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

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

**If you have sold or transferred** all your shares in **China Coal Energy Company Limited**, you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**CHINA COAL ENERGY COMPANY LIMITED\***

**中國中煤能源股份有限公司**

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

**(Stock code: 01898)**

- (1) CONTINUING CONNECTED TRANSACTIONS – PROPOSED REVISION OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018 INTEGRATED MATERIALS AND SERVICES MUTUAL PROVISION FRAMEWORK AGREEMENT, THE 2018 PROJECT DESIGN, CONSTRUCTION AND GENERAL CONTRACTING SERVICES FRAMEWORK AGREEMENT AND THE 2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2020**
- (2) PROPOSED EMOLUMENTS OF THE DIRECTORS OF THE FOURTH SESSION OF THE BOARD AND THE SUPERVISORS OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE FOR THE YEAR OF 2019**
- (3) GENERAL MANDATE TO ISSUE DEBT FINANCING INSTRUMENTS AND**
- NOTICE OF ANNUAL GENERAL MEETING**

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



**Innovax Capital Limited**

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A notice convening the 2018 AGM of the Company to be held at 2:30 p.m. on Friday, 28 June 2019 at China Coal Building, No. 1 Huangsidajie, Chaoyang District, Beijing, the PRC is set out on pages 82 to 87 of this circular.

If you intend to appoint a proxy to attend the AGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the AGM or any adjournment thereof, and deposit it with Computershare Hong Kong Investor Services Limited, the H Shares registrar and transfer office of the Company in Hong Kong, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of holders of H Shares); or to the registered office of the Company at No. 1 Huangsidajie, Chaoyang District, Beijing, 100120, the PRC (in the case of holders of A Shares). Completion and return of the form of proxy will not preclude you from attending and voting at the AGM or any adjournment thereof should you so desire.

Whether you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of holders of H Shares) on or before Thursday, 6 June 2019. Whether you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to the registered office of the Company at No. 1 Huangsidajie, Chaoyang District, Beijing, 100120, the PRC (in the case of holders of A Shares).

\* *for identification purpose only*

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## DEFINITIONS

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

“AGM”	the 2018 annual general meeting of the Company to be held at 2:30 p.m. on Friday, 28 June 2019 at China Coal Building, No. 1 Huangsidajie, Chaoyang District, Beijing, the PRC
“A Share(s)”	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and traded in Renminbi
“Associate”	has the meaning ascribed to it under the Hong Kong Listing Rules and SSE Listing Rules
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board”	the board of directors of the Company
“China Coal Group” or “Parent”	China National Coal Group Corporation, a state-owned enterprise established under the laws of the PRC and the controlling shareholder of the Company
“Company”	China Coal Energy Company Limited, a joint stock company established under the laws of the PRC with limited liability, the H shares of which are listed on the Hong Kong Stock Exchange under the stock code of 01898 and the A shares of which are listed on the Shanghai Stock Exchange under the stock code of 601898
“Debt Financing Instruments”	enterprise bonds, corporate bonds, ultra-short-term financing bonds, short-term financing bonds, medium-term notes, non-public targeted debt financing instruments, project return notes, project return bonds and other domestic and/or overseas debt financing instruments in RMB or foreign currency permitted to be issued by the regulatory authorities (excluding convertible bonds and exchangeable bonds)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“H Share(s)”	the overseas listed foreign share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 Financial Adviser” or “Innovax Capital”	Innovax Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of the annual caps for the transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020, and a licensed corporation registered under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	shareholders of the Company who are not required to abstain from voting on the resolutions to be proposed at the AGM under the Hong Kong Listing Rules
“Latest Practicable Date”	24 April 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Parent Group”	the Parent and its associates (excluding the Group)
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s), including A Shares and H Shares

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## DEFINITIONS

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“Shareholder(s)”	the shareholder(s) of the Company, including holder(s) of H Shares and holder(s) of A Shares
“SSE Listing Rules”	The Rules Governing the Listing of Stocks on Shanghai Stock Exchange (《上海證券交易所股票上市規則》)
“Substantial Shareholders”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“2018 Financial Services Framework Agreement”	a financial services framework agreement dated 27 April 2017 and entered into between Chinacoal Finance and the Parent
“2018 Integrated Materials and Services Mutual Provision Framework Agreement”	an integrated materials and services mutual provision framework agreement dated 27 April 2017 and entered into between the Company and the Parent
“2018 Project Design, Construction and General Contracting Services Framework Agreement”	a project design, construction and general contracting services framework agreement dated 27 April 2017 and entered between the Company and the Parent
“%”	per cent

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## LETTER FROM THE BOARD

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**CHINA COAL ENERGY COMPANY LIMITED\***

**中國中煤能源股份有限公司**

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

**(Stock code: 01898)**

*Executive Directors:*

Li Yanjiang  
Peng Yi  
Niu Jianhua

*Non-executive Directors:*

Du Ji'an  
Zhao Rongzhe  
Xu Qian

*Independent Non-executive Directors:*

Zhang Ke  
Zhang Chengjie  
Leung Chong Shun

*Registered office:*

No. 1 Huangsidajie  
Chaoyang District  
Beijing, 100120  
the PRC

*Principal place of business*

*in Hong Kong:*  
Room 2608, 26th Floor  
Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai  
Hong Kong

29 April 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS – PROPOSED REVISION  
OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018  
INTEGRATED MATERIALS AND SERVICES MUTUAL PROVISION  
FRAMEWORK AGREEMENT, THE 2018 PROJECT DESIGN,  
CONSTRUCTION AND GENERAL CONTRACTING SERVICES  
FRAMEWORK AGREEMENT AND THE 2018 FINANCIAL SERVICES  
FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING  
31 DECEMBER 2020**

**(2) PROPOSED EMOLUMENTS OF THE DIRECTORS OF THE FOURTH  
SESSION OF THE BOARD AND THE SUPERVISORS OF THE FOURTH  
SESSION OF THE SUPERVISORY COMMITTEE FOR THE YEAR OF 2019**

**(3) GENERAL MANDATE TO ISSUE DEBT FINANCING INSTRUMENTS**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 23 April 2019 in relation to the proposed revision of the annual caps for the transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with all the information regarding, among other matters, (i) the proposed revision of the annual caps for the transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020; (ii) the proposed emoluments of the Directors of the fourth session of the Board and the Supervisors of the fourth session of the Supervisory Committee for the year of 2019; (iii) general mandate to issue Debt Financing Instrument; and (iv) a notice convening the AGM, so as to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM.

### **II. PROPOSED REVISION OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018 INTEGRATED MATERIALS AND SERVICES MUTUAL PROVISION FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2020**

#### **i. Introduction of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement**

**Date:** 27 April 2017

**Parties:** (i) the Company  
(ii) the Parent

**Continuing transactions** Pursuant to the 2018 Integrated Materials and Services Mutual Provision Framework Agreement,

- (i) the Parent Group shall supply the Group (1) production materials and ancillary services, including raw materials, auxiliary materials, transportation, loading and unloading services, electricity and heat supplies, equipment maintenance and leasing, labour contracting and others; and (2) social and support services including staff training, medical services and emergence rescues, communication, property management services and others; and

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## LETTER FROM THE BOARD

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- (ii) the Group shall supply the Parent Group (1) production materials and ancillary services, among others, including coal, coal mining facilities, raw materials, auxiliary materials, electricity and heat supplies, transportation, loading and unloading services, equipment maintenance and leasing, labour contracting and others; and (2) exclusive coal export-related services including organizing product supplies, performing coal blending, coordinating logistics and transportation, provision of port related services, arranging inspection and quality verification and providing services relating to product delivery.

**Term and termination**

The 2018 Integrated Materials and Services Mutual Provision Framework Agreement is for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. Upon expiry, the 2018 Integrated Materials and Services Mutual Provision Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and agreement of the parties, be renewed for a further term of three years.

**Price determination**

Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the prices will be based on the following pricing policy and order:

- (i) as for the bulk equipment and raw materials, the price will be arrived by bidding process in principle;
- (ii) where no bidding process is involved, the price shall be in accordance with the relevant market price; and
- (iii) where comparable market price rate is unavailable, agreed price shall be adopted. Agreed price is determined with reference to reasonable costs plus a reasonable profit margin.



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## LETTER FROM THE BOARD

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The details of the above pricing policies are as follows:

- (i) Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the price of bulk equipment and raw materials shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules, which applies to the vast majority of the procurement and sales of bulk equipment and raw materials under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.

As for the bulk equipment and raw materials provided by the Parent Group to the Group, the Group shall stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) during the bidding process. The Group has stipulated the internal manual regarding the management of relevant bulk equipment and raw materials bidding process.

The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the technical and quality requirements of bulk equipment and raw materials, the criteria for examination of the suppliers, the requirements for the bid price and the standard of evaluation of the bid and so on. The Group's bid evaluation committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》); (ii) reviewing, evaluating and monitoring documents from external suppliers based on the technical, commercial and pricing criteria and payment terms in respect of raw materials, infrastructural projects and coal mining facilities, which will ensure the terms obtained by the Group from the Parent Group is no less favorable than those available from independent third parties; and (iii) grading the external suppliers and writing recommendation advice. The Group's bid office is responsible for deciding which bulk equipment and raw materials suppliers will be awarded the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.

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## LETTER FROM THE BOARD

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As for the bulk equipment and raw materials provided by the Group to the Parent Group, the Group shall strictly comply with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) and all the essential requirements set out in the bid invitation of the Parent Group during the bidding process. In preparing for the submission of a tender, tender review meeting of the relevant subsidiary of the Group will be held to perform a thorough analysis of the project management guidelines, the collection of cost and other essential data. In pricing a tender, the relevant department of the Group will also make references to recent project quotations and related market information. For example, in respect of coal mining equipment, the Group generally refers to the market volatility of the recent transaction price of the Group's project, the production cost of raw materials, labor and other expenses since the date of the recent transaction, the fair and reasonable profit rate, and the price of similar equipment of the comparable enterprise in the same industry. The procedures above can ensure that the tender price to be offered by the Group are fair and reasonable and no more favorable than the price and terms offered by the Group to the independent third parties.

- (ii) Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the price of coal shall be determined in accordance with the relevant market price, and taking into account of the quality of the coal and different types of delivery. The coal price is determined by mutual agreement with reference to the regional market price of thermal coal, the Bohai-Rim Steam-Coal Sea Price Index, the China Coal Price Index from China Coal Transportation and Distribution Association and the Thermal Coal Price Index from [sxcoal.com](http://sxcoal.com), and is adjusted monthly according to the changes in the indexes.

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## LETTER FROM THE BOARD

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- (iii) Where comparable market price rate is unavailable, the prices shall be determined after arm's length negotiation by both parties of the contract based on the principle of cost plus a fair and reasonable profit rate, which applies to the services and procurement and sales of bulk equipment and raw materials at comparatively small amount under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement. The cost includes the price of the raw materials, labour cost, manufacturing expense and so on. The expected range of profit of the products and services provided by the Parent Group to the Group is from 1% to 10% which is in line with the industry and not higher than the profit rate charged to independent third parties; and the expected range of profit of the products and services provided by the Group to the Parent Group is from 1% to 10%, which is line with the industry and not lower than the profit rate charged to independent third parties.

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## LETTER FROM THE BOARD

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As for the mutual provision of raw materials and ancillary materials between the Parent Group and the Group, the payment shall be implemented by instalments according to the time nodes or other methods agreed by the parties. In this regard, the Parent Group and the Group mainly adopt the payment mode of cash on delivery, namely one-time acceptance check and payment for on-time delivery, and batch acceptance check and payment for batch delivery. As for the social and support services provided by the Parent Group to the Group, the account shall be settled with and paid to the Parent Group according to the actual usage of each month. As for the coal mine facilities provided by the Group to the Parent Group, the payment shall be made by the Parent Group by instalments according to the time nodes or other methods agreed by the parties. In this regard, the Parent Group mainly adopts the payment mode of cash on delivery, namely one-time acceptance check and payment for on-time delivery, and batch acceptance check and payment for batch delivery. The purchase prices under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement shall be paid by cash or other methods agreed by the parties (usually paid by cash). The purchase prices and service fees under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement are payable in accordance with the agreed payment terms stipulated in the specific implementation agreements. The payment terms of such implementation agreements shall be within the ambit of the payment terms in the 2018 Integrated Materials and Services Mutual Provision Framework Agreement and will remain unchanged once signed by the parties. From the date of the 2018 Integrated Materials and Services Mutual Supply Framework Agreement to the Latest Practicable Date, the payment terms in all the implementation agreements under the 2018 Integrated Materials and Services Mutual Supply Framework Agreement have complied with the above requirements.

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## LETTER FROM THE BOARD

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### **ii. Reasons for Entering into the 2018 Integrated Materials and Services Mutual Provision Framework Agreement**

The Company is of the view that the 2018 Integrated Materials and Services Mutual Provision Framework Agreement enables (i) the Group to secure a stable source of the materials and services from the Parent Group in its ordinary course of business at market prices; and (ii) the Group to have a stable customer of the relevant materials and services of the Group in its ordinary course of business at market prices.

### **iii. Implementation Agreements**

Members of the Group and members of the Parent Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement during the term thereof. Each implementation agreement will set out the relevant materials and services supplied, and the specifications, quantities, prices and other relevant terms thereof.

As the implementation agreements provide for the mutual supply of materials and services as contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement and the relevant annual caps, and if exceed, the Company will comply with the relevant Hong Kong Listing Rules accordingly.

