied to/from (i) China Energy Group; and (ii) independent third party customers/suppliers among the historical transaction records during the year of 2018 and up to March 2019 for the purpose of reviewing the pricing mechanism and key terms in respect of the mutual coal supply transactions between the Group and China Energy Group. We note from our review that (i) the pricing mechanism in the Group's sales/procurement of coal to/from China Energy Group was similar to that of independent third party customers/suppliers; and (ii) the key terms of sample transactions entered into between the Group and China Energy Group were comparable to those entered into between the Group and independent third party customers and suppliers.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

**(ii) *The Mutual Supplies and Services Agreement***

In accordance with the Mutual Supplies and Services Agreement, the Group and China Energy Group will mutually provide production supplies, ancillary production services and administrative services to each other, while the Group will also provide production services to China Energy Group. The pricing of the products and services will be principally based on either (i) government-prescribed price and government-guided price; (ii) tender and bidding price; (iii) market price; or (iv) agreed price. Details of each of the pricing mechanism and the relevant pricing mechanism to be adopted for each type of the services and products are set out in the Letter from the Board.

For our due diligence purpose, we have obtained and compared 3 sets of transaction agreements/invoices for each of the Group's provision/procurement of certain production supplies and ancillary services to/from (i) China Energy Group; and (ii) independent third party customers/suppliers among the historical transaction records during the year of 2018 and up to March 2019 for the purpose of reviewing the pricing mechanism and key terms in respect of the mutual provision of supplies and ancillary services transactions between the Group and China Energy Group. To the extent where transaction record with independent third party customers/suppliers are not available, pricing terms was compared to government-prescribed price or government-guided price since as advised by the management of the Company, certain sales and procurement functions are centralised to specific members of the Group or Members of China Energy Group. We note from our review that the pricing mechanism and key terms in sales/procurement of production supplies and ancillary services to/from China Energy Group were comparable to those of independent third party customers/suppliers and where applicable, the government-prescribed price or government-guided price.

**(iii) *The Financial Services Agreement***

In accordance with the Financial Services Agreement, the Company provides related financial services to China Energy Group through Finance Company. The pricing policy of the Financial Services Agreement is as follows:

Deposit service: the deposit rates prescribed by the PBOC from time to time for the same type of deposit;

Loan service: the lending rates prescribed by the PBOC from time to time for the same type of loan;

Other financial services: the fee rates fixed by the PBOC or the CBIRC.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

In addition to the above, the interest rates or fee rates shall be determined by reference to the rates offered or charged by major commercial banks in the PRC for offering comparable deposit, loans or services to the Members of China Energy Group.

In order to assess the fairness and reasonableness of the terms under the Financial Services Agreement, we have discussed with the management of the Company and understand that loans, deposit and bill acceptance services would be relatively more significant and representative among those financial services offered by the Finance Company to Members of China Energy Group in terms of their transaction nature, size and frequency. We have reviewed 3 sets of loan agreements entered into between the Finance Company and Members of China Energy Group during the year of 2018 and up to March 2019 for the purpose of reviewing the pricing mechanism in respect of the financial services provided by the Financial Company to Members of China Energy Group. We have also reviewed records of the Finance Company's summary table of the deposits from Members of China Energy Group and obtained 3 sets of the deposit statements during the year of 2018 and up to March 2019. For other financial services, we have also reviewed 3 sets of bill discount agreements entered into between the Finance Company and Members of China Energy Group during the year of 2018 and up to March 2019. Upon comparison, we note that the pricing mechanism for the said loan interest rates, deposit interest rates and fee rates were determined according to the then interest rate and fee rate prescribed by the PBOC or the CBIRC, and if such prescribed fee rates are not available, the service fees were and will be negotiated with reference to the market conditions and the fee rated charged by normal commercial banks in the PRC for comparable services.

Having considered the above, we concur with the Directors' view that (i) the transactions contemplated under the Renewed CCT Agreements are entered into on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the transactions contemplated under the Renewed CCT Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 3. The Annual Caps

#### (i) *Mutual Coal Supply Agreement:*

The following table sets out (i) the actual historical amounts in respect of the existing continuing connected transactions entered into pursuant to the Current Mutual Coal Supply Agreement for each of the two years ended 31 December 2018 and the month ended 31 January 2019; (ii) the existing annual caps under the Current Mutual Coal Supply Agreement and (iii) the proposed Annual Caps for the Mutual Coal Supply Agreement:

<i>(RMB million)</i>	Historical Transaction Amount			Existing Annual Caps			Proposed Annual Caps		
	For the year ended		For the month ended	For the year ended/ending			For the year ending		
	31 December		31 January	31 December			31 December		
	2017	2018	2019	2017	2018	2019	2020	2021	2022
<b>Supply of Coal</b>									
From the Group to China									
Energy Group	6,257	18,708	3,343	11,300	65,500	65,500	65,500	65,500	65,500
From China Energy Group									
to the Group	8,048	8,608	945	9,400	20,700	24,500	16,000	16,000	16,000

As illustrated in the table above, the proposed cap amount of RMB65,500 million on sales of coal by the Group to China Energy Group for the three years ending 31 December 2022 is the same as that of 2019 and the proposed cap amount of RMB16,000 million on purchase of coal by the Group from China Energy Group for the three years ending 31 December 2022 represents a reduction of approximately 34.7% as compared to that of 2019.