### **iv. Internal Control Measures**

- (a) In determining the prices of the bulk equipment and raw materials to be procured by the Group from the Parent Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the relevant members of the Company is responsible for composing bid invitation documents encompassing all substantial requirements and all key terms for the conclusion of contracts, including the technical and quality requirements of bulk equipment and raw materials, the criteria for examination of the suppliers, requirements for the bid price and the standard of evaluation of the bid and so on, subject to the examination of the purchase centre of the Company and will be reviewed by pricing committee of the Company to ensure that the price is fair and reasonable, on normal commercial terms, as well as no less favorable to the Group than terms available to or from independent third parties, and is subject to the final approval by the bid determination committee of the Company;

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## LETTER FROM THE BOARD

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The purchase centre of the Company is responsible for monitoring, collecting and evaluating the market prices of relevant equipment and raw materials with the same specifications and similar functions, including but not limited to the prevailing and then market prices of the comparable prices of relevant industries, on a regular basis. Under the circumstances such as the prices of the relevant equipment and raw materials fluctuate, the purchase centre of the Company will put forward the proposal of price adjustment, which is subject to the final approval of the bid determination committee of the Company to ensure that the price is fair and reasonable, on normal commercial terms, as well as no less favorable to the Group than terms available to or from independent third parties;

- (b) The financial department and the securities affairs department of the Company is responsible for monitoring, collecting and evaluating the detailed information of the continuing connected transactions of the Group, including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the specific implementation agreements on a monthly basis to ensure no applicable caps are exceeded;
- (c) The Group will implement, amend and improve the relevant monitoring mechanism and the requirements pursuant to its connected transaction management rules and internal monitoring measures to ensure the Group's compliance with the pricing policies in respect of the continuing connected transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement; From the date of the signing of 2018 Integrated Materials and Services Mutual Supply Framework Agreement to the Latest Practicable Date, the Group has been implementing the above-mentioned monitoring mechanisms and regulations and has revised and improved the above monitoring mechanism based on internal audit and external audit evaluation, internal control measures evaluation, and results of specific inspection conducted by relevant departments of the Group;
- (d) The independent non-executive Directors will review the continuing connected transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement to ensure that such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the related agreements are fair and reasonable, and in the interest of the Group and the Shareholders as a whole; and
- (e) The auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

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## LETTER FROM THE BOARD

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### v. Revision of the Annual Caps for the Two Years Ending 31 December 2020

The Board proposed to revise the annual caps of the continuing connected transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020. The revision of the annual caps regarding the provision of the materials and ancillary services and of the social and support services to the Parent Group by the Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020 is subject to the approval of Board, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Please refer to the announcement of the Company dated 23 April 2019 for details.

#### *Original Annual Caps for the Three Years Ending 31 December 2020*

The original annual caps for provision of the materials and ancillary services and of the social and support services to the Group by the Parent Group contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the three years ending 31 December 2020 are set out below:

<b>Transactions</b>	<b>Year ended 31 December 2018 (RMB)</b>	<b>Year ending 31 December 2019 (RMB)</b>	<b>Year ending 31 December 2020 (RMB)</b>
Provision of materials and ancillary services and of the social and support services to the Group by the Parent Group	4,200,000,000	4,200,000,000	4,450,000,000

#### *Actual Transaction Value for the Year Ended 31 December 2018*

The actual transaction value of the provision of the materials and ancillary services and of the social and support services to the Group by the Parent Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the year ended 31 December 2018 is set out below:

<b>Historical Transaction Value</b>	<b>Year ended 31 December 2018 (RMB)</b>
Provision of the materials and ancillary services and of the social and support services to the Group by the Parent Group	4,179,000,000

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## LETTER FROM THE BOARD

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The Directors have been monitoring the transaction amount contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement. For the year ended 31 December 2018 and as at the Latest Practicable Date, the annual caps for the continuing connected transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the year ended 31 December 2018 and for the year ending 31 December 2019 have not been exceeded.

### *Revision of the Annual Caps for the Two Years Ending 31 December 2020*

The revised annual caps regarding the provision of the materials and ancillary services and of the social and support services to the Group by the Parent Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020 are set out as below:

<b>Revised Annual Caps</b>	<b>Year ending</b>	<b>Year ending</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2019</b>	<b>2020</b>
	<i>(RMB)</i>	<i>(RMB)</i>
Provision of materials and ancillary services and of the social and support services to the Group by the Parent Group	5,900,000,000	6,100,000,000

### **vi. Reasons for the Revision of the Annual Caps for the Two Years Ending 31 December 2020**

In arriving at the above-mentioned revised annual caps in respect of the provision of materials and ancillary services and of the social and support services to the Group by the Parent Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the Directors have taken into account the following factors:

- (i) In 2018, the actual amount of the provision of materials and ancillary services and of the social and support services to the Group by the Parent Group was RMB4,179,000,000, while the 2018 annual cap under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement is RMB4,200,000,000. Therefore, the utilisation rate of the annual cap for 2018 reached 99.5%.
- (ii) In 2018, the overall performance of the Group remained positive with increase in sales revenue, profit from operations and net cash as compared with 2017. In 2019, the Group planned to increase the sales volume of self-produced commercial coal to 89.50 million tonnes, representing an increase of 12.37 million tonnes from the actual sales volume of 2018, which objectively increases the demands of the Group for the ancillary services and of the social and support services provided by the Parent Group.



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## LETTER FROM THE BOARD

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- (iii) The Group will vigorously push forward low calorific value coal and pit-mouth power generation projects. Unit#1 and Unit#2 of the 2×350MW thermal power project in Shanghai Energy were successively put into operation. This resulted in the increase in the number of continuing connected transactions in relation to the Group's procurement of coal from the Parent Group necessary for production and in relation to the mine water, intermediate water treatment as well as inspection and examination services provided by the Parent Group. The total budget quota for these continuing connected transactions in 2019 and 2020 is RMB1.02 billion and 860 million, respectively. The Group's procurement of coal from the Parent Group for the thermal power project is based on the overall consideration that the Parent Group provides the specific type of coal matching the thermal power project, the coal mines of the Parent Group are geographically adjacent to the thermal power project, which could save freight cost and that the Parent Group ensures stable supply of coal on market price which is no less favorable than those available from independent third parties; Muduchaideng Coal Mine and Nalin River No.2 Coal Mine have been put into operation, and other projects including Xiaohuigou Coal Mine will soon be put into operation. This resulted in the increase in the ancillary services including materials for mining and labour outsourcing as well as the arising of new continuing connected transactions in relation to the provision of underground engineering services including comprehensive mining and advancing by the Parent Group. The total budget quota for these continuing connected transactions in 2019 and 2020 is RMB590 million and RMB760 million, respectively.
- (iv) The Group proactively pushed forward the reform measures including the optimisation of resource allocation as well as business reorganization and consolidation. In October 2017, China Coal Pingshuo Group Company Limited and China National Coal Mining Equipment Company Limited, subsidiaries of the Company, made capital contribution to Pingshuo Industrial Group Company Limited, a subsidiary of the Parent, by way of asset, equity interest and debt. Following the completion of the capital contribution, Shanxi China Coal Pingshuo Explosion Equipment Company Limited (山西中煤平朔爆破器材有限公司) became a subsidiary of Pingshuo Industrial Group Company Limited. The provision of blasting services by Shanxi China Coal Pingshuo Explosion Equipment Company Limited to the Group constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules, and is included into the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.
- (v) A buffer is provided to the revised annual cap for the possible increase of demand of the Group for materials and ancillary services and of the social and support services provided by the Parent Group.

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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) are of the view that the revision of the annual caps for the continuing connected transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020 is fair and reasonable, in the ordinary and usual course of business of the Company, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

### **III. PROPOSED REVISION OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018 PROJECT DESIGN, CONSTRUCTION AND GENERAL CONTRACTING SERVICES FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2020**

#### **i. Introduction of the 2018 Project Design, Construction and General Contracting Services Framework Agreement**

**Date:** 27 April 2017

**Parties:** (i) the Company  
(ii) the Parent

**Continuing transactions** Pursuant to the 2018 Project Design, Construction and General Contracting Services Framework Agreement, the Parent Group has agreed to provide project design, construction and general contracting services to the Group, and to undertake projects sub-contracted by the Group.

**Term and termination** The 2018 Project Design, Construction and General Contracting Services Framework Agreement is for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. Upon expiry, the 2018 Project Design, Construction and General Contracting Services Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and agreement of the parties, be renewed for a further term of three years.

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## LETTER FROM THE BOARD

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### **Price determination**

Under the 2018 Project Design, Construction and General Contracting Services Framework Agreement, the service provider and the price of project design, construction and general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The Parent Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) and the specific requirements in bidding invitation documents made by the Group.

The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project's technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and so on. The Group's bid evaluation committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》); (ii) reviewing, evaluating and monitoring documents from outsourcing suppliers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the Parent Group is no less favorable than those available from independent third parties; and (iii) grading the service providers and writing recommendation advice. The Group's bid office is responsible for deciding which service provider will be awarded the 2018 Project Design, Construction and General Contracting Services Framework Agreement.

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## LETTER FROM THE BOARD

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As for the project design services provided by the Parent Group to the Group, the payment shall be made by the Group by installments in accordance with the time nodes or other methods agreed by the parties. If the Parent Group provides the engineering design results at one time, payment will be paid at one time according to the acceptance check result, and if the Parent Group provides the engineering design results in stages, payment will be paid in installments according to the staged acceptance check results. As for the construction services provided by the Parent Group to the Group, the payment shall be implemented by installments in accordance with the progress of projects or other methods agreed by the parties. In this regard, the Group generally pays in installments after acceptance check of the construction progress. As for the general contracting services provided by the Parent Group to the Group, the payment shall be made by the Group by installments according to the time nodes of design, procurement and construction or other methods agreed by the parties. Among which, the procurement is paid in accordance with the principal of cash on delivery, namely one-time acceptance check and payment for on-time delivery, and batch acceptance check and payment for batch delivery; design and construction payment method is consistent with that of engineering design services and construction services provided by the Parent Group to the Group. The purchase prices under the 2018 Project Design, Construction and General Contracting Services Framework Agreement shall be paid in cash or other methods agreed by the parties (usually paid in cash). The service fees under the 2018 Project Design, Construction and General Contracting Services Framework Agreement are payable in accordance with the agreed payment terms stipulated in the specific implementation agreements. The payment terms of such implementation agreements shall be within the ambit of the payment terms in the 2018 Project Design, Construction and General Contracting Services Framework Agreement and will remain unchanged once signed by the parties. From the date of the 2018 Project Design, Construction and General Contracting Services Framework Agreement to the Latest Practicable Date, the payment terms in all the implementation agreements under the 2018 Project Design, Construction and General Contracting Services Framework Agreement have complied with the above requirements.

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## LETTER FROM THE BOARD

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### **ii. Reasons for Entering into 2018 Project Design, Construction And General Contracting Services Framework Agreement**

The Company is of the view that the 2018 Project Design, Construction and General Contracting Services Framework Agreement enables the Group to secure a stable source of project design, construction and general contracting services from the Parent Group for the Group's construction projects in its ordinary course of business at market prices.

### **iii. Implementation Agreements**

Members of the Group and members of the Parent Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement during the term thereof. Each implementation agreement will set out the relevant general contracting services supplied, and the specifications, prices and other relevant terms thereof.

As the implementation agreements provide for the supply of general contracting services as contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the relevant annual caps, and if exceed, the Company will comply with the relevant Hong Kong Listing Rules accordingly.

### **iv. Internal Control Measures**

- (a) In determining the prices of the project design, construction and general contracting services under the 2018 Project Design, Construction and General Contracting Services Framework Agreement the relevant members of the Group is responsible for composing bid invitation documents encompassing all substantial requirements and all key terms for the conclusion of contracts, including project technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and so on, subject to the preliminary review of the department of infrastructure management of the Company, which will be reviewed by pricing committee of the Company to ensure that the terms of the relevant bid invitation documents are compliant with applicable laws, regulations and rules, subject to the final approval by the bid determination committee of the Company;
- (b) The department of infrastructure management of the Group is responsible for monitoring, collecting and evaluating the prices of coal mine infrastructure construction project services in the relevant areas on a regular basis to ensure that the price is fair and reasonable, on normal commercial terms, as well as no less favorable to the Group than terms available to or from independent third parties;

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## LETTER FROM THE BOARD

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- (c) The financial department and the securities affairs department of the Company is responsible for monitoring, collecting and evaluating the detailed information of the continuing connected transactions of the Group, including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the specific implementation agreements on a monthly basis to ensure no applicable caps are exceeded;
- (d) The Group will implement, amend and improve the relevant monitoring mechanism and the requirements pursuant to its connected transaction management rules and internal monitoring measures to ensure the Group's compliance with the pricing policies in respect of the continuing connected transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement;
- (e) The independent non-executive Directors will review the continuing connected transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement to ensure that such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the related agreements are fair and reasonable, and in the interest of the Group and the Shareholders as a whole; and
- (f) The auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.
- v. **Revision of the Annual Caps for the Two Years Ending 31 December 2020**

*Original Annual Caps for the Three Years Ending 31 December 2020*

The original annual caps for the transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the three years ending 31 December 2020 are set out below:

<b>Transactions</b>	<b>Year ended 31 December 2018 (RMB)</b>	<b>Year ending 31 December 2019 (RMB)</b>	<b>Year ending 31 December 2020 (RMB)</b>
Provision of project design, construction and general contracting services to the Group by the Parent Group	6,050,000,000	3,500,000,000	1,850,000,000

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## LETTER FROM THE BOARD

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### *Actual Transaction Value for the Year Ended 31 December 2018*

The actual transaction values of the transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the year ended 31 December 2018 is set out below:

<b>Historical Transaction Value</b>	<b>Year ended 31 December 2018 (RMB)</b>
Provision of project design, construction and general contracting services to the Group by the Parent Group	2,054,000,000

The Directors have been monitoring the transaction amount contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement. For the year ended 31 December 2018 and as at the Latest Practicable Date, the annual caps for the continuing connected transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the year ended 31 December 2018 and for the year ending 31 December 2019 have not been exceeded.

### *Revision of the Annual Caps for the Two Years Ending 31 December 2020*

The revised annual caps regarding the project design, construction and general contracting services to the Group by the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the two years ending 31 December 2020 are set out as below:

<b>Revised Annual Caps</b>	<b>Year ending 31 December 2019 (RMB)</b>	<b>Year ending 31 December 2020 (RMB)</b>
Provision of project design, construction and general contracting services to the Group by the Parent Group	4,200,000,000	5,500,000,000

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## LETTER FROM THE BOARD

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### vi. Reasons for the Revision of the Annual Caps for the Two Years Ending 31 December 2020

In arriving at the above-mentioned revised annual caps in respect of the provision of project design, construction and general contracting services to the Group by the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement, the Directors have taken into account the following factors:

- (i) The Group will adhere to the established strategic objectives and will proactively commence the construction of the Technological Transformation Project of Annual Methanol Output of 1 Million Tonnes from Synthetic Gas as well as the closeout of remaining construction, reconstruction and extension of certain mines. This resulted in new construction projects such as EPC general contracting services for utility facilities of methanol projects, mine construction and renovation, and general contracting projects for coal preparation plants. Related constructions of such new construction projects have been confirmed to be undertaken by Parent Group by way of public tender, resulting in an increase of RMB1.28 billion and RMB800 million in project design and general contracting services provided by Parent Group to the Group under 2018 Project Design, Construction and General Contracting Framework Agreement respectively in 2019 and 2020.
- (ii) In the early stage of the construction projects of the Group, there is uncertainty with respect to the government approval process. Due to delay in the process of project formalities, the originally scheduled commencement of the construction of certain projects of Dahaize Coal Mine undertaken by the Parent Group was postponed, resulting in a decrease of RMB850 million and an increase of RMB2.36 billion in the project design, construction and general contracting services provided by the Parent Group to the Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement respectively in 2019 and in 2020.
- (iii) The Group proactively pushed forward reform measures including optimization of resource allocation as well as business reorganization and consolidation. In 2018, China Coal Huajin Company acquired 100% equity interest in Jincheng Investment Company from the Parent Group. Jincheng Investment Company and its subsidiaries, Jincheng Energy Company (晉城能源公司) and Jincheng Thermal Power Company (晉城熱電公司) became indirect subsidiaries of the Company. The undertaken construction projects between Jincheng Investment Company together with its subsidiaries and the Parent Group constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules, and were included into the 2018 Project Design, Construction and General Contracting Services Framework Agreement for management. The total budget quota for these new continuing connected transactions in 2019 and 2020 is RMB270 million and RMB430 million, respectively.