We have discussed with the management of the Company and understand that the relevant Annual Caps of the Mutual Coal Supply Agreement for the supply and procurement of coal by the Group to/from the China Energy Group have been set based on the historical transaction amount with the China Energy Group for the year ended 31 December 2018 and taking into account the potential increase due the following factors: (a) the estimated increase in supply/procurement of coal to/from the China Energy Group throughout the post-merger integration; (b) the transactions between the Group and the Shenhua Contributed Assets (as defined below) constituting continuing connected transactions; (c) the transactions between the Shenhua Contributed Assets (as defined below) and China Energy Group which does not constitute continuing connected transactions; (d) the recent stable coal prices which are highly correlated to Bohai Bay Thermal Coal Index; and (e) a moderate buffer of approximately 8–21%. We have reviewed and assessed the relevant Annual Caps of the Mutual Coal Supply Agreement based on the following:

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Historical transaction amount with China Energy Group for the year ended 31 December 2018*

We note that the historical transaction amount of RMB18,708 million for the supply of coal by the Group to China Energy Group during the year ended 31 December 2018 represent a substantial increase of approximately 199.0% as compared to that of 2017, with a relatively low utilisation rate of approximately 28.6% based on the annual cap of 2018. The substantial growth of the coal transaction amount between the Group and China Energy Group was mainly attributable to the increase in sale and supply of coal to Members of China Energy Group which were previously under Guodian Group before being absorbed by China Energy (the “**Former GD Members**”). Since the merger and reorganisation of the China Energy Group was completed in August 2018, the transaction between the Group to the Former GD Members were not regarded as continuing connected transactions until the completion of the reorganisation in late August 2018. Therefore, assuming the completion of China Energy Group’s reorganisation had taken place since 1 January 2018, the transaction amounts for the supply and procurement of coal by the Group to/from the China Energy Group constituting continuing connected transactions would have been approximately RMB32,947 million and RMB9,374 million respectively, representing utilisation rates of approximately 50.3% and 45.3% to their respective annual caps for 2018. The relevant Annual Caps of the Mutual Coal Supply Agreement for the three years ending 31 December 2022 represent CAGR of approximately 41.0% and 30.6% respectively as compared to their historical sales/procurement transaction amounts (including the transaction amounts with Former GD Members on or before 28 August 2018) for the year ended 31 December 2018.

### *Reorganisation of China Energy Group*

With reference to the announcement of the Company dated 28 August 2018, China Energy and Guodian Group has implemented a joint restructuring. China Energy merged with Guodian Group Co by way of merger by absorption and all of the conditions precedent to the closing have been satisfied. Upon completion of the reorganisation, sales and procurement of coal with members of the Guodian Group absorbed by China Energy would constitute continuing connected transactions of the Group.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We understand from the management of the Company that following the completion of reorganisation of the China Energy Group, Members of China Energy Group are undergoing post-merger integration and it is expected that the interaction and business cooperation between the Group and China Energy Group will be further enhanced in the coming years. The management of the Company expect that the amount of coal to be supplied by the Group to the China Energy Group will be increased by approximately 18 million tons for each of the three years ending 31 December 2022 (excluding those to the Shenhua Contributed Assets as defined herein below), representing an increase of approximately 25.7% as compared to that of 2018 or a compound annual growth rate (“CAGR”) of approximately 12.1% from 2018 to 2020. On the other hand, the management of the Company expects that the amount of coal to be procured by the Group from the China Energy Group will be increased by approximately 20 million tons for each of the three years ending 31 December 2022, representing an increase of approximately 62.5% as compared to that of 2018 or a CAGR of approximately 27.5% from 2018 to 2020. Upon our enquiry, we understand that the expected increase is mainly due to (i) the anticipated further post-merger integration in the coming years since the reorganisation of China Energy Group was only completed in late August 2018 and the effect of post-merger integration on the mutual supply of coal between the Group and China Energy Group has yet been fully reflected during the year ended 31 December 2018; and (ii) the intention and planning of the Group and China Energy Group to further increase the portion of coal purchased from the Group among the total purchase of China Energy Group in 2019 and subsequent years. Based on our research, we notice that on 27 November 2018, the NDRC has published the Circular of the General Office of the NDRC on Advancing the Work of Signing and Performing Medium-and-Long Term Coal Contracts in 2019 (《國家發展改革委辦公廳關於做好2019年煤炭中長期合同簽訂履行有關工作的通知》) (the “NDRC Circular”). The NDRC Circular specifies that efforts will be made to encourage the signing of mid-to-long term contracts with term of 2 years or above and the mid-to-long term contracts of state-owned coal and power generation enterprises shall account for more than 75% of its own resources or purchase amount. The NDRC Circular also specifies that the pricing mechanism of such mid-to-long term contracts shall follow the principles as stipulated in the Notice on Printing and Distributing a Memorandum to Smooth the Unusual Price Fluctuation in the Coal Market (《關於印發平抑煤炭市場價格異常波動的備忘錄的通知》) in December 2016 which set out certain measures to prevent abnormal fluctuation in coal prices. We understand from the management that such measures are mainly for guidance purpose and the final price would also depend on the market conditions. Nevertheless, the Company has been taking into account such principles, where applicable, in setting the pricing mechanism of its mid-to-long term contracts entered with independent third parties or China Energy Group. In view of (i) the continuing structural reform of coal industry in the PRC; (ii) the progressive post-merger integration and consolidation of the China Energy Group; and (iii) the increase in purchase of coal by China Energy Group from the Group is in line with the principles of the NDRC Circular, we consider such estimated growth rates in the supply and procurement of coal by the Group to/from China Energy Group to be justifiable.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Formation of Joint Venture Company*

As set out in the announcement of the Company dated 31 January 2019, the Company and GD Power completed the establishment of the Joint Venture Company, a joint venture company with the equities and assets of the relevant coal-fired power generation companies separately contributed by the Company (the “**Shenhua Contributed Assets**”) and GD Power. As a result of the formation of the Joint Venture Company, the Shenhua Contributed Assets is no longer consolidated into the financial statements of the Company. Therefore, the transactions of coal supply by the Group to the Shenhua Contributed Assets become continuing connected transactions of the Company and be governed by the Current Mutual Coal Supply Agreement, while the procurement of coal by the Shenhua Contributed Assets from the China Energy Group will no longer be continuing connected transactions of the Company.