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## LETTER FROM THE BOARD

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- (iv) A buffer is provided to the revised annual cap for the possible increase of demand of the Group for project design, construction and general contracting services provided by the Parent Group.

The Directors (including the independent non-executive Directors) are of the view that the revision of the annual caps for the continuing connected transactions under the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the two years ending 31 December 2020 is fair and reasonable, in the ordinary and usual course of business of the Company, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

#### **IV. PROPOSED REVISION OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2020**

##### **i. Introduction of the 2018 Financial Services Framework Agreement**

**Date:** 27 April 2017

**Parties:** (i) Chinacoal Finance  
(ii) the Parent

**Continuing transactions** Pursuant to the 2018 Financial Services Framework Agreement, Chinacoal Finance has agreed to provide the following financial services to the Parent Group, including:

- (i) providing financial and financing consultation, credit appraisal and relevant advice and agency services;
- (ii) providing assistance in receiving transaction proceeds to the Parent Group;
- (iii) providing insurance agency services as approved to the Parent Group;
- (iv) providing entrusted loans among the Parent Group;
- (v) providing bill acceptance and discount services to the Parent Group;
- (vi) providing internal transfer and settlement and corresponding settlement and clearing planning services among the Parent Group;

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## LETTER FROM THE BOARD

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- (vii) accepting deposits from the Parent Group;
- (viii) providing loans and finance leasing to the Parent Group; and
- (ix) other services approved by the CBRC.

**Term and termination**

The 2018 Financial Services Framework Agreement is for a term of three years commenced on 1 January 2018 and ending on 31 December 2020. Upon expiry, the 2018 Financial Services Framework Agreement shall be automatically renewed for a further term of three years, subject to the compliance with the relevant regulatory requirements such as the listing rules where the Company is listed and the agreement of the parties.

**Price determination**

The pricing principles of the financial services to be provided by Chinacoal Finance to the Parent Group are as follows:

- (i) The interest rates for deposits provided to the Parent Group by Chinacoal Finance shall be negotiated on arm's length and by reference to the interest rates provided by normal commercial banks in the PRC for comparable deposits. But in any case, the interest rate for deposits shall not be higher than the upper limit allowed by the PBOC for such type of deposits, or the interest rate provided by Chinacoal Finance to other clients for the same type of deposits, or the interest rate for the same type of deposits provided by normal commercial banks in the PRC to the Parent Group, whichever is lower.
- (ii) The interest rates for loans charged by Chinacoal Finance to the Parent Group shall be negotiated on arm's length and by reference to the interest rates charged by normal commercial banks in the PRC for comparable loans. But in any case, the interest rate for loans shall not be lower than the lowest rates prescribed by the PBOC for such type of loans, or the interest rate charged by Chinacoal Finance to other clients for the same type of loans, or the interest rate for the same type of loans charged by normal commercial banks in the PRC to the Parent Group, whichever is higher.

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## LETTER FROM THE BOARD

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- (iii) The fee standard for other financial services (excluding the deposits and loans as mentioned above) shall be determined by Chinacoal Finance according to the corresponding service fees fixed by the PBOC or the CBRC. If such fixed fee rates are not available, the services fees are negotiated on arm's length and by reference to the fees charged by normal commercial banks in the PRC for comparable financial services. But in any case, the fee standard shall not be lower than the fee standard adopted by normal commercial banks in the PRC for comparable services.

### **Other Principal Terms**

- (i) Chinacoal Finance shall provide deposits services to the Parent Group on normal commercial terms (or better to Chinacoal Finance) where no security over assets of the Group shall be granted in respect of the deposit
- (ii) Maximum daily balance of the loans provided by Chinacoal Finance to the Parent Group shall not be higher than the maximum daily balance of the deposits placed by the Parent Group with Chinacoal Finance.

### **ii. Reasons for Entering into the 2018 Financial Services Framework Agreement**

The Company is of the view that entering into the 2018 Financial Services Framework Agreement will do benefit to strengthen the capital management of the Company, improve the risk management and control capabilities, reduce capital operating costs, improve capital utilization efficiency and expand financing channels, and is in line with the needs of the Company's operations and development. Therefore, the 2018 Financial Services Framework Agreement is in the interests of the Company and its Shareholders as a whole.

### **iii. Implementation Agreements**

Chinacoal Finance and members of the Parent Group and associates of the Parent will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the 2018 Financial Services Framework Agreement during the term thereof. Each implementation agreement will set out the services supplied, payment terms, interests rates, fees and other relevant terms thereof.

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## LETTER FROM THE BOARD

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As the implementation agreements provide for the supply of the relevant services as contemplated under the 2018 Financial Services Framework Agreement, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the 2018 Financial Services Framework Agreement and the relevant annual caps, and if exceed, the Company will comply with the relevant Hong Kong Listing Rules accordingly.

#### **iv. Internal Control Environment and Risk Management Function of Chinacoal Finance**

The interest rates for loans charged by Chinacoal Finance to the Parent Group shall be negotiated on arm's length and by reference to the interest rates charged by normal commercial banks in the PRC for comparable loans. But in any case, the interest rate for loans shall not be lower than the lowest rates prescribed by the PBOC for such type of loans, or the interest rate charged by Chinacoal Finance to other clients for the same type of loans, or the interest rate for the same type of loans charged by normal commercial banks in the PRC to the Parent Group, whichever is higher.

Chinacoal Finance has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations including corporate governance structure, internal rules and policies and standard operation procedures. The following internal controls are in place:

- (a) Different departments and committee, including but not limited to credit management department, risk management department and credit examining committee, have been set up by Chinacoal Finance for maintaining the risk management function and internal control environment. Credit management department conducts pre-loan investigations on loan applications; risk management department examines the risks relevant to the loans; credit examining committee offers examination opinions, and the general manager and the chairman of the board of directors review and approve such applications;
- (b) Pre-loan investigations will be conducted on loan applications by credit management department, which will assess the customers' creditworthiness and the purpose of the loans according to the relevant credit rules of CBRC and PBOC, examine, among others, the amount and term of loans as well as the caps of connected (or related party) transactions, determine the interest rate of each loan based on the lowest rates prescribed by the PBOC to ensure the price determination aforementioned is strictly followed. In case of loans to subsidiaries not wholly-owned by the Group or the Parent Group, a higher interest rate may apply;
- (c) The loan applications will be reviewed by the risk management department, which conducts risk examinations on application and information of loans, with emphasis laid on examinations on credit risks and compliance with Hong Kong Listing Rules including requirements regarding amount, term, interest rate and caps of connected (party) transactions;

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## LETTER FROM THE BOARD

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- (d) The loan applications will then be submitted to the credit examining committee, which consists of five members. The credit examining committee conducts independent, objective and professional analysis on application and information of loans and group deliberation, as well as offers examination opinions;
- (e) The examination opinions on loans from the credit examining committee will be submitted to the general manager and the chairman of the board of directors of Chinacoal Finance for overall review and approval;
- (f) Annual review on the credit worthiness and loan facility of the Parent Group and its associates will be conducted by the credit management department to strengthen operational risk management; and
- (g) Regular internal audit procedures relevant to loans will be conducted by internal audit department to review and inspect the implementation of internal policies and procedures and compliance with internal rules and regulations.

Meanwhile, CBRC performs regular inspections on Chinacoal Finance to check the implementation of their internal control and risk management systems. Since the establishment of Chinacoal Finance, there was no major issue on Chinacoal Finance raised by CBRC.

### **v. Revision of the Annual Caps for the Two Years Ending 31 December 2020**

The Board proposed to revise the annual caps in respect of the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020, while the annual caps in respect of the financial services fees for other financial services provided by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 remain unchanged.

#### ***Original Annual Caps for the Three Years Ending 31 December 2020***

The original annual caps for provision of loans and financial leasing by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the three years ending 31 December 2020 are set out below:

	<b>Year ended 31 December 2018 (RMB)</b>	<b>Year ending 31 December 2019 (RMB)</b>	<b>Year ending 31 December 2020 (RMB)</b>
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the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group	4,500,000,000	5,000,000,000	5,000,000,000
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## LETTER FROM THE BOARD

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### *Actual Transaction Value for the Year Ended 31 December 2018*

The actual transaction values for provision of loans and financial leasing by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the year ended 31 December 2018 is set out below:

<b>Historical Transaction Value</b>	<b>Year ended 31 December 2018 (RMB)</b>
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the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group	4,289,000,000
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The Directors have been monitoring the transaction amount contemplated under the 2018 Financial Services Framework Agreement. For the year ended 31 December 2018 and as at the Latest Practicable Date, the annual caps for the continuing connected transactions contemplated under the 2018 Financial Services Framework Agreement for the year ended 31 December 2018 and for the year ending 31 December 2019 have not been exceeded.

### *Revision of the Annual Caps for the Two Years Ending 31 December 2020*

The revised annual caps for provision of loans and financial leasing by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 are set out as below:

<b>Revised Annual Caps</b>	<b>Year ending 31 December 2019 (RMB)</b>	<b>Year ending 31 December 2020 (RMB)</b>
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the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group	7,500,000,000	8,000,000,000
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## LETTER FROM THE BOARD

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### vi. Reasons for the Revision of the Annual Caps for the Two Years Ending 31 December 2020

In arriving at the above-mentioned revised annual caps in respect of the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement, the Directors have taken into account the following factors:

- (i) In 2018, the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group was RMB4.29 billion, while the 2018 annual cap for the 2018 Financial Services Framework Agreement was RMB4.5 billion. Therefore, the utilisation rate of the annual cap for 2018 reached 95.3%.
- (ii) Since 2018, the deposits of the Parent Group in Chinacoal Finance have increased significantly, while Chinacoal Finance also continued to enhance its centralised management in funds, improve its fund utilisation and increase its interest income; meanwhile, the Parent Group will continue to participate in the consolidation of coal resources of state-owned enterprises, and the existing and other enterprises to be consolidated by the Parent Company will become new members of the Parent Group, and may make deposits at Chinacoal Finance. It is expected that the deposits of the Parent Group in Chinacoal Finance will increase to RMB10.5 billion and RMB12.5 billion in 2019 and 2020 respectively, laying the foundation for increasing the provision of loans by Chinacoal Finance to the Parent Group.
- (iii) With the deepening of the domestic supply-side structural reform, the Parent Company actively pushed forward the optimization and consolidation of coal resources of state-owned coal enterprises, and will continue to strive for the consolidation of coal resources in state-owned enterprises involving in coal businesses and acquisition of companies by way of capital operation, etc. to promote transformation and optimisation of the industrial structure. Such consolidation and reorganisation will increase the Parent Company's demands for loans. Meanwhile, the existing and other enterprises to be consolidated by the Parent Company will become new members of the Parent Group, and they may take loans from Chinacoal Finance for their productional and operational needs. Therefore, it is expected that additional loan demands from the Parent Group in 2019 and 2020 will amount to RMB2.5 billion and RMB2.7 billion respectively.
- (iv) A buffer is provided to the revised annual cap for the possible increase of demand of the Parent Group for the loans and financial leasing from Chinacoal Finance.

The Directors (including the independent non-executive Directors) are of the view that the revision of the annual caps for the continuing connected transactions under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 is fair and reasonable, in the ordinary and usual course of business of the Company, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### V. HONG KONG LISTING RULES IMPLICATIONS

The Parent is the controlling shareholder of the Company and therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated between the Group and the Parent Group constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of the revisions of the annual caps of (i) the provision of the materials and ancillary services and of the social and support services to the Group by the Parent Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, (ii) the continuing connected transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement, and (iii) the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 exceed 5%, they are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A of the Hong Kong Listing Rules.

Meanwhile, as one or more of the applicable percentage ratios in respect of the revision of the annual caps in respect of the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 exceeds 5% but is less than 25%, the transaction also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Directors of the Company, Mr. Li Yanjiang, Mr. Peng Yi, Mr. Du Ji'an and Mr. Zhao Rongzhe, who are also directors or senior management of the Parent, are deemed to have material interests in the revisions of annual caps for the continuing transactions for the two years ending 31 December 2020 under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement, and the 2018 Financial Services Framework Agreement, have abstained from voting from the relevant Board resolutions. Other than those Directors mentioned above, none of the other Directors has a material interest in the above-mentioned revisions of the annual caps.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, there is no other continuing connected transaction entered into between any member of the Group and the Parent Group and its ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement, and the 2018 Financial Services Framework Agreement, aggregated under Rule 14A.81 and/or Rule 14.22 of the Hong Kong Listing Rules.



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## LETTER FROM THE BOARD

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### VI. GENERAL INFORMATION OF THE PARTIES OF THE TRANSACTIONS

#### The Company

The Company is principally engaged in coal production, sales and trading, coal chemical business, coal mining equipment manufacturing and other related operations in China.

#### The Parent

The Parent is a state-owned enterprise established under the laws of the PRC and the controlling shareholder of the Company, holding, directly and indirectly, approximately 58.36% of the issued share capital of the Company as at the Latest Practicable Date. The Parent is principally engaged in coal export, coal bed methane exploitation, coal mine construction and other relevant engineering and technical services.

#### Chinacoal Finance

As at the Latest Practicable Date, Chinacoal Finance is a subsidiary of the Company and is owned as to 91% by the Company and 9% by the Parent.

Chinacoal Finance is principally engaged in providing financial and financing consultation, credit appraisal and relevant advice and agency services to members; assisting members in receiving transaction proceeds; insurance agency services as approved; providing entrusted loans among members; providing bill acceptance and discount services to the members; providing internal transfer and settlement and corresponding settlement and clearing planning services among members; accepting deposits from members; providing loans and financial leasing to the members; and other services in RMB or foreign currency as approved by the CBRC.

### VII. PROPOSED EMOLUMENTS OF THE DIRECTORS OF THE FOURTH SESSION OF THE BOARD AND THE SUPERVISORS OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE FOR THE YEAR OF 2019

Company proposed to pay RMB300,000 to each independent non-executive Director for the year of 2019 (before tax, monthly paid, with income tax withheld, calculated based on the actual time of performance of duty for independent non-executive Directors). Other Directors shall not receive emolument from the Company. The emoluments of the Supervisors shall be paid by the institutions where they work.

The travelling cost incurred by the Directors and Supervisors for their participation in the Board meetings, Supervisory Committee's meetings and general meetings as well as relevant activities organised by the Board and the Supervisory Committee is undertaken by the Company.

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## LETTER FROM THE BOARD

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### VIII. GENERAL MANDATE TO ISSUE DEBT FINANCING INSTRUMENT

On 15 March 2019, the Board resolved to propose to issue the Debt Financing Instruments on an one-off or multi-tranche issuances bases, including but not limited to enterprise bonds, corporate bonds, ultra-short-term financing bonds, short-term financing bonds, medium-term notes, non-public targeted debt financing instruments, project return notes, project return bonds and other domestic and/or overseas debt financing instruments in RMB or foreign currency permitted to be issued by the regulatory authorities (excluding convertible bonds and exchangeable bonds).

**Main terms in respect of the issuance of the Debt Financing Instruments are as follows:**

#### ***1. Issuing Entity, Size of Issuance and Method of Issuance***

The Company or the subsidiaries of the Company will be the issuing entity(ies) of the domestic Debt Financing Instruments, and the Company or the overseas subsidiaries of the Company will be the issuing entity(ies) of the overseas Debt Financing Instruments.

The sizes of the issuances of the domestic and overseas Debt Financing Instruments will be no more than RMB40 billion in aggregate (including RMB40 billion, calculated based on the balance outstanding on the instruments issued and, in the case of an instrument denominated in a foreign currency, based on the median price of the exchange rate announced by the PBOC on the date of such issuance). The specific size of issuance will be determined according to capital needs and market situation under the precondition that the balance to be paid after the issuance of the Debt Financing Instruments be in compliance with relevant laws, regulations and rules of regulatory authorities.

The method of issuance shall be determined in accordance with the market situation before issuing, including one-off or multi-tranche issuance, and public or non-public issuance.

#### ***2. Targets of Issue and Placement Arrangements***

The issue targets of the domestic and overseas Debt Financing Instruments shall be the domestic and overseas investors, respectively, who meet the conditions of subscription. If the Company issues corporate bonds, such instruments may be placed to the Shareholders.

#### ***3. Terms and Types of the Issuance***

The issuance term of the domestic and overseas Debt Financing Instruments shall be no longer than 15 years (including 15 years, but except for the issuances of perpetual bonds). Debt Financing Instruments may be single-term type or a portfolio of types with various terms.

#### ***4. Use of Proceeds***

The proceeds raised from the issuances of the domestic and overseas Debt Financing Instruments will be expected to be used to satisfy the production and operation of the Company and its subsidiaries, including but not limited to repaying the financial institutions' loans, supplementing the current capital and/or making project investments, and for other purposes.

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## LETTER FROM THE BOARD

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### 5. *Valid Period of the Resolutions*

The valid period of the resolutions for the issuances of the Debt Financing Instruments shall be from the date of approval by the Shareholders at the AGM and ending on 31 December 2021. If the Board or the management has resolved to issue or partly issue during the valid period of authorization, and the Company has obtained the approval, permit, enrollment, filing or registration of the issuance from the regulatory authorities in the valid period of the resolution, the Company may complete the relevant issuance during the confirmed valid period of such approval, permit, enrollment, filing or registration.

### **Authorizations for the Issuances of the Debt Financing Instruments**

It is proposed to the Shareholders at the AGM, generally and unconditionally, to authorize the Board and agree the Board to further authorize the management of the Company, with full power and authority to deal with the matters in connection with the issuances of the Debt Financing Instruments (excluding convertible bonds and exchangeable bonds) in accordance with the specific needs of the Company and other capital market conditions in the valid period of the resolutions, including but not limited to:

- i. to decide whether to issue and to determine, modify and adjust the type of issuance, size of issuance, specific term, type and size, detailed terms, conditions and other matters relating to the issuance of the Debt Financing Instruments (including, but not limited to, the issue amount, actual total amount, face value, currency, issue price, interest rate or mechanism for determining the interest rate and whether or not to adjust the interest rate during the duration of the bonds, transfer price, issue place, issue targets, issue timing, term, whether or not to issue in multiple tranches and number of tranches, whether or not to set repurchase, redemption and extension terms, priorities for repayment of creditors, credit rating, security matter, terms and method of repayment of the principal and interests, online and offline issue proportion, specific methods of subscription, whether or not to be listed, where to be listed, specific arrangement of proceeds raised within the scope of use approved by the general meeting, detailed placing arrangements, underwriting arrangements, bonds' listing and all other matters relating to the issuance);
- ii. to carry out all necessary and ancillary actions and procedures relating to the application, issuance, trading and circulation of the Debt Financing Instruments (including, but not limited to, to engage intermediary institutions, handle all approval, enrollment, registration and filing procedures with the relevant regulatory authorities in connection with application, issuance, trading and circulation on behalf of the Company, formulate, sign, execute, revise and complete all necessary documents, contracts/agreements, deeds and other legal documents in connection with application, issuance, trading and circulation, approve, execute and dispatch announcements and circulars relevant to this issuance in accordance with the regulatory rules of the place of listing of the Company as well as make related

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## LETTER FROM THE BOARD

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- disclosure in accordance with applicable laws and regulations, select bonds trustee manager for the issuance, formulate rules for the bondholders' meeting and handle any other matters relating to application, issuance, trading and circulation);
- iii. to approve, confirm and ratify the actions and procedures, if any action or procedure in connection with the issuances of the Debt Financing Instruments as mentioned above had been already taken by the Board or the management of the Company;
  - iv. to make corresponding adjustments to the detailed proposals and other related matters for the issuance of the Debt Financing Instruments in accordance with the comments from the relevant regulatory authorities or then market conditions within the authorities granted at a general meeting, in the case of any change in policies of regulatory authorities in relation to the issuance or any change of market conditions, except where re-voting at a general meeting is required by any relevant laws and regulations and the Articles of Association;
  - v. to determine and handle all relevant matters relating to the trading and circulation of the Debt Financing Instruments upon the completion of the issuance, to formulate, sign, execute, revise and complete all necessary documents, contracts/agreements and deeds in connection with the trading and circulation, and to make related disclosure in accordance with applicable laws and regulations;
  - vi. in the case of issuance of corporate bonds, during duration of the corporate bonds, to determine not to distribute dividends to the Shareholders and make other decisions to safeguard repayment of debts as required under the relevant laws and regulations in the event that the Company expects to fail, or does fail to pay the principal and coupon interests of such bonds as they fall due; and
  - vii. to deal with other matters in relation to the application, issuance, trading and circulation of the domestic and overseas Debt Financing Instruments.

Subject to the aforesaid general mandate to issue Debt Financing Instruments being approved by the Shareholders at the AGM, the issue of Debt Financing Instruments, if materialized, will not be subject to Shareholders' further approval as the Board (or the management of the Company further authorized by the Board) are authorized generally and unconditionally with full power to deal with the matters in connection with the issuances. If the Company contemplates to issue convertible bonds or exchangeable bonds in the future, all applicable requirements of the Hong Kong Listing Rules, the Articles of Association and other applicable laws, regulations as well as regulatory rules will be complied with by the Company as and when appropriate.

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## LETTER FROM THE BOARD

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### IX. ANNUAL GENERAL MEETING

A notice convening the AGM to be held at 2:30 p.m. on Friday, 28 June 2019 at China Coal Building, No. 1 Huangsidajie, Chaoyang District, Beijing, the PRC is set out on pages 82 to 87 of this circular.

As at the Latest Practicable Date, the Parent and its associates, which directly and indirectly, hold 7,605,207,608 shares of the Company (represent approximately 57.36% of the issued share capital of the Company), control or are entitled to control over the voting right in respect of their shares in the Company. Therefore, the Parent and its associates will abstain from voting in respect of the resolution in relation of the revisions of the annual caps of the continuing connected transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement, and the 2018 Financial Services Framework Agreement at the AGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as the Parent and its associates, no Shareholder has a material interest in the resolution in respect of the revisions of the annual caps of the continuing connected transactions under the above-mentioned framework agreements or should be required to abstain from voting on the resolutions at the AGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the other resolutions or should be required to abstain from voting on such resolutions at the AGM.

In order to determine the list of Shareholders who are entitled to attend the AGM, the registers of holders of H Shares will be closed from Wednesday, 29 May 2019 to Friday, 28 June 2019 (both days inclusive), during which period no transfer of H Shares will be effected. Holders of the H Shares whose names appear on the register of members on Wednesday, 29 May 2019 are entitled to attend the meeting. In order to attend and vote at the meeting, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant Share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:30 p.m. on Tuesday, 28 May 2019. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

If you intend to appoint a proxy to attend the AGM, you are required to complete and return the proxy form in accordance with the instructions printed thereon. The proxy form should be returned to Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of holders of H Shares); or to the registered office of the Company at No. 1 Huangsidajie, Chaoyang District, Beijing, 100120, the PRC (in the case of holders of A Shares)

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## LETTER FROM THE BOARD

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in person or by post not less than 24 hours before the time stipulated for convening the AGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending in person and voting at the AGM or at any adjourned meeting if you so wish.

Whether you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of holders of H Shares) on or before Thursday, 6 June 2019. Whether you intend to attend the AGM in person or by proxy, you are required to complete and return the reply slip to the registered office of the Company at No. 1 Huangsidajie, Chaoyang District, Beijing, 100120, the PRC (in the case of holders of A Shares).

### **X. RECOMMENDATION**

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the revisions of the annual caps of the continuing connected transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement; and (ii) the letter from the Independent Financial Advisor set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to such revisions of annual caps and the principal factors and reasons taken into account by the Independent Financial Advisor in arriving at its advice.

The Directors (including the independent non-executive Directors) are of the view that the terms of the revisions of the annual caps of the continuing connected transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020, (i) have been negotiated on an arm's length basis; (ii) will be conducted on normal commercial terms, or on terms no less favorable than those available from or to independent third parties; (iii) are entered into in the ordinary and usual course of business of the Group; (iv) are fair and reasonable and in the interests of Company and the Shareholders as a whole; and (v) that such revision of annual caps is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, the Board recommends the Independent Shareholders to vote in favor of the resolutions to be proposed at the AGM in relation to revision of the annual caps of the continuing connected transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement.

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## LETTER FROM THE BOARD

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The Directors also believe that the other resolutions to be proposed at the AGM are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favor of such resolutions at the AGM.

Yours faithfully,

By order of the Board

**China Coal Energy Company Limited**

**Li Yanjiang**

*Chairman of the Board, Executive Director*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**CHINA COAL ENERGY COMPANY LIMITED\***

**中國中煤能源股份有限公司**

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

**(Stock code: 01898)**

*Independent Board Committee:*

Zhang Ke

Zhang Chengjie

Leung Chong Shun

29 April 2019

*To the Independent Shareholders*

Dear Sir and Madam,

**CONTINUING CONNECTED TRANSACTIONS – PROPOSED REVISION  
OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018  
INTEGRATED MATERIALS AND SERVICES MUTUAL PROVISION  
FRAMEWORK AGREEMENT, THE 2018 PROJECT DESIGN,  
CONSTRUCTION AND GENERAL CONTRACTING SERVICES  
FRAMEWORK AGREEMENT AND THE 2018 FINANCIAL SERVICES  
FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING  
31 DECEMBER 2020**

We refer to the circular of the Company dated 29 April 2019 (the “Circular”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, the revisions of the annual caps of the continuing connected transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 (the “Revisions”) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Innovax Capital Limited has been appointed by the Board as the Independent Financial Advisor to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the Revisions. Details of the advice from Innovax Capital Limited, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 40 to 77 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 37 of the Circular and the additional information set out in the Appendix to the Circular.

Having considered the Revisions, the interests of the Independent Shareholders and the advice of Innovax Capital Limited, we are of the opinion that the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement, and the 2018 Financial Services Framework Agreement were entered into in the ordinary and usual course of business of the Group, and the terms and conditions of the above-mentioned framework agreements as well as the Revisions are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the AGM so as to approve the Revisions.

Your faithfully,

The Independent Board Committee

**Zhang Ke**

**Zhang Chengjie**

**Leung Chong Shun**

*Independent non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*The following is the full text of the letter of advice from Innovax Capital Limited to the Independent Board Committee and the Independent Shareholders, for the purpose of incorporation into this circular.*

29 April 2019

*To the Independent Board Committee and the Independent Shareholders of China Coal Energy Company Limited*

*Dear Sirs,*

**CONTINUING CONNECTED TRANSACTIONS – PROPOSED REVISION  
OF THE ANNUAL CAPS FOR THE TRANSACTIONS UNDER THE 2018  
INTEGRATED MATERIALS AND SERVICES MUTUAL PROVISION  
FRAMEWORK AGREEMENT, THE 2018 PROJECT DESIGN,  
CONSTRUCTION AND GENERAL CONTRACTING SERVICES  
FRAMEWORK AGREEMENT AND THE 2018 FINANCIAL SERVICES  
FRAMEWORK AGREEMENT FOR THE TWO YEARS ENDING  
31 DECEMBER 2020**

### INTRODUCTION

We refer to our engagement as the independent financial adviser (“**IFA**”) to the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of the annual caps for the transactions under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020 (collectively, “**Revision of Annual Caps**” or “**Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 29 April 2019 issued by the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the circular dated 11 May 2017 of the Company in relation to the continuing connected transactions of the Company as contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the 2018 Project Design, Construction and General Contracting Services Framework Agreement and the 2018 Financial Services Framework Agreement (collectively, “**CCT Agreements**”). As set out in the announcement dated 23 April 2019, the Group and the Parent Group expect that the respective annual transaction amount between the Group and the Parent Group for the two years ending 31 December 2020 will exceed the existing annual caps under the CCT Agreements (“**Existing Annual Caps**”). Therefore, the Company and the Parent proposed to revise the Existing Annual Caps in order to comply with the relevant requirements under the Hong Kong Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As stated in the Letter from the Board, the Parent is the controlling shareholder of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Revision of Annual Caps constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratios in respect of the Revisions of the Annual Caps exceed 5%, they are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A of the Hong Kong Listing Rules.