With reference to the circular of the Company dated 28 March 2018, we notice that Shenhua Contributed Assets mainly are equities and assets of 18 relevant coal-fired power generation companies which purchase coal from the Group for power generation. We have enquired into the historical transaction amount of the supply of coal by the Group to the Shenhua Contributed Assets. As advised by the management of the Company, the amount of coal supplied by the Group to Shenhua Contributed Assets was approximately 44 million tons for the year ended 31 December 2018. The estimated amount of coal to be supplied by the Group to Shenhua Contributed Assets for each of the three years ending 31 December 2022 will be approximately 47 million tons for each of the three years ending 31 December 2022, representing an increase of approximately 6.8% as compared to the amount of coal for 2018 or a CAGR of approximately 3.4% from 2018 to 2020. On the other hand, certain entities of the Shenhua Contributed Assets has been purchasing coal from China Energy Group and therefore the expected purchase amount of approximately 9 million tonnes will no longer constitute continuing connected transactions of the Group.

With reference to the annual reports of the Company, we notice that the inter-segment revenue of the coal segment of the Group which mainly represents the internal sales of coal to other segments of the Group, e.g. power generation business, have been increasing since 2015, reaching approximately RMB44,346 million for the year ended 31 December 2018 and representing a CAGR of approximately 16.6%. In view of such historical growth rates, we consider the estimated growth rate of the supply of coal by the Group to the Shenhua Contributed Assets to be justifiable.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Bohai Bay Thermal Coal Price Index and the estimated average coal prices*

We understand from the management of the Company that the prices of various types of coal to be sold/procured by the Group is highly correlated with the Bohai Bay Thermal Coal Price Index (i.e. 5,500 kcal thermal coal price). The commercial coal sold/purchased by the Group includes various commercial coals with different calorific values, the price of which vary with the amount of calorific value generated. The Bohai Bay Thermal Coal Price Index has been stable since the end of 2016 and the Company expects that there is a high possibility that the coal price in the coming three years will remain stable at the current level. Therefore, the management has mainly made reference to the historical average coal price sold/purchased by the Group in setting the estimated coal prices for the increment in transaction values on supply/procurement of coal by the Group to/from China Energy Group.

### *Buffer built-in*

We understand that in setting the relevant Annual Caps under the Mutual Coal Supply Agreement, the management of the Company has built-in a buffer of approximately 8–21% based on the estimated transaction amounts of supply and procurement of coal to/from the China Energy Group.

In terms of potential fluctuation in coal price, we notice that the coal industry in China has been under the influence of various factors in recent years, in particular, the overcapacity in production of coal. The Bohai Bay Thermal Coal Price Index (5,500 kcal) has substantially declined since 2011, reaching RMB385 per tonne during March 2016 and representing a decrease of approximately 54.9% as compared to the record-high of RMB853 per tonne during November 2011 since its first publication in October 2010. Upon the rebound in late 2016, the index has been temporarily stable with a range of RMB562–606 per tonne and an average of RMB577.8 per tonne since 2017 and up to 27 February 2019. In terms of potential fluctuation in transaction quantity, according to the Opinions on Further Promoting the Transformation and Upgrading of Merger & Acquisition of Coal Enterprises (《關於進一步推進煤炭企業兼併重組轉型升級的意見》) issued by the NDRC on 19 December 2017, the government will support more mergers and acquisitions by 2020 in the coal sector which would lead to higher concentration of coal plants and suppliers in the sector, therefore increasing the number of potential group members among the Group and China Energy Group which may supply and/or procure coal to/from each other. In light of the potential fluctuation in coal price and reforming industry structure, we consider the amount of buffer to be justifiable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) the substantial increase in the relevant Annual Caps for the transaction amount of the supply of coal by the Group to China Energy Group as compared to their corresponding historical transaction amount was mainly attributable to the reorganisation of China Energy Group and the formation of the Joint Venture Company which was in line with the guideline issued by the NDRC; (ii) the management of the Company has decreased the relevant Annual Caps for the transaction amount of the procurement of coal by the Group from China Energy Group according to latest estimated procurement plan; (iii) the market conditions of coal industry has been improving and the continual structural reform of the coal industry due to government policies; and (iv) the buffer built-in could accommodate any possible volatility in coal price and increment of the demand in the future and therefore avoiding any undesired disruption on daily business operation between the Group and China Energy Group, we consider the relevant Annual Caps under the Mutual Coal Supply Agreement for the three years ending 31 December 2022 are fair and reasonable.