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been formed to consider whether the Revision of Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole, and to make recommendations to the Independent Shareholders in respect of the voting on the ordinary resolutions to be proposed at the AGM. We, Innovax Capital Limited, have been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders in this regard.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions. In the last two years, we have not acted as any financial adviser role to the Company. Apart from normal fees paid or payable to us in connection with the current appointment as the IFA, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling shareholders that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the IFA in respect of the Transactions.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management (“**Management**”) of the Company. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We, as the IFA, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

### PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In formulating our view on the Revision of Annual Caps, we have taken into consideration the principal factors and reasons as set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

#### (A) Background of and reasons of the Revision of Annual Caps

##### (1) Information of the Group

The Company is principally engaged in coal production, sales and trading, coal chemical business, coal mining equipment manufacturing and other related operations in China. We set out below a summary of the financials of the Group's (i) audited results for the two years ended 31 December 2017 ("FY2017") and 2018 ("FY2018") extracted from its 2018 annual result announcement (the "2018 Result Announcement"), which were prepared in accordance with IFRS:

	<b>For the year ended 31 December</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>%</i>
Revenue	104,140,066	81,512,560	27.76
Cost of sales	(85,883,001)	(65,906,243)	30.31
Gross profit	18,257,065	15,606,317	16.99
Profit from operations	11,851,574	9,296,079	27.49
Profit for the year	7,472,711	5,418,879	37.90
	<b>As at 31 December</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>%</i>
Non-current assets	209,122,005	202,413,120	3.31
Current assets	55,444,233	49,587,129	11.81
– <i>Restricted bank deposits</i>	3,351,932	2,469,442	35.74
– <i>Term deposits with initial terms of over three months</i>	12,155,112	6,174,311	96.87
– <i>Cash and cash equivalents</i>	8,353,662	10,176,683	(17.91)
Current liabilities	69,107,412	64,139,383	7.75
Non-current liabilities	84,924,529	81,438,432	4.28
Total equity	110,534,297	106,422,434	3.86

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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According to the 2018 Result Announcement, the Group's revenue net of inter-segmental sales increased from approximately RMB81.5 billion in FY2017 to approximately RMB104.1 billion in FY2018, representing an increase of approximately RMB22.6 billion or 27.8%, which was mainly due to the expansion of sales volume and year-on-year increase in selling prices of coal and coal chemical business, as well as a year-on-year increase in the sales volume of coal mining equipment operations due to the firm's grasp of the market recovery opportunities.

Meanwhile, the Group's cost of sales increased from approximately RMB65.9 billion in FY2017 to approximately RMB85.9 billion in FY2018, representing an increase of approximately 30.3%. Among which (i) the costs of materials used and goods traded increased by approximately 48.9% from RMB36.184 billion in FY2017 to approximately RMB53.9 billion in FY2018, representing approximately 62.7% of the cost of sales, which was mainly attributable to the increase in sales volume of proprietary coal trading as a result of the Group's intention of expanding its market shares of coal operations, a year-on-year increase in the production and sales volume of polyolefins, the rise in procurement price of raw materials in coal chemical operations, and a year-on-year increase in the sales volume of coal mining equipment operations; and (ii) outsourced mining engineering cost increased by approximately 31.2% from approximately RMB1.4 billion in FY2017 to approximately RMB1.8 billion in FY2018, which was mainly attributable to the increase in the outsourced mining engineering volume arising from the expanded production and continuous investment by the coal production enterprises of the Group to keep up with the progress in land acquisition and relocation.

In FY2018, the Group's profit from operations increased from approximately RMB9.3 billion in FY2017 to approximately RMB11.9 billion, representing an increase of approximately 27.5%.

Net cash generated from operating activities increased by approximately RMB2.8 billion from approximately RMB17.6 billion in FY2017 to approximately RMB20.4 billion in FY2018. This was mainly attributable to the significant improvement in operating results of the Group and the further refinement of capital management, which led to the significant year-on-year increase in net cash generated from operating activities. The Group's term deposits with initial terms of over three months increased from approximately RMB6.2 billion as at 31 December 2017 to approximately RMB12.2 billion as at 31 December 2018, and such increase was mainly attributable to (i) the significant year-on-year increase in net cash generated from operating activities and (ii) more cash and cash equivalents were set aside for term deposits in order to improve capital utilization efficiency.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *(2) Business relationship between the Group and the Parent Group*

As stated in the Company's prospectus ("**Prospectus**") dated 6 December 2006, the Company underwent the restructuring ("**Restructuring**") in preparation for the listing ("**Listing**") of the Company's H shares on the Hong Kong Stock Exchange. Under the Restructuring, the Parent Group transferred to the Company substantially all of the assets, liabilities and interests of its coal operations, coking operations, coal mine equipment manufacturing operations and other operations in exchange for the Shares.

However, upon the completion of the Restructuring and up to the Latest Practicable Date, the Parent Group have retained certain businesses and their related assets, liabilities and interests, which include but not limited to:

1. certain assets and businesses which may supply (i) production materials and ancillary services; and (ii) social and support services to the Group from time to time;
2. certain ancillary businesses which may purchase (i) production materials and ancillary services; and (ii) the coal export-related services from the Group from time to time; and
3. certain ancillary coal mine infrastructure construction operations which may provide mining design services and general contracting services to the Group from time to time.

In order to (i) secure a stable source of the materials and services from the Parent Group in its ordinary course of business at market prices; and (ii) enables the Group to secure a stable source of project design, construction and general contracting services from the Parent Group for the Group's construction projects in its ordinary course of business at market prices, the Group entered into (i) integrated materials and services mutual provision framework agreement; and (ii) project design, construction and general contracting services framework agreement with the Parent Group after the Listing. Transactions contemplated under these two framework agreements constituted non-exempted connected transactions to the Group, and such two framework agreements was approved and renewed by the then Independent Shareholders at the previous shareholders' meetings.

In October 2014, Chinacoal Finance (non-wholly owned subsidiary of the Company) entered into the financial services framework agreement with the Parent. Transactions contemplated under the above framework agreement constituted non-exempted connected transactions to the Group, and it was approved and renewed by the then Independent Shareholders at the previous shareholders' meetings.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As advised by the Management; it is considered that the CCT Agreements have the following benefits to the Group:

- Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, it enables (i) the Group to secure a stable source of the materials and services from the Parent Group in its ordinary course of business at market prices; and (ii) the Group to have a stable customer of the relevant materials and services of the Group in its ordinary course of business at market prices;
- Under the 2018 Project Design, Construction and General Contracting Services Framework Agreement, it enables the Group to secure a stable source of project design, construction and general contracting services from the Parent Group for the Group's construction projects in its ordinary course of business at market prices; and
- Under the 2018 Financial Services Framework Agreement, it strengthen the capital management of the Company, improve the risk management and control capabilities, reduce capital operating costs, improve capital utilization efficiency and expand financing channels, and is in line with the needs of the Company's operations and development.

In light of the above, and the Revision of the Annual Caps is to ensure continuation of the existing business transactions between the Group and the Parent Group in order to comply with the relevant requirements under the Hong Kong Listing Rules, we concur with the Directors' view that the Revision of the Annual Caps is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

The Board proposed to revise the annual caps under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020. The revision of the annual caps regarding the provision of the materials and ancillary services and of the social and support services to the Parent Group by the Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020 is subject to the approval of Board, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Please refer to the announcement of the Company dated 23 April 2019 for details.

The Board proposed to revise the annual caps in respect of the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020, while the annual caps in respect of the financial services fees for other financial services under the 2018 Financial Services Framework Agreement remain unchanged.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### (B) Principal terms of the CCT Agreements

#### 1. *The 2018 Integrated Materials and Services Mutual Provision Framework Agreement*

**Date:** 27 April 2017

**Parties:** (i) the Company  
(ii) the Parent

**Continuing transactions** Pursuant to the 2018 Integrated Materials and Services Mutual Provision Framework Agreement,

- (i) the Parent Group shall supply the Group (1) production materials and ancillary services, including raw materials, auxiliary materials, transportation, loading and unloading services, electricity and heat supplies, equipment maintenance and leasing, labour contracting and others; and (2) social and support services including staff training, medical services and emergency rescues, communication, property management services and others; and
- (ii) the Group shall supply the Parent Group (1) production materials and ancillary services, among others, including coal, coal mining facilities, raw materials, auxiliary materials, electricity and heat supplies, transportation, loading and unloading services, equipment maintenance and leasing, labour contracting and others; and (2) exclusive coal export-related services including organizing product supplies, performing coal blending, coordinating logistics and transportation, provision of port related services, arranging inspection and quality verification and providing services relating to product delivery.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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**Term and termination**

The 2018 Integrated Materials and Services Mutual Provision Framework Agreement is for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. Upon expiry, the 2018 Integrated Materials and Services Mutual Provision Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and agreement of the parties, be renewed for a further term of three years.

**Price determination**

Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the prices will be based on the following pricing policy and order:

- (i) as for the bulk equipment and raw materials, the price will be arrived by bidding process in principle;
- (ii) where no bidding process is involved, the price shall be in accordance with the relevant market price; and
- (iii) where comparable market price rate is unavailable, agreed price shall be adopted. Agreed price is determined with reference to reasonable costs plus a reasonable profit margin.

The details of the above pricing policies are as follows:

- (i) Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the price of bulk equipment and raw materials shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules, which applies to the vast majority of the procurement and sales of bulk equipment and raw materials under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As for the bulk equipment and raw materials provided by the Parent Group to the Group, the Group shall stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) during the bidding process. The Group has stipulated the internal manual regarding the management of relevant bulk equipment and raw materials bidding process.

The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the technical and quality requirements of bulk equipment and raw materials, the criteria for examination of the suppliers, the requirements for the bid price and the standard of evaluation of the bid and so on. The Group's bid evaluation committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》); (ii) reviewing, evaluating and monitoring documents from external suppliers based on the technical, commercial and pricing criteria and payment terms in respect of raw materials, infrastructural projects and coal mining facilities, which will ensure the terms obtained by the Group from the Parent Group is no less favorable than those available from independent third parties; and (iii) grading the external suppliers and writing recommendation advice. The Group's bid office is responsible for deciding which bulk equipment and raw materials suppliers will be awarded the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As for the bulk equipment and raw materials provided by the Group to the Parent Group, the Group shall strictly comply with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) and all the essential requirements set out in the bid invitation of the Parent Group during the bidding process. In preparing for the submission of a tender, tender review meeting of the relevant subsidiary of the Group will be held to perform a thorough analysis of the project management guidelines, the collection of cost and other essential data. In pricing a tender, the relevant department of the Group will also make references to recent project quotations and related market information. For example, in respect of coal mining equipment, the Group generally refers to the market volatility of the recent transaction price of the Group's project, the production cost of raw materials, labor and other expenses since the date of the recent transaction, the fair and reasonable profit rate, and the price of similar equipment of the comparable enterprise in the same industry. The procedures above can ensure that the tender price to be offered by the Group are fair and reasonable and no more favorable than the price and terms offered by the Group to the independent third parties.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- (ii) Under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, the price of coal shall be determined in accordance with the relevant market price, and taking into account of the quality of the coal and different types of delivery. The coal price is determined by mutual agreement with reference to the regional market price of thermal coal, the Bohai-Rim Steam-Coal Sea Price Index, the China Coal Price Index from China Coal Transportation and Distribution Association and the Thermal Coal Price Index from sxcoal.com, and is adjusted monthly according to the changes in the indexes.
  
- (iii) Where comparable market price rate is unavailable, the prices shall be determined after arm's length negotiation by both parties of the contract based on the principle of cost plus a fair and reasonable profit rate, which applies to the services and procurement and sales of bulk equipment and raw materials at comparatively small amount under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement. The cost includes the price of the raw materials, labour cost, manufacturing expense and so on. The expected range of profit of the products and services provided by the Parent Group to the Group is from 1% to 10% which is in line with the industry and not higher than the profit rate charged to independent third parties; and the expected range of profit of the products and services provided by the Group to the Parent Group is from 1% to 10%, which is line with the industry and not lower than the profit rate charged to independent third parties.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As for the mutual provision of raw materials and ancillary materials between the Parent Group and the Group, the payment shall be implemented by instalments according to the time nodes or other methods agreed by the parties. In this regard, the Parent Group and the Group mainly adopt the payment mode of cash on delivery, namely one-time acceptance check and payment for on-time delivery, and batch acceptance check and payment for batch delivery. As for the social and support services provided by the Parent Group to the Group, the account shall be settled with and paid to the Parent Group according to the actual usage of each month. As for the coal mine facilities provided by the Group to the Parent Group, the payment shall be made by the Parent Group by instalments according to the time nodes or other methods agreed by the parties. In this regard, the Parent Group mainly adopts the payment mode of cash on delivery, namely one-time acceptance check and payment for on-time delivery, and batch acceptance check and payment for batch delivery. The purchase prices under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement shall be paid by cash or other methods agreed by the parties (usually paid by cash). The purchase prices and service fees under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement are payable in accordance with the agreed payment terms stipulated in the specific implementation agreements. The payment terms of such implementation agreements shall be within the ambit of the payment terms in the 2018 Integrated Materials and Services Mutual Provision Framework Agreement and will remain unchanged once signed by the parties. From the date of the 2018 Integrated Materials and Services Mutual Supply Framework Agreement to the Latest Practicable Date, the payment terms in all the implementation agreements under the 2018 Integrated Materials and Services Mutual Supply Framework Agreement have complied with the above requirements.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*Our review on the internal control procedures on the transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement*

With reference to the Letter from the Board, the Company adopted various internal control procedures to ensure that the price of bulk equipment and raw materials provided by the Parent Group to the Group shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. Details of the such internal control procedures are set out under the sub-section headed “Internal Control Measures” on pages 11 to 12 of the Circular.

For our due diligence purpose, we discussed with the Management regarding the relevant internal control procedures. As confirmed by the Management, as for the bulk equipment and raw materials provided by the Parent Group to the Group, the Company shall stringently follow the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC (中華人民共和國招標投標法) during the bidding process. The Group has made the internal manual regarding the management of bulk equipment and raw materials bidding process.

The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the technical and quality requirements of bulk equipment and raw materials, the criteria for examination of the suppliers, the requirements for the bid price and the standard of evaluation of the bid and so on. As advised by the Management, a bid evaluation committee will be formed for each tender to review the bids. The Group’s bid evaluation committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC (中華人民共和國招標投標法); (ii) reviewing, evaluating and monitoring documents from external suppliers based on the technical, commercial and pricing criteria and payment terms in respect of raw materials, infrastructural projects and coal mining facilities, so as to ensure the terms obtained by the Group from the Parent Group is no less favorable than those available from independent third parties; and (iii) grading the external suppliers and writing recommendation advice. The Group’s bid office is responsible for deciding which bulk equipment and raw materials suppliers will be awarded contracts under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement. We understood from the Management that, in the Group’s practice, such bid evaluation committee shall be composed of at least three members, and two-thirds or above of the members of such committee shall be independent industry experts which are randomly chosen from a pool of independent industry experts.

We have reviewed a total of five samples of score sheets prepared by bid evaluation committee for tenders of bulk equipment and raw materials of the Group, which were gathered randomly during the two years ended 31 December 2018 and first quarter of 2019, and noted that Parent Group was selected as the vendor following the tender process as it got the highest score in total.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As for the mutual provision of raw materials and ancillary materials between the Parent Group and the Group, the payment shall be implemented by instalments according to the time nodes or other methods agreed by the parties. As for the social and support services provided by the Parent Group to the Group, the account shall be settled with and paid to the Parent Group according to the actual usage of each month. As for the coal mine facilities provided by the Group to the Parent Group, the payment shall be made by the Parent Group by instalments according to the time nodes or other methods agreed by the parties. The purchase prices under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement shall be paid cash or other methods agreed by the parties. The purchase prices and service fees under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement are payable in accordance with the agreed payment terms stipulated in the specific implementation agreements.

Furthermore, with reference to Rule 14A.56 of the Hong Kong Listing Rules, among other things, the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group. With reference to the Company's annual reports for FY2017, among other things, the auditors of the Company have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions for the year ended 31 December 2017 as disclosed in the annual report (including but not limited to transactions under the CCT Agreements in accordance with Rule 14A.56 of the Hong Kong Listing Rules and confirmed (the "**Auditors' Confirmation**") that nothing has come to their attention that causes them to believe the continuing connected transactions (including but not limited to the CCT Agreements), among other things, were not, in all material respects, in accordance with the pricing policies of Group if the transactions involve the provisions of goods or services by the Group. Details of the Auditors' Confirmation are set out in the Company's annual reports for FY2017.

Having considered (i) our findings on the Group's internal control procedures on the transactions contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement as mentioned above; (ii) the Auditors' Confirmation; and (iii) that the existing annual caps for each of the two years ended 31 December 2018 were not exceeded, we do not doubt the effectiveness of implementation of the above measures.

In light of the above factors and having reviewed the 2018 Integrated Materials and Services Mutual Provision Framework Agreement, we concur with the Directors' view that the above internal control measures can ensure that the transactions contemplated under 2018 Integrated Materials and Services Mutual Provision Framework Agreement will be conducted on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### 2. *The 2018 Project Design, Construction and General Contracting Services Framework Agreement*

**Date:** 27 April 2017

**Parties:** (i) the Company

(ii) the Parent

**Continuing transactions** Pursuant to the 2018 Project Design, Construction and General Contracting Services Framework Agreement, the Parent Group has agreed to provide project design, construction and general contracting services to the Group, and to undertake projects sub-contracted by the Group.

**Term and termination** The 2018 Project Design, Construction and General Contracting Services Framework Agreement is for a term of three years commencing on 1 January 2018 and ending on 31 December 2020. Upon expiry, the 2018 Project Design, Construction and General Contracting Services Framework Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and agreement of the parties, be renewed for a further term of three years.

**Price determination** Under the 2018 Project Design, Construction and General Contracting Services Framework Agreement, the service provider and the price of project design, construction and general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The Parent Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》) and the specific requirements in bidding invitation documents made by the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project's technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and so on. The Group's bid evaluation committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC (《中華人民共和國招標投標法》); (ii) reviewing, evaluating and monitoring documents from outsourcing suppliers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the Parent Group is no less favorable than those available from independent third parties; and (iii) grading the service providers and writing recommendation advice. The Group's bid office is responsible for deciding which service provider will be awarded the 2018 Project Design, Construction and General Contracting Services Framework Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As for the project design services provided by the Parent Group to the Group, the payment shall be made by the Group by installments in accordance with the time nodes or other methods agreed by the parties. If the Parent Group provides the engineering design results at one time, payment will be paid at one time according to the acceptance check result, and if the Parent Group provides the engineering design results in stages, payment will be paid in installments according to the staged acceptance check results. As for the construction services provided by the Parent Group to the Group, the payment shall be implemented by installments in accordance with the progress of projects or other methods agreed by the parties. In this regard, the Group generally pays in installments after acceptance check of the construction progress. As for the general contracting services provided by the Parent Group to the Group, the payment shall be made by the Group by installments according to the time nodes of design, procurement and construction or other methods agreed by the parties. Among which, the procurement is paid in accordance with the principal of cash on delivery, namely one-time acceptance check and payment for on-time delivery, and batch acceptance check and payment for batch delivery; design and construction payment method is consistent with that of engineering design services and construction services provided by the Parent Group to the Group. The purchase prices under the 2018 Project Design, Construction and General Contracting Services Framework Agreement shall be paid in cash or other methods agreed by the parties (usually paid in cash). The service fees under the 2018 Project Design, Construction and General Contracting Services Framework Agreement are payable in accordance with the agreed payment terms stipulated in the specific implementation agreements. The payment terms of such implementation agreements shall be within the ambit of the payment terms in the 2018 Project Design, Construction and General Contracting Services Framework Agreement and will remain unchanged once signed by the parties. From the date of the 2018 Project Design, Construction and General Contracting Services Framework Agreement to the Latest Practicable Date, the payment terms in all the implementation agreements under the 2018 Project Design, Construction and General Contracting Services Framework Agreement have complied with the above requirements.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*Our review on the internal control procedures on the transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement*

With reference to the Letter from the Board, the Company adopted various internal control procedures to determine the prices of the project design, construction and general contracting services under the 2018 Project Design, Construction and General Contracting Services Framework Agreement. Details of the such internal control procedures are set out under the sub-section headed “Internal Control Measures” on pages 19 to 20 of the Circular.

For our due diligence purpose, we discussed with the Management regarding the relevant internal control procedures. We are advised that, if the Group requires services under 2018 Project Design, Construction and General Contracting Service Framework Agreement, it shall select the service provider and fix the service price through a bidding process, which are reviewed by the Company’s bid evaluation committee. Should Parent Group be considered as a suitable candidate for a project design and/or construction project of the Group, it will be invited by the Group to participate in the tender to compete with other bidders which are independent from the Group. According to the relevant PRC laws and regulations, in particular, the PRC Tendering and Bidding Law (中華人民共和國招標投標法), a tender can only proceed if at least three construction companies, all having competent qualifications and the ability to undertake the construction work, have submitted tender bids.

We have reviewed a total of five selected samples of tender documents submitted by the Parent and independent contractors. Based on our review and our discussion with the Management, we noted that contents of tender documents involve technical terminology and industry know-how in relation to coal mine design and construction. Therefore, the Group needs to setup bid evaluation committee, which is mainly composed of independent industry experts, to review and evaluate vendor documents submitted by the Parent and independent contractors based on a number of factors and criteria, including (i) the professional qualification and relevant project experiences of tenderers; (ii) the scope of works and technical specification of mine design and construction service offered by tenderers; and (iii) pricing terms and other related contract terms.

We have reviewed a total of five selected samples of score sheets prepared by bid evaluation committee for tenders of project design, construction and general contracting services, which were gathered randomly during the two years ended 31 December 2018, and noted that Parent was selected as the vendor following the tender process as it got the highest score in total.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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In light of above, and (i) the results of our due diligence review; (ii) the Auditors' Confirmation; and (iii) that the existing annual caps for each of the two years ended 31 December 2018 were not exceeded, we do not doubt the effectiveness of implementation of the above measures, and we concur with the Directors' view that the above internal control measures can ensure that the transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement will be conducted on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

### 3. *The 2018 Financial Services Framework Agreement*

**Date:** 27 April 2017

**Parties:** (i) Chinacoal Finance  
(ii) the Parent

**Continuing transactions** Pursuant to the 2018 Financial Services Framework Agreement, Chinacoal Finance has agreed to provide the following financial services to the Parent Group, including:

- (i) providing financial and financing consultation, credit appraisal and relevant advice and agency services;
- (ii) providing assistance in receiving transaction proceeds to the Parent Group;
- (iii) providing insurance agency services as approved to the Parent Group;
- (iv) providing entrusted loans among the Parent Group;
- (v) providing bill acceptance and discount services to the Parent Group;
- (vi) providing internal transfer and settlement and corresponding settlement and clearing planning services among the Parent Group;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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(vii) accepting deposits from the Parent Group;

(viii) providing loans and finance leasing to the Parent Group; and

(ix) other services approved by the CBRC.

### **Term and termination**

The 2018 Financial Services Framework Agreement is for a term of three years commenced on 1 January 2018 and ending on 31 December 2020. Upon expiry, the 2018 Financial Services Framework Agreement shall be automatically renewed for a further term of three years, subject to the compliance with the relevant regulatory requirements such as the listing rules where the Company is listed and the agreement of the parties.

### **Price determination**

The pricing principles of the financial services to be provided by Chinacoal Finance to the Parent Group are as follows:

- (i) The interest rates for deposits provided to the Parent Group by Chinacoal Finance shall be negotiated on arm's length and by reference to the interest rates provided by normal commercial banks in the PRC for comparable deposits. But in any case, the interest rate for deposits shall not be higher than the upper limit allowed by the PBOC for such type of deposits, or the interest rate provided by Chinacoal Finance to other clients for the same type of deposits, or the interest rate for the same type of deposits provided by normal commercial banks in the PRC to the Parent Group, whichever is lower.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- (ii) The interest rates for loans charged by Chinacoal Finance to the Parent Group shall be negotiated on arm's length and by reference to the interest rates charged by normal commercial banks in the PRC for comparable loans. But in any case, the interest rate for loans shall not be lower than the lowest rates prescribed by the PBOC for such type of loans, or the interest rate charged by Chinacoal Finance to other clients for the same type of loans, or the interest rate for the same type of loans charged by normal commercial banks in the PRC to the Parent Group, whichever is higher.
- (iii) The fee standard for other financial services (excluding the deposits and loans as mentioned above) shall be determined by Chinacoal Finance according to the corresponding service fees fixed by the PBOC or the CBRC. If such fixed fee rates are not available, the services fees are negotiated on arm's length and by reference to the fees charged by normal commercial banks in the PRC for comparable financial services. But in any case, the fee standard shall not be lower than the fee standard adopted by normal commercial banks in the PRC for comparable services.

### **Other Principal Terms**

- (i) Chinacoal Finance shall provide deposits services to the Parent Group on normal commercial terms (or better to Chinacoal Finance) where no security over assets of the Group shall be granted in respect of the deposit
- (ii) Maximum daily balance of the loans provided by Chinacoal Finance to the Parent Group shall not be higher than the maximum daily balance of the deposits placed by the Parent Group with Chinacoal Finance.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*Our review on the internal control procedures on the transactions contemplated under the 2018 Financial Services Framework Agreement*

With reference to the Letter from the Board, Chinacoal Finance has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations including corporate governance structure, internal rules and policies and standard operation procedures. Details of the such internal control procedures are set out under the sub-section headed “Internal Control Environment and Risk Management Function of Chinacoal Finance” on pages 26 to 27 of the Circular.

We are advised by the Management that Chinacoal Finance has established stringent internal control measures to ensure effective risk management and compliance with the relevant laws and regulations including corporate governance structure, internal rules and policies and standard operation procedures.

We have obtained and reviewed a copy of the internal control policies and procedures from the Management and noted the following internal controls are in place:

- Different departments and committee, including but not limited to, credit management department, risk management department and credit examining committee, have been set up by Chinacoal Finance for maintaining the risk management function and internal control environment. Credit management department conducts pre-loan investigations on loan applications; risk management department examines the risks relevant to the loans; credit examining committee offers examination opinions, and the general manager and the chairman of the board of directors review and approve such applications;
- Pre-loan investigations will be conducted on loan applications by credit management department, which will assess the customers’ creditworthiness and the purpose of the loans according to the relevant credit rules of CBRC and PBOC, examine, among others, the amount and term of loans as well as the caps of connected (party) transactions, determine the interest rate of each loan based on the lowest rates prescribed by the PBOC to ensure the price determination aforementioned is strictly followed. In case of loans to subsidiaries not wholly owned by the Group or the Parent Group, a higher interest rate may apply;



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- The loan applications will be reviewed by the risk management department, which conducts risk examinations on application and information of loans, with emphasis laid on examinations on credit risks and compliance with Hong Kong Listing Rules including requirements regarding amount, term, interest rate and caps of connected party transactions;
- The loan applications will then be submitted to the credit examining committee, which consists of 5 members. The credit examining committee conducts independent, objective and professional analysis on application and information of loans and group deliberation, as well as offer examination opinions;
- The examination opinions on loans from the credit examining committee will be submitted to the general manager and the chairman of the board of directors of Chinacoal Finance for overall review and approval;
- Annual review on the credit worthiness and loan facility of the Parent Group and its associates will be conducted by the credit management department to strengthen operational risk management; and
- Regular internal audit procedures relevant to loans will be conducted by Chinacoal Finance's internal audit department to review and inspect the implementation of internal policies and procedures and compliance with internal rules and regulations.

Furthermore, we are advised that CBRC performs regular inspections on Chinacoal Finance to check the implementation of their internal control and risk management systems. Since the establishment of Chinacoal Finance, there was no major issue on Chinacoal Finance raised by CBRC.

In light of above, and (i) the results of our due diligence review; (ii) the Auditors' Confirmation; and (iii) that the existing annual caps for each of the two years ended 31 December 2018 were not exceeded, we do not doubt the effectiveness of implementation of the above measures, and we concur with the Directors' view that the above internal control measures can ensure that the transactions contemplated under the 2018 Financial Services Framework Agreement will be conducted on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR**

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**(C) Revision of the Annual Caps**

***(1) Revised Annual Caps under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement (“Revised Procurement Caps”)***

The Board proposed to revise the annual caps under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020. The revision of the annual caps regarding the provision of the materials and ancillary services and of the social and support services to the Parent Group by the Group under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020 is subject to the approval of Board, but exempt from the independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. Please refer to the announcement of the Company dated 23 April 2019 for details.