**(ii) Mutual Products and Services Agreement:**

Set out below are (i) the actual historical amounts in respect of the existing continuing connected transactions entered into pursuant to the Current Mutual Supplies and Services Agreement for each of the two years ended 31 December 2018 and the month ended 31 January 2019; (ii) the existing annual caps under the Current Mutual Supplies and Services Agreement and (iii) the proposed Annual Caps for the Mutual Supplies and Services Agreement:

	Historical Transaction Amount			Existing Annual Caps			Proposed Annual Caps		
	For the year ended		For the	For the year ended/ending			For the year ending		
	31 December		month ended	31 December			31 December		
	2017	2018	31 January	2017	2018	2019	2020	2021	2022
<i>(RMB million)</i>									
<b>Provision Products and</b>									
<b>Ancillary Services</b>									
From the Group to China									
Energy Group	6,749	6,959	613	11,800	13,000	13,000	13,000	13,000	13,000
From China Energy Group									
to the Group	2,327	3,590	66	8,800	23,500	23,500	9,000	9,000	9,000

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We have discussed with the management of the Company and understand that the relevant Annual Caps of the Mutual Supplies and Services Agreement for the provision and procurement of products and ancillary services by the Group to/from China Energy Group have been set after taking into account the following factors: (a) the historical transaction amount with China Energy Group for the year ended 31 December 2018; (b) the estimated increase in supply/procurement of products and ancillary services to/from China Energy Group throughout the post-merger integration, business expansion and planned projects; (c) the transactions between the Group and the Shenhua Contributed Assets constituting continuing connected transactions; and (d) a moderate buffer of approximately 13–19%.

*Historical transaction amount with China Energy Group for the year ended 31 December 2018*

In assessing the relevant Annual Caps of the Mutual Supplies and Services Agreement for the three years ending 31 December 2022, we note that each of the cap amounts of RMB13,000 million for the provision of products and ancillary services to China Energy Group is the same as the cap for the year ending 31 December 2019 while the cap of RMB9,000 million for the procurement of products and ancillary services from China Energy Group for the year ending 31 December 2020 represents a substantial decrease of approximately 61.7% as compared to that of 2019. We also note that the relevant Annual Caps of the Mutual Supplies and Services Agreement for the three years ending 31 December 2022 represent CAGR of approximately 36.5% and 56.6% respectively as compared to their historical sales/procurement transaction amounts (including the transaction amounts with Former GD Members on or before 28 August 2018) for the year ended 31 December 2018.

Since the merger and reorganisation of the China Energy Group was completed in August 2018, the transaction between the Group to the Former GD Members were not regarded as continuing connected transactions until the completion of the reorganisation in late August 2018. Therefore, assuming the completion of China Energy Group's reorganisation had taken place since 1 January 2018, the transaction amounts for the provision and procurement of products and ancillary services by the Group to/from the China Energy Group would have been approximately RMB6,975 million and RMB3,669 million respectively, representing utilisation rates of approximately 53.7% and 15.6% to their respective annual caps for 2018.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*Post-merger integration, business expansion, infrastructure projects and transactions with Shenhua Contributed Assets*

We have discussed with the management of the Company and understand that the main underlying reasons for the expected increase in the transaction amount under the Mutual Supplies and Services Agreement as compared to their respective historical transaction amount in 2018 are necessitated by the expected increase in transaction volume as a result of (i) the progressive post-merger integration and business expansion of the China Energy Group; (ii) planned infrastructure projects of the Group; and (iii) the formation of the Joint Venture Company which resulted in having the transactions between the Group and the Shenhua Contributed Assets constitutes continuing connected transactions of the Group.

Upon our enquiry, we understand from the management that as the sales and procurement of products and services would be also closely related to the business activity level of the Group and China Energy Group. Following the reorganisation of China Energy Group, it is expected that the interaction and business cooperation, e.g. sales distribution of coke, coke tar, benzol and other related products, transportation services, etc., between the Group and China Energy Group will be further enhanced in the coming years.

It is expected that the sale of products, e.g. coke, tar and benzol by the Group to China Energy Group Coal and Coking Co., Ltd. (國家能源集團煤焦化有限責任公司) will increase from approximately RMB600 million for the year of 2018 to approximately RMB1,400 million for each of the three years during 2020 to 2022 while the supply of materials and related services by Shenhua Materials Group Co., Ltd. (神華物資集團有限公司) to the China Energy Group will increase from approximately RMB900 million for the year of 2018 to approximately RMB1,200 million for each of the three years during 2020 to 2022. Upon our enquiry, we understand from the management that Shenhua Bayan Nur Energy Co., Ltd. (神華巴彥淖爾能源有限責任公司) used to sell products directly to independent customers as well as Members of China Energy Group. Due to the strategic planning of the Group and China Energy Group, the sale of coal-based chemicals and products has now been centralised to China Energy Group Coal and Coking Co., Ltd. since China Energy Group Coal and Coking Co., Ltd. is comparatively a larger sales platform with more comprehensive sales channel. Similarly, members of the Group will purchase oil products from China Energy Group for the daily operations of its open pit mines and civilian chemicals for its production. It is expected that the increase in purchase amount of oil products and civilian chemicals would be approximately RMB500 million and RMB200 million respectively for each of the three years during 2020 to 2022. Therefore, members of the Group and China Energy Group could each better specialised in their respective functions with comparative advantages which could enhance the resource allocation efficiency and effectiveness under such centralised sales and procurement platform.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Shenhua Information Technology Co., Ltd. (神華信息技術有限公司), a subsidiary of the Company, will provide hardware and software sales and related technological services to the China Energy Group, the aggregated transaction amount of which was approximately RMB200 million for the year of 2018 and is estimated to increase to RMB600 million for each of the year during 2020 to 2022. The substantial increase in such transaction amount is mainly due to the reason that a number of projects such as power operation monitoring platform of China Energy Group will be centralised to and taken up by Shenhua Information Technology Co., Ltd.