*Review of historical figures, existing annual caps and revised annual caps*

The tables below set out (i) the historical transaction amounts of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the year ended 31 December 2018; (ii) the existing annual caps; and (iii) the Revised Procurement Caps:

	<b>Year ended 31 December 2018</b>	
	<b>Actual transaction amounts (RMB’000)</b>	<b>Existing annual caps (RMB’000)</b>
Provision of materials and ancillary services and of the social and support services to the Group by the Parent Group	4,179,000	4,200,000

	<b>Year ended 31 December 2018</b>		<b>Year ending 31 December 2019</b>		<b>Year ending 31 December 2020</b>	
	<b>Revised Procurement Caps (RMB’000)</b>	<b>Existing annual caps (RMB’000)</b>	<b>Revised Procurement Caps (RMB’000)</b>	<b>Existing annual caps (RMB’000)</b>	<b>Revised Procurement Caps (RMB’000)</b>	<b>Existing annual caps (RMB’000)</b>
Provision of materials and ancillary services and of the social and support services to the Group by the Parent Group	N/A	4,200,000	5,900,000	4,200,000	6,100,000	4,450,000

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As illustrated above, the actual transaction amounts of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement amounted to approximately RMB4.18 billion during the year ended 31 December 2018, representing approximately 99.5% of the existing annual cap for 2018. As the Group and the Parent Group expect that the annual transaction amount under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement will continue to increase during the two years ending 31 December 2020, it is proposed to increase the Revised Procurement Caps (i) from RMB4.2 billion to RMB5.9 billion during the year ending 31 December 2019; and (ii) from RMB4.45 billion to RMB6.1 billion during the year ending 31 December 2020, respectively.

### *Our assessment on the Revised Annual Caps*

As advised by the Management, the estimation basis for the Revised Procurement Caps for the two years ending 31 December 2020 is set out under the sub-section headed “Reasons for the Revision of the Annual Caps for the Two Years Ending 31 December 2020” on pages 14 to 16 of the Circular.

As stated in the 2018 Result Announcement, with the continued optimization of industrial structure and the development of “a clean energy supplier and an integrated energy service provider”, the Company’s coordinated development of coal, electricity and coal chemical business has delivered high effectiveness, recording reserves in coal resources amounting to 23.6 billion tonnes and growth in coal trading volume by 69.6%, while the new coal chemical operations have become the second largest growth engine of the Company, and its installed power generation capacity doubled. We were advised that, driven by (i) the sustainable growth of the Group’s coal, electricity and coal chemical business; (ii) additional procurement demand arising from the Group’s new projects which have commenced operation since the end of 2018; and (iii) certain companies were acquired by the Group from the Parent Group during 2018, and these companies procure materials and ancillary services from the Parent Group, constituting new continuing connected transactions to the Company, the possible procurement of materials and ancillary services and of the social and support services from the Parent Group will increase during the two years ending 31 December 2020.

For our due diligence purpose, we obtained the detailed calculation for the Revised Procurement Caps for the two years ending 31 December 2020 (the “**Projected Procurement Calculation**”). The Projected Procurement Calculation was prepared based on the possible demand of products and/or service by each of members of the Group with reference to their respective actual demand for the year ended 31 December 2018 and projected demand for the two years ending 31 December 2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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According to the Projected Procurement Calculation, the estimation on products/services procured by the Group under the revised annual caps for the two years ending 31 December 2020 as set out mainly as follows:

For the year ending 31 December 2019

- The procurement amount by a member of the Group (“**Subsidiary A**”) is adjusted from RMB30 million under the existing annual caps to approximately RMB1.06 billion under the revised annual caps during the year ending 31 December 2019. We further enquired into the Management regarding the aforesaid increase, and understood that Unit 1 and Unit 2 of the 2×350MW thermal power project of Subsidiary A commenced operation at the end of 2018 and is expected to commence operation in the second quarter of 2019, respectively. As a result of the operation of the aforesaid thermal power project, the possible annual procurement of coal, other production materials and ancillary services from the Parent Group is expected to increase to approximately RMB1.14 billion. As advised by the Management, the aforesaid new procurement demand from the Subsidiary A was not included into the estimation of the existing annual caps as at the date of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement;
- The procurement amount by a member of the Group (“**Subsidiary B**”) is adjusted from RMB190 million under the existing annual caps to approximately RMB500 million under the revised annual caps during the year ending 31 December 2019. We further enquired into the Management regarding the aforesaid increase, and understood that it is mainly attributable to the additional demand for production materials and ancillary services arising from the increase on coal production volume. We were advised that Nalin River No.2 Coal Mine, which is operated by Subsidiary B, commenced operation in 2018 and its annual coal production volume during the year ending 31 December 2019 is expected to increase by 1 million tonnes compared with its planned coal production volume. As advised by the Management, the aforesaid new procurement demand from the Subsidiary B was not included into the estimation of the existing annual caps as at the date of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- The procurement amount by a member of the Group (“**Subsidiary C**”) is adjusted from RMB380 million under the existing annual caps to approximately RMB480 million under the revised annual caps during the year ending 31 December 2019. We further enquired into the Management regarding the aforesaid increase, and understood that it is mainly attributable to the increase on outsourced mining engineering cost arising from unexpected rise in raw material and staff cost. As advised by the Management, the aforesaid fluctuation on outsourced mining engineering cost was not included into the estimation of the existing annual caps as at the date of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement; and
- As illustrated above, the additional demand for materials and ancillary services and of the social and support services from Subsidiary A, Subsidiary B and Subsidiary C amounted to approximately RMB1.44 billion during the year ending 31 December 2019, representing 84.7% of the proposed increment of the annual caps under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.

For the year ending 31 December 2020

- The procurement amount by Subsidiary A is adjusted from RMB30 million under the existing annual caps to approximately RMB960 million under the revised annual caps during the year ending 31 December 2020. We further enquired into the Management regarding the aforesaid increase, and understood that Unit 1 and Unit 2 of the 2×350MW thermal power project of Subsidiary A commenced operation at the end of 2018 and is expected to commence operation in the second quarter of 2019, respectively. As a result of the operation of the aforesaid thermal power project, the possible annual procurement of coal, other production materials and ancillary services from the Parent Group is expected to increase to approximately RMB960 million. The Group’s procurement of coal from the Parent Group for the thermal power project is based on the overall consideration that the Parent Group provides the specific type of coal matching the thermal power project, the coal mines of the Parent Group are geographically adjacent to the thermal power project, which could save freight cost and that the Parent Group ensures stable supply of coal on market price which is no less favorable than those available from independent third parties. As advised by the Management, the aforesaid new procurement demand from the Subsidiary A was not included into the estimation of the existing annual caps as at the date of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- The procurement amount by Subsidiary B is adjusted from RMB310 million under the existing annual caps to approximately RMB670 million under the revised annual caps during the year ending 31 December 2019. We further enquired into the Management regarding the aforesaid increase, and understood that it is mainly attributable to the additional demand for production materials and ancillary services arising from the increase on coal production capacity. We were advised that Nalin River No. 2 Coal Mine, which is operated by Subsidiary B, commenced operation in 2018 and its annual coal production volume during the year ending 31 December 2020 is expected to increase by 2 million tonnes compared with its planned coal production volume. As advised by the Management, the aforesaid new procurement demand from the Subsidiary B was not included into the estimation of the existing annual caps as at the date of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement;
- The procurement amount by Subsidiary C is adjusted from RMB400 million under the existing annual caps to approximately RMB520 million under the revised annual caps during the year ending 31 December 2020. We further enquired into the Management regarding the aforesaid increase, and understood that it is mainly attributable to the increase on outsourced mining engineering cost arising from unexpected rise in raw material and staff cost. As advised by the Management, the aforesaid fluctuation on outsourced mining engineering cost was not included into the estimation of the existing annual caps as at the date of the 2018 Integrated Materials and Services Mutual Provision Framework Agreement; and
- As illustrated above, the additional demand for materials and ancillary services and of the social and support services from Subsidiary A, Subsidiary B and Subsidiary C amounted to approximately RMB1.41 billion during the year ending 31 December 2020, representing approximately 85.5% of the proposed increment of the annual caps under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement.

Given that above and a moderate buffer is created to cater for any unforeseeable circumstances, in particular, for any unexpected changes in coal products' prices and unexpected fluctuation in cost of raw material and ancillary services, for the two years ending 31 December 2020, we are of the view that the basis adopted by the Management in determining the Revised Procurement Caps is fair and reasonable so far as the Independent Shareholders are concerned.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR**

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(2) ***Revised Annual Caps under the 2018 Project Design, Construction and General Contracting Services Framework Agreement (“Revised Project Development Caps”)***

*Review of historical figures, existing annual caps and revised annual caps*

The tables below set out (i) the historical transaction amounts of the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the year ended 31 December 2018; (ii) the existing annual caps; and (iii) the Revised Project Development Caps:

	<b>Year ended 31 December 2018</b>	
	<b>Actual</b>	<b>Existing</b>
	<b>transaction</b>	<b>annual caps</b>
	<b>amounts</b>	<b>amounts</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Provision of project design, construction and general contracting services to the Group by the Parent Group	2,054,000	6,050,000

	<b>Year ended</b>		<b>Year ending</b>		<b>Year ending</b>	
	<b>31 December 2018</b>		<b>31 December 2019</b>		<b>31 December 2020</b>	
	<b>Revised</b>		<b>Revised</b>		<b>Revised</b>	
	<b>Project</b>	<b>Existing</b>	<b>Project</b>	<b>Existing</b>	<b>Project</b>	<b>Existing</b>
	<b>Development</b>	<b>annual</b>	<b>Development</b>	<b>annual</b>	<b>Development</b>	<b>annual</b>
	<b>Caps</b>	<b>caps</b>	<b>Caps</b>	<b>caps</b>	<b>Caps</b>	<b>caps</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Provision of project design, construction and general contracting services to the Group by the Parent Group	N/A	6,050,000	4,200,000	3,500,000	5,500,000	1,850,000

As illustrated above, we note that the actual historical transaction amounts were substantially lower than the existing annual cap during the year ended 31 December 2018. After discussion with the Management, we were informed that the shortfall of approximately RMB4.0 billion were mainly attributable to the unexpected delay (“**Project Postponements**”) in the coal project construction by the Group.

According to the Chinese government’s opinions on resolving the overcapacity problem of the coal industry to realize development and extricating the coal industry from difficulties, the relevant Chinese authorities paid closer attention to the project examination formalities. During the past few years, approval of the construction projects of new coal mines, technology reform increase production capacity-improving projects will be suspended in principle. As a result, the approval of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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certain infrastructure projects was delayed, which decreased the historical transaction value during the year ended 31 December 2018 under the 2018 Project Design, Construction and General Contracting Services Framework Agreement.

As a result of the Project Postponements and new demand of project design, construction and general contracting services for the Group's new coal chemical business, it is expected the transaction amounts during the two years ending 31 December 2020 will increase accordingly, and will exceed the existing annual caps, therefore, it is proposed to increase the Revised Project Development Caps (i) from RMB3.5 billion to RMB4.2 billion during the year ending 31 December 2019; and (ii) from RMB1.85 billion to RMB5.5 billion during the year ending 31 December 2020, respectively.

### *Our assessment on the Revised Annual Caps*

As advised by the Management, the estimation basis for the Revised Project Development Caps for the two years ending 31 December 2020 is set out under the sub-section headed "Reasons for the Revision of the Annual Caps for the Two Years Ending 31 December 2020" on pages 22 to 23 of the Circular.

For our due diligence purpose, we obtained the detailed calculation for the Revised Project Development Caps for the two years ending 31 December 2020 (the "**Projected Project Development Calculation**"). The Projected Project Development Calculation was prepared based on the possible demand of service by each of members of the Group with reference to their respective actual demand for the year ended 31 December 2018 and projected demand for the two years ending 31 December 2020.

According to the Projected Project Development Calculation, the estimation on service procured by the Group for two years ending 31 December 2020 as set out mainly as follows:

For the year ending 31 December 2019

- The procurement amount by a member of the Group ("**Subsidiary D**") is adjusted from RMB1.93 billion under the existing annual caps to approximately RMB1.08 billion under the revised annual caps during the year ending 31 December 2019. We further enquired into the Management regarding the aforesaid decrease, and understood that it is mainly attributable to unexpected postponement of approval for Dahaize Coal Mine (大海則煤礦), and therefore, the actual transaction amount between Subsidiary D and the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement decrease significantly during the two years ending 31 December 2019. Currently, the construction work for Dahaize Coal Mine is expected to commence in second half of 2019, and it will



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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cause the transaction amount between Subsidiary D and the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement is expected to increase significantly in 2020;

- The procurement amount by a member of the Group (“**Subsidiary E**”) from the Parent Group will be included into the Revised Project Development Caps for the two years ending 31 December 2020. As advised by the Management, an energy company was acquired by Subsidiary E from the Parent Group in 2018 (“**Acquisition**”). Subsidiary E has procured project design, construction and general contracting services from the Parent Group, and therefore, such transactions will constitute continuing connected transactions to the Company upon the completion of the Acquisition. Based on the Projected Project Development Calculation, the projected transaction amount between Subsidiary E and the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement is approximately RMB270 million during the year ending 31 December 2019;
- The procurement amount by a member of the Group (“**Subsidiary F**”) is adjusted from RMB120 million under the existing annual caps to approximately RMB650 million under the revised annual caps during the year ending 31 December 2019. We further enquired into the Management regarding the aforesaid increase, and understood that it is mainly attributable to the additional demand for project design, construction and general contracting services by the Parent Group on the new coal chemical project of Subsidiary F. Currently, the construction work for new coal chemical project is expected to commence in second quarter of 2019. As advised by the Management, the aforesaid new procurement demand from the Subsidiary F was not included into the estimation of the existing annual caps as at the date of the 2018 Project Design, Construction and General Contracting Services Framework Agreement; and
- Under the influence of improvement of supply and demand situation in coal industry, the stabilizing and rebounding coal prices, adjustments in national policy, and the new coal mines of the Group which will gradually be put into operation, the Group’s output in the future is expected to rebound. As the Company will make further efforts to speed up the construction or project upgrade progress for its key projects, it will increase the Group’s demand for construction, design and general contracting services, which may invite tenders from suitable suppliers, including Parent Group. The transaction amount of 2018 Project Design, Construction and General Contracting Services Framework Agreement will increase, if the Parent Group is selected as the Group’s supplier after the bidding procedures. Based on the Projected Project Development Calculation, we note that additional demand for project design, construction and general contracting services by two subsidiaries of the Group on their new coal mine projects amounted to approximately RMB750 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As advised by the Management, the aforesaid new procurement demand from these subsidiaries was not included into the estimation of the existing annual caps as at the date of the 2018 Project Design, Construction and General Contracting Services Framework Agreement.