For infrastructure projects of the Group, we are given to understand that the Group will carry out a coal-to-olefin upgrading demonstration project and a high-alumina coal fly ash integrated utilisation demonstration project in the coming years for which China Energy Group will provide certain of the construction and engineering services. It is expected that the constructions cost to be incurred for each of the three years ending 31 December 2022 would be approximately RMB2,000 million based on the latest status and information available. However, as advised by the management of the Company, there has not been any concrete construction plan and schedule on these projects yet and such transaction amount is the best estimate based on the information available so far. We have obtained and reviewed relevant internal documents on such infrastructure projects and notice that the aggregated transaction amount of approximately RMB6,000 million for the three years from 2020 to 2022 only represents a portion of the total investment amount on these two projects which we consider not unreasonable.

For the transportation service provided by China Energy Group to the Group, it is estimated that the transportation fee will increase by approximately RMB500 million given that the Group intends to utilise the existing trade lanes of Former GD Members for expanding their sales region. For transportation services provided by the Group to China Energy Group, it is estimated that the relevant transaction amount will increase from approximately RMB300 million for the year of 2018 to approximately RMB1,200 million for each of the year during 2020 to 2022. We enquired into the reason for the substantial increase in estimated amount of transportation services to be provided to China Energy Group and we are given to understand that the railway transportation unit of the Group has only started providing transportation service to China Energy Group Coal and Coking Co., Ltd. since fourth quarter of 2018. Therefore, the historical transaction amount for the year of 2018, on annualised basis, would be similar to the estimated transaction amount of approximately RMB1,200 million for each of the year during 2020 to 2022.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Also, upon the establishment of the Joint Venture Company, the transactions on provision of products and ancillary services between the Group and the Shenhua Contributed Assets become continuing connected transactions of the Company and be governed by the Current Mutual Supplies and Services Agreement. The estimated transaction amount for products and services procured from Shenhua Contributed Assets would be approximately RMB700 million which mainly consists of electricity cost, heating fees, operating and maintenance costs, etc. It is estimated that the transaction amount for products and services provided to Shenhua Contributed Assets will be approximately RMB2,100 million for each of the year during 2020 to 2022, among which approximately RMB1,900 million will be attributable to the marine coal shipping services. Such estimate on marine shipping service income represents an increase of approximately 46.2% as compared to the historical transaction amount of approximately RMB1,300 million for that of 2018 or a CAGR of approximately 20.9% from 2018 to 2020. We have reviewed the annual reports of the Company and notice that, the revenue from transportation services was approximately RMB6,530 million for the year ended 31 December 2018, representing a CAGR of approximately 19.5% from 2015 to 2018 which is in line with the estimated growth rate in transportation services to be provided to the Joint Venture Company.

### *Buffer built-in*

We understand that in setting the relevant Annual Caps under the Mutual Supplies and Services Agreement, the management of the Company has built-in a buffer of approximately 13–19% based on the estimated transaction amounts of supply and procurement of products and ancillary services to/from the China Energy Group.

Given that the prices for most of the products and services are related to the price of raw materials and crude oil, we have reviewed the historical crude oil price and noticed that oil market, similar to the coal market, was volatile in recent years. Crude oil price undergone a downtrend since mid-2014 with Brent crude oil price falling from around USD115 per barrel in June 2014 to approximately USD28 per barrel in January 2016. Based on the statistics published by the National Bureau of Statistic of China, the annual Purchasing Price Indices for Industrial Producers (Fuel and Power) have increased from 88.7 in 2015 and reached 113.0 for 2017. We have also reviewed the China Coastal Bulk Freight Index (Qinghuadao-Shanghai) which reflect the transportation cost of coal. We notice that there was also substantial fluctuation in such index, ranging from 17.3 to 73.0 during January 2017 to February 2019, with an average of approximately 36.1 during the period and reaching 21.9 by the end of February 2019. Therefore, any possible rebound in oil price, raw material costs, transportation cost and pick up of the Group's business activities in the future may substantially drive up the transaction amounts between the Group and China Energy Group. In light of the above, we consider the amount of buffer to be justifiable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) the increase in the relevant Annual Caps for the transaction amount of the provision and procurement of products and ancillary services by the Group to/from China Energy Group was mainly taking into account the continuing connected transactions due to the reorganisation of China Energy Group and the formation of the Joint Venture Company which was in line with the guideline issued by the NDRC; and (ii) the moderate buffer built-in could accommodate possible volatility in raw material price and increment of the demand in the future and therefore avoiding any undesired disruption on daily business operation between the Group and China Energy Group, we consider the relevant Annual Caps under the Mutual Supplies and Services Agreement for the three years ending 31 December 2022 are fair and reasonable.

### **(iii) Financial Services Agreement**

Set out below are (i) the actual historical amounts in respect of the existing continuing connected transactions entered into pursuant to the Current Financial Services Agreement for each of the two years ended 31 December 2018 and the month ended 31 January 2019; (ii) the existing annual caps under the Current Financial Services Agreement and (iii) the proposed Annual Caps for the Financial Services Agreement:

	Historical Transaction Amount			Existing Annual Caps			Proposed Annual Caps		
			For the						
	For the year ended	month ended		For the year ended/ending			For the year ending		
	31 December	31 January		31 December			31 December		
(RMB million)	2017	2018	2019	2017	2018	2019	2020	2021	2022
<b>Financial Services</b>									
Amount of guarantee provided by Finance Company to or for the benefit of Members of China Energy Group	0	0	0	4,290	4,420	4,550	3,500	3,500	3,500
Annual total transaction amount of bill acceptance and discount services	54	67	30	10,400	10,400	10,400	10,000	10,000	10,000
Maximum daily balance of deposit (including interests accrued thereon)	21,621	30,674	25,281	52,000	58,500	65,000	65,000	65,000	65,000

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(RMB million)	Historical Transaction Amount			Existing Annual Caps			Proposed Annual Caps		
	For the year ended		For the	For the year ended/ending			For the year ending		
	31 December		month ended	31 December			31 December		
	2017	2018	31 January 2019	2017	2018	2019	2020	2021	2022
Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including relevant accrued interests incurred)	15,151	16,301	17,634	26,000	28,600	32,500	30,000	30,000	30,000
Annual total fee charged for providing consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services	37	24	0	182	221	267	200	200	200

As set out in the Letter from the Board, the relevant Annual Caps of the Financial Services Agreement for the three years ending 31 December 2022 have been set after taking into account the following factors: (a) the outlook and development trend of the economy and energy sector in the PRC; (b) rules and regulations of regulatory authorities; (c) the financing management policy and medium term note issuance plan of the China Energy Group; (d) the implications on the number of Members of China Energy Group and class of service provided by Finance Company after reorganisation of China Energy Group; and (e) the status and development planning of the Finance Company. We have reviewed and assessed the relevant Annual Caps of the Financial Services Agreement based on the following:

### *Guarantee services provided by Finance Company to or for the benefit of Members of China Energy Group*

We note that there was no guarantee service ever provided by the Finance Company to the Members of China Energy Group so far during the term of the Current Financial Services Agreement. However, as advised by the management of the Company, there is still a potential demand on guarantee service from Members of China Energy Group considering, among others, (i) the aim to further enhance the Finance Company's efficiency on utilisation of its working capital; (ii) macro-economic conditions and development trend of coal industry; (iii) policies, rules and regulations imposed by government authorities and China Energy Group; and (iv) the existing status and development plan of the Finance Company.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Bill acceptance and discount services*

We note that for bill acceptance and discount services to Members of China Energy Group, the historical transaction amounts were at a relatively low level. We understand from the management of the Company that the business scale of the bill acceptance and discount services offered by the Finance Company is expected to grow substantially in the coming years, mainly due to (i) the stable progress of post-merger integration among Members of China Energy Group; (ii) the increase in numbers of entities among the China Energy Group which have potential demand for the bill acceptance and discount services; (iii) the Finance Company is proactively applying the membership of Shanghai Commercial Paper Exchange and in the process of building the electronic commercial draft system which will enhance the capacity of the Finance Company in offering the bill acceptance and discount services; and (iv) the estimated demand of bill services from Members of China Energy Group calculated according to the 20% margin level and the total amount of current external margin of the China Energy Group of over RMB2 billion.

### *Deposit services*

The historical maximum daily deposit balance of RMB30.67 billion represent a utilisation rate of approximately 52.4% to the annual caps for the year ended 31 December 2018. We understand from the management of the Company that the relevant Annual Caps for the deposit service are estimated based on the existing cap for the year ending 31 December 2019 taking into account, among others, (i) the increase in numbers of entities among the China Energy Group (e.g. Former GD Members) which have potential demand for the deposit services due to the reorganisation of the China Energy Group; (ii) the potential increase in maximum daily balance of deposits placed by Members of China Energy Group given the maximum daily balance of deposits of Guodian Finance Corporation (國電財務有限公司) in 2018 was approximately RMB35 billion; (iii) macro-economic conditions and development trend of coal industry; and (iv) policies, rules and regulations imposed by government authorities.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Loans, consumption credit, buyer's credit and financial leasing services*

The historical maximum daily loan balance of RMB16.30 billion represent a utilisation rate of approximately 57.0% to the annual cap for the year ended 31 December 2018. We understand from the management of the Company that the relevant Annual Caps for the loans, consumption credit, buyer's credit and financial leasing services are determined taking into account (i) the aim to further enhance the efficiency on utilisation of the Finance Company's capital and to further increase the loan-to-deposit ratio of the Finance Company from approximately 40.56% at the end of 2018 to 65% in 2019; (ii) the target to reduce the external debt of Members of China Energy Group; (iii) the anticipation that upon further post-merger integration of the China Energy Group, there may be an increase in portion of loan granted to Members of China Energy Group from approximately 42.81% at the end of 2018 to 50% of the total loan scale of the Finance Company as a result of the increase in number of entities among China Energy Group and therefore increasing the potential loan offered to China Energy Group; and (iv) an estimate loan amount of up to RMB5 billion from Members of China Energy Group for the capital expenditures in developing wind power, thermal power, shale gas and other renewable energy businesses.

In view of the relatively low utilisation rates for most of the historical caps under the Current Financial Services Agreement, for our due diligence purpose in justifying the reasonableness of relevant Annual Caps under the Financial Services Agreement, we have reviewed the unaudited consolidated financial statements of China Energy Group (including the Group) for the nine months ended 30 September 2018 as contained in a prospectus for the placement of bond of China Energy Group dated 22 February 2019 (the “**Bond Prospectus**”). In order to assess the scale of business of China Energy Group (excluding those attributable to the Group) as to the size of the relevant Annual Caps under the Financial Services Agreement, we have compared certain key financial figures of China Energy Group (including the Group) as extracted from the Bond Prospectus with those of the Group as extracted from its third quarterly report for the nine months ended 30 September 2018:

	<b>China Energy Group (Including the Group) As of 30 September 2018</b>	<b>The Group As of 30 September 2018</b>
<i>(RMB billion)</i>		
Total Assets	1,834.89	603.95
Total Liabilities	1,107.44	198.28
Net Assets	727.45	405.66
Cash	145.60	104.07
Total Borrowings	771.29	61.24
Account Receivables	61.52	15.01

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We notice that the corresponding balance sheet items of China Energy Group, e.g. account receivables, total borrowings, cash and cash equivalent, etc., even excluding those attributable to the Group, are either substantially larger than or comparable to the relevant Annual Caps under the Financial Services Agreement. Moreover, given that the provision of guarantee service and bill acceptance services are within the ordinary course of business of a financial institution, we concur with the view of the management of the Company that (i) the number of entities within the China Energy Group has increased upon the reorganisation which expand the customer base for such guarantee services or bill acceptance services; and (ii) relevant Annual Caps on the guarantee services or bill acceptance services provided by the Finance Company to or for the benefit of Members of China Energy Group could provide flexibility and avoid any undesired disruption on daily business operation between the Group and China Energy Group in case of any business needs for guarantee services or bill acceptance services from members of China Energy Group. We also understand that for the provision of guarantee services, a security deposit will be required as counter-guarantee. For loans, consumption credit, buyer's credit and financial leasing services, the maximum daily balance will be capped by maximum daily balance of deposits placed by Members of China Energy Group with the Finance Company.

We have also reviewed the unaudited financial statements of the Finance Company for the year ended 31 December 2018 and note that, the Finance Company had total assets of RMB95.82 billion, cash and balances with central bank of RMB6.28 billion and deposits with banks of RMB49.84 billion as of 31 December 2018. The Finance Company had a paid-up share capital of RMB5 billion and a net asset value of RMB9.03 billion. As such, we concur with the management of the Company that the Finance Company has sufficient funds and sound financial conditions to accommodate the development needs of China Energy Group while enhancing the business volume, revenue and profit of the Finance Company and bringing economic benefits to the Group. Having considered the above, we consider the relevant Annual Caps under the Financial Services Agreement for the three years ending 31 December 2022 are fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 4. Internal control measures and measures to ensure compliance with the Hong Kong Listing Rules

As stated in the Letter from the Board, the Group has adopted various internal control measures to monitor the Continuing Connected Transactions.

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Hong Kong Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
  - (i) have not been approved by the Board;
  - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
  - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
  - (iv) have exceeded the Annual Caps;

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b);
- (d) the Company must promptly notify the Hong Kong Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

The Company have implemented internal control measures to govern the Continuing Connected Transactions, details of which are set out in under section headed "Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions" in the Letter from the Board.

For our due diligence purpose, we have obtained and reviewed internal control measures regarding the management of connected transactions and understand that the Company established an systematic management of internal control steps including, (i) the recognition of connected persons and connected transactions; (ii) the monitoring flow of approved continuing connected transactions; (iii) the recognition and approval flow of the continuing connected transactions; and (iv) the annual review of the continuing connected transactions system.

We also understand that the Company has a connected transaction team headed by the Chief Financial Officer and relevant senior management of the Company, which is responsible for the management and monitoring of connected transactions; and internal control policies are in place which properly delineates the responsibilities of the Company, its subsidiaries and branches in the course of managing the Group's continuing connected transactions. Such team has also established routine examinations, reporting systems and accountability systems in the subsidiaries and branches of the Company. The internal control and risk management departments of the Company would also conduct regular internal assessments on the internal control measures of the Company on an annual basis, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Besides, it was stated in the annual reports of the Company for the years ended 31 December 2017 and 2018 that the auditors of the Company confirmed that the continuing connected transactions (i) had been approved by the Board; (ii) had been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) the actual transaction amount did not exceed the respective annual caps for the two years ended 31 December 2018.

In light of the result of our review and the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms and the Annual Caps not being exceeded, we are of the view that appropriate internal control measures are in place to govern the conduct of the Continuing Connected Transactions.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### RECOMMENDATION

Having taken into account the above principal reasons and factors, we consider that the terms of the Renewed CCT Agreements (including the Annual Caps thereunder) are fair and reasonable so far as the Independent Shareholders are concerned and that the transactions contemplated under the Renewed CCT Agreements (including the Annual Caps thereunder) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and also recommend the Independent Shareholders to, vote in favour of the relevant resolutions to approve the Renewed CCT Agreements (including the Annual Caps thereunder).

Yours faithfully,

For and on behalf of

**Chanceton Capital Partners Limited**

**Cheung Shun Lim Ignatius**

*Associate Director*

*Note:*

*Mr. Cheung Shun Lim Ignatius is a licensed person registered with the SFC and regarded as a responsible officer of Chanceton Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 8 years of experience in corporate finance industry.*

**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 issuer. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

**2. DIRECTORS' INTERESTS IN SHARES**

As at the Latest Practicable Date:

- 2.1 none of the Directors, chief executive, supervisors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (i) 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; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) 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;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up) been 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.

**3. SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, and so far as is known to the Directors and chief executive of the Company, the following persons had the following interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in ten per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

## Interests in the Shares of the Company

No.	Name of shareholders	Capacity	H shares/ A shares	Nature of interest	Number of H shares/ A shares held	Percentage of H shares/ A shares over total issued	Percentage of total issued share capital of the Company
						respectively %	%
1	China Energy	Beneficial owner	A shares	N/A	13,812,709,196	83.76	69.45
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position	243,917,129	7.18	1.23
				Short position	3,528,000	0.10	0.02
3	Citigroup Inc.	Beneficial owner; guarantee equity owner; approved lending agent	H shares	Long position	178,294,047	5.24	0.90
				Short position	904,500	0.02	0.00
				Shares available for lending	169,509,745	4.98	0.85

*Notes:* (1) Among H shares in long position and short position held by BlackRock, Inc., 821,665 H shares in long position and 1,202,500 H shares in short position involve derivatives, and their type is unlisted derivatives – cash settled.

(2) In 178,294,047 H shares in long position held by Citigroup Inc., 8,759,802 H shares are held in its capacity as the beneficial owner, 24,500 H shares are held in its capacity as the the guarantee equity owner, 169,509,745 H shares are held in its capacity as the approved lending agent.

The information disclosed is based on the information available on the website of the Hong Kong Stock Exchange.



**4. EXPERT**

- 4.1 The following are the qualifications of the professional advisers who have given the Company opinion or provided advice referred to or contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Chanceton Capital Partners Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders

- 4.2 As at the Latest Practicable Date, the Independent Financial Adviser has no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.
- 4.3 The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they respectively appear.
- 4.4 As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Company were made up.

**5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered into, with any member of the Group, a service agreement which is not terminable within one year without payment of compensation (other than statutory compensation).

**6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that there have been no material adverse changes in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

## 7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the Articles of Association, at any general meeting of shareholders, a resolution shall be decided on a show of hands unless otherwise required by the Hong Kong Listing Rules, or a poll is demanded, before or after any vote by show of hands. A poll can be demanded by (i) the chairman of the meeting; (ii) at least two shareholders entitled to vote present in person or by proxy; or (iii) one or more shareholders present in person or by proxy and representing ten per cent or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on show of hands been carried, unanimously, or carried by, a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made such a demand.

## 8. DIRECTORS' INTERESTS

8.1 There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director or supervisor of the Company is materially interested and which is significant in relation to the business of the Group.

8.2 The following Directors also serve as a director or employee of China Energy or its subsidiaries:

<b>Name</b>	<b>Name of shareholder</b>	<b>Positions</b>	<b>Commencement of term of office</b>
Li Dong	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017
Gao Song	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017

Name	Name of shareholder	Positions	Commencement of term of office
	GD Power	Director	September 2012
	CHN Energy Dadu River Hydropower Development Co., Ltd.	Chairman	July 2018
	CHN Energy Jinsha River Xulong Hydropower Development Co., Ltd	Chairman	June 2018
	CHN Energy Jinsha River Benzilan Hydropower Development Co., Ltd.	Chairman	June 2018
Mi Shuhua	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017
	GD Power	Director	April 2014
	Guodian New Energy Technology Research Institute	Dean	December 2016
Zhao Jibin	China Energy	External Director	November 2017

Save as disclosed above, none of the Directors is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

- 8.3 None of the Directors or any of their respective associates has 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 Company and its subsidiaries as required to be disclosed pursuant to the Hong Kong Listing Rules.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the AGM.

- 9.1 the Mutual Coal Supply Agreement;
- 9.2 the Mutual Supplies and Services Agreement;
- 9.3 the Financial Services Agreement;
- 9.4 the Articles of Association;
- 9.5 the letter from the Independent Board Committee as set out in this circular;
- 9.6 the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- 9.7 the written consents of the experts referred to in 4.1 of this Appendix; and
- 9.8 the service contracts entered into by and between the Company and Directors.

---

## SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

---



# 中国神华能源股份有限公司

## CHINA SHENHUA ENERGY COMPANY LIMITED

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

**(Stock Code: 01088)**

### SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

Reference is made to the notice of annual general meeting for 2018 of China Shenhua Energy Company Limited (the “**Company**”) dated 6 May 2019.

**SUPPLEMENTAL NOTICE IS HEREBY GIVEN** that the annual general meeting for 2018 of the Company (“**Annual General Meeting**”) will be held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People's Republic of China at 9:30 a.m. on Friday, 21 June 2019 as scheduled. In addition to the resolutions set out in the notice of Annual General Meeting dated 6 May 2019, the Annual General Meeting will also consider and, at its discretion, adopt the following supplemental proposal submitted by China Energy Investment Corporation Limited (a controlling shareholder of the Company):

#### **AS ORDINARY RESOLUTION:**

15. To consider and, if thought fit, to approve the election of Mr. Wang Xiangxi as an executive director of the fourth session of the board of directors of the Company.

By Order of the Board

**China Shenhua Energy Company Limited**

**Huang Qing**

*Secretary to the Board of Directors*

Beijing, 10 May 2019

---

## SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

---

*Notes:*

1. Other than the above mentioned supplemental proposal, there are no changes to other matters in connection with the Annual General Meeting. For details of the other resolutions to be considered at the Annual General Meeting and other related matters, please refer to the notice of the Annual General Meeting of the Company dated 6 May 2019.
2. Shareholder who intend to appoint a proxy to attend the Annual General Meeting, shall complete and return the enclosed second proxy form, containing the originally proposed resolutions and additional proposed resolutions, to the registrar of H shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the meeting(s) or any adjournment thereof should you so wish.
3. Please refer to the notice of the Annual General Meeting of the Company dated 6 May 2019 for details in respect of other resolutions to be passed at the Annual General Meeting, eligibility for attending the Annual General Meeting, registration procedures, closure of register of members, procedures for demanding a poll to vote on resolutions and other relevant matters.

*As at the date of this notice, the Board comprises the following: Dr. Li Dong, Mr. Gao Song and Mr. Mi Shuhua as executive directors, Mr. Zhao Jibin as non-executive director, and Dr. Tam Wai Chu, Maria, Dr. Peng Suping, Dr. Jiang Bo, Ms. Zhong Yingjie, Christina and Dr. Huang Ming as independent non-executive directors.*