For the year ending 31 December 2020

- The procurement amount by a member of Subsidiary D is adjusted from RMB470 million under the existing annual caps to approximately RMB2.83 billion under the revised annual caps during the year ending 31 December 2020. We further enquired into the Management regarding the aforesaid significant increase, and understood that it is mainly attributable to unexpected postponement of construction works for Dahaize Coal Mine (大海則煤礦) in 2018. As discussed above, the construction work for Dahaize Coal Mine is expected to commence in second half of 2019, and it will cause the transaction amount between Subsidiary D and the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement is expected to increase significantly in 2020;
- The procurement amount by Subsidiary E from the Parent Group will be included into the Revised Project Development Caps for the two years ending 31 December 2020. As discussed above, Subsidiary E has procured project design, construction and general contracting services from the Parent Group, and therefore, such transactions will constitute continuing connected transactions to the Company upon the completion of the Acquisition. Based on the Projected Project Development Calculation, the projected transaction amount between Subsidiary E and the Parent Group under the 2018 Project Design, Construction and General Contracting Services Framework Agreement is approximately RMB430 million during the year ending 31 December 2020; and
- The procurement amount by Subsidiary F is adjusted from RMB20 million under the existing annual caps to approximately RMB180 million under the revised annual caps during the year ending 31 December 2020. We further enquired into the Management regarding the aforesaid increase, and understood that it is mainly attributable to the additional demand for project design, construction and general contracting services by the Parent Group on the new coal chemical project of Subsidiary F. As advised by the Management, the aforesaid new procurement demand from the Subsidiary F was not included into the estimation of the existing annual caps as at the date of the 2018 Project Design, Construction and General Contracting Services Framework Agreement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Given that above and a moderate buffer is created to cater for any unforeseeable circumstances, in particular, for any unexpected changes in the cost of construction, design and general contracting services, for the two years ending 31 December 2020, we are of the view that the basis adopted by the Management in determining the Revised Project Development Caps is fair and reasonable so far as the Independent Shareholders are concerned.

### (3) *Revised Annual Caps under the 2018 Financial Services Framework Agreement (“Revised Financial Service Caps”)*

The Board proposed to revise the annual caps in respect of the maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020, while the annual caps in respect of the financial services fees for other financial services under the 2018 Financial Services Framework Agreement remain unchanged.

#### *Review of historical figures, existing annual caps and Revised Financial Service Caps*

The tables below set out (i) the historical transaction amounts of the 2018 Financial Services Framework Agreement for the year ended 31 December 2018; (ii) the existing annual caps; and (iii) the revised annual caps:

	<b>Year ended 31 December 2018</b>	
	<b>Actual amounts (RMB'000)</b>	<b>Existing annual caps (RMB'000)</b>
The maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group	4,289,000	4,500,000

	<b>Year ended 31 December 2018 Revised</b>		<b>Year ending 31 December 2019</b>		<b>Year ending 31 December 2020 Revised</b>	
	<b>Financial Service Caps (RMB'000)</b>	<b>Existing annual caps (RMB'000)</b>	<b>Revised Financial Service Caps (RMB'000)</b>	<b>Existing annual caps (RMB'000)</b>	<b>Financial Service Caps (RMB'000)</b>	<b>Existing annual caps (RMB'000)</b>
The maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group	N/A	4,500,000	7,500,000	5,000,000	8,000,000	5,000,000

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As illustrated above, the actual maximum daily balance of loans and financial leasing (including accrued interests) (“**2018 Maximum Daily Balance**”) granted by Chinacoal Finance to the Parent Group amounted to approximately RMB4.29 billion during the year ended 31 December 2018, representing approximately 95.31% of the existing annual cap for 2018. As the Group and the Parent Group expect that the annual transaction amount under the 2018 Financial Services Framework Agreement will continue to increase during the two years ending 31 December 2020, it is proposed to increase the Revised Financial Service Caps (i) from RMB5.0 billion to RMB7.5 billion during the year ending 31 December 2019; and (ii) from RMB5.0 billion to RMB8.0 billion during the year ending 31 December 2020, respectively.

### *Our assessment on the Revised Annual Caps*

As advised by the Management, the estimation basis for the Revised Financial Service Caps for the two years ending 31 December 2020 is set out under the sub-section headed “Reasons for the Revision of the Annual Caps for the Two Years Ending 31 December 2020” on page 29 of the Circular.

For our due diligence purpose, we discussed with the Management on the estimation basis for the Revised Financial Service Caps for the two years ending 31 December 2020 (the “**Projected Financial Service Calculation**”). Based on the Projected Financial Service Calculation, we note that the Revised Financial Service Caps represented an increase of (i) RMB2.5 billion, or 50% from the existing annual caps during the year ending 31 December 2019; (ii) RMB3 billion, or 60% from the existing annual caps during the year ending 31 December 2020.

In assessing whether the Revised Financial Service Cap is fair and reasonable, we have also considered the following:

Historical transactions amounts between Chinacoal Finance and the Parent Group and its associates and the latest financial position of Chinacoal Finance

- As stated in the Letter from the Board, the 2018 Maximum Daily Balance amounted to approximately RMB4.29 billion during the year ended 31 December 2018, representing approximately 95.31% of the existing annual cap for 2018. Furthermore, 2018 Maximum Daily Balance represents an increase of approximately RMB0.77 billion or 21.9% from the actual maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance to the Parent Group during the year ended 31 December 2017; and
- We have reviewed the financial statements of Chinacoal Finance, and have discussed with the Management, we understand that there were spare cash within Chinacoal Finance during the year ended 31 December 2018, which were deposited into the banks and financial institutions for interest income. As

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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at 31 December 2018, there were demand deposits of RMB4.75 billion and term deposits of RMB11.04 billion, compared with demand deposits of RMB2.36 billion and term deposits of RMB6.6 billion as at 31 December 2017. Pursuant to the business scope of Chinacoal Finance, loans could only be provided by Chinacoal Finance to the members (“**Members**”) of the Group or the Parent Group. Based on our review on historical loan transaction records, we noted that the interest rates Chinacoal Finance offered to the Members were higher than the interest rates of its term and demand deposits from banks and financial institutions. Therefore, Chinacoal Finance would be able to generate a higher return by granting loans to the Members than placing the spare cash at banks or financial institutions as deposits. Chinacoal Finance’s available funds (including term and demand deposits) amounted to RMB15.79 billion as at 31 December 2018 (which is expected to further increase during the two years ending 31 December 2020), together with RMB3.0 billion loans already granted to the Parent Group, have significantly exceeded the existing annual caps of RMB5.0 billion for the two years ending 31 December 2020 respectively. Therefore, we are of the view that the Revised Financial Service Caps would allow Chinacoal Finance to make better use of the available funds to increase the profitability of Chinacoal Finance and to lower the overall borrowing cost of the Group.

### Future development and operation plan of the Parent Group

As advised by the Management, the Parent Group is committed to become a clean energy supplier and a comprehensive energy service provider with strong international competitiveness. During the period from 2018 to 2020, the Parent Group will be devoted to expand its development in non-coal field, actively implement the “one belt, one road” strategy, and exploit the overseas markets. In addition, the Parent Group, with its operating status constantly improved and its coal output increased, continuously consolidated other coal assets and continued to promote the construction of relevant infrastructure construction. The aforesaid continuing business and project construction in the future requires large amount of working capital while the capital requirement of the Parent Group will be primarily satisfied by commercial banks, and loans from Chinacoal Finance are expected to be acquired as a supplement. Based on the aforesaid facts, it is expected that the potential capital demand of the Parent Group during the two years ending 31 December 2020 will further increase.

Shareholders should be noted that the Group is not obliged to make loans to the Parent and it remains the Group’s discretion to decide whether or not and as to how much loans to be granted to the Parent Group and its associates after considering (i) the amount of cash and facilities available to Chinacoal Finance at that point of time; and (ii) the Group’s own capital needs.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Having considered the aforesaid, in particular (i) Chinacoal Finance's available funds (including term and demand deposits) amounted to RMB15.79 billion as at 31 December 2018 (which is expected to further increase during the two years ending 31 December 2020), together with RMB3.0 billion loans already granted to the Parent Group, have significantly exceeded the existing annual caps of RMB5.0 billion for the two years ending 31 December 2020 respectively; (ii) the interest rates charged to our customers are higher than the interest rates on demand deposits and term deposits in commercial banks and other financial institutions; (iii) there is no obligation for Chinacoal Finance to make loans to the Parent Group and its associates; (iv) the Revised Financial Service Caps allow Chinacoal Finance to generate a higher return on its assets; and (v) the future plans of the Parent Group with robust capital needs; we are of the view that bases adopted by the Management in determining the Revised Financial Service Caps are fair and reasonable so far as the Independent Shareholders are concerned. However, Shareholders should note that the Revised Financial Service Caps relate to future events and they do not represent a forecast of turnover to be generated from the above possible transactions.

### **(D) Hong Kong Listing Rules implication regarding the continuing connected transactions**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the continuing connected transactions must be restricted by their respective proposed annual cap for the period; (ii) the terms of the continuing connected transactions (including their respective annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the continuing connected transactions of the Company must be included in the Company's subsequent published annual reports and financial accounts.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the continuing connected transactions of the Company (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 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 agreement governing the transactions; and (iv) have exceeded their respective annual caps. In the event that the total amounts of the continuing connected transactions of the Company are anticipated to exceed their respective annual caps, or that there is any proposed material amendment to the terms of their relevant agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the continuing connected transactions of the Company and thus the interest of the Independent Shareholders would be safeguarded.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the CCT Agreements, together with the Revised Annual Caps, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Revision of Annual Caps are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Revision of Annual Caps, as detailed in the notice of AGM as set out at the end of the Circular.

Yours faithfully,  
For and on behalf of  
**Innovax Capital Limited**  
**Alvin Kam**  
*Managing Director*



## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICER

As at the Latest Practicable Date, none of the Directors, Supervisors or the chief executive officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO), which are required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and to the Hong Kong Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers, to be notified to the Company and the Hong Kong Stock Exchange.

## 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to the Directors, the Supervisors and the chief executive officer of the Company, as at the Latest Practicable Date, the following persons, other than a Director, a Supervisor, or the chief executive officer of the Company, had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of Part XV of the SFO, or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholders	Number of shares	Class of shares	Nature of interest	Capacity	Percentage of the respective class of the total shares in issue (%)	Percentage of the total shares in issue (%)
China National Coal Group Corporation	7,605,207,608	A Shares	N/A	Beneficial owner	83.10	57.36
Funde Sino Life Insurance Co., Ltd.	2,012,858,147	H Shares	Long position	Interest of controlled corporation by substantial shareholders	49.01	15.18



*Notes:*

1. As at the Latest Practicable Date, save as Mr. Li Yanjiang, Mr. Peng Yi, Mr. Du Ji'an, Mr. Zhao Rongzhe and Mr. Xu Qian, there is no other Director who is a director or employee of a company which has an interest or short position 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.
2. China Coal Group holds 100% equity interest in China Coal Hong Kong Limited, which in turn holds 132,351,000 H Shares, representing 1.00% of the total issued share capital of the Company. Pursuant to the SFO, China Coal Group is deemed to be interested in the H Shares owned by China Coal Hong Kong Limited.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, the Supervisors and the chief executive officer of the Company, there was no other person (other than the Directors, the Supervisors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

#### **4. MATERIAL ADVERSE CHANGES**

As at the Latest Practicable Date, the Directors and the Supervisors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group was made up.

#### **5. INTERESTS OF DIRECTORS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors and the Supervisors nor their respective associates was interested in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group which would require disclosure under the Hong Kong Listing Rules and none of the Directors and the Supervisors nor their respective associates was materially interested in any contract or arrangement at the Latest Practicable Date which was significant to the business of the Group taken as a whole.

#### **6. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors nor the Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up, or were proposed to be acquired or disposed of by or leased to any member of the Group. None of the Directors nor the Supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

## 7. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors nor the Supervisors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 8. LITIGATION

As far as the Directors are aware, none of the members of the Group is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

## 9. EXPERT'S QUALIFICATION AND CONSENT

Innovax Capital Limited, as the Independent Financial Advisor, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advices and references to its names in the form and context in which it appear.

The following is the qualification of Innovax Capital Limited who has given its opinions or advices which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Innovax Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

## 10. EXPERT'S INTERESTS

As the Latest Practicable Date, Innovax Capital Limited did not have any direct or indirect interest in any asset 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 audited financial statements of the Group were made up; and 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.

## 11. METHOD OF VOTING AT THE AGM

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the AGM will demand a poll in relation to resolutions to be proposed at the AGM.

**12. MISCELLANEOUS**

- (a) The company secretary of the Company is Mr. Yi Baohou. Mr. Yi Baohou, by virtue of his relevant experiences, has been confirmed capable of discharging the functions of company secretary pursuant to the Rule 3.28 of the Hong Kong Listing Rules and qualified for the position of company secretary under the Hong Kong Listing Rules by the Hong Kong Stock Exchange.
- (b) The registered office of the Company is situated at No. 1 Huangsidajie, Chaoyang District, Beijing, the PRC.
- (c) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited which is situated at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 2608, 26th Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular up to and including 14 May 2019:

- (a) 2018 Integrated Materials and Services Mutual Provision Framework Agreement;
- (b) 2018 Project Design, Construction and General Contracting Services Framework Agreement;
- (c) 2018 Financial Services Framework Agreement;
- (d) the letter from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (e) the letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders as set out in this circular;
- (f) the letter of consent from the expert referred to under the paragraph headed "Expert's Qualification and Consent" in this appendix; and
- (g) this circular.

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## NOTICE OF ANNUAL GENERAL MEETING

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**CHINA COAL ENERGY COMPANY LIMITED\***

**中國中煤能源股份有限公司**

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

**(Stock code: 01898)**

### NOTICE OF THE ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2018 Annual General Meeting (the “**AGM**”) of the shareholders of China Coal Energy Company Limited (the “**Company**”) will be held at 2:30 p.m. on Friday, 28 June 2019 at China Coal Building, No. 1 Huangsidajie, Chaoyang District, Beijing, the People’s Republic of China (the “**PRC**”), for the purpose of passing the following resolutions:

#### AS ORDINARY RESOLUTIONS

1. To consider and, if thought fit, to approve the report of the board of directors of the Company for the year ended 31 December 2018.
2. To consider and, if thought fit, to approve the report of the supervisory committee of the Company for the year ended 31 December 2018.
3. To consider and, if thought fit, to approve the audited financial statements of the Company for the year ended 31 December 2018.
4. To consider and, if thought fit, to approve the profit distribution proposal of the Company, namely, the proposal for distribution of a final dividend of RMB0.078 per share (tax inclusive) in an aggregate amount of approximately RMB1,030,373,400 for the year ended 31 December 2018, and to authorize the board of directors of the Company to implement the aforesaid distribution.
5. To consider and, if thought fit, to approve the capital expenditure budget of the Company for the year ending 31 December 2019.
6. To consider and, if thought fit, to approve the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company’s domestic auditor and Deloitte Touche Tohmatsu as the Company’s international auditor for the financial year of 2019 and to authorize the board of directors of the Company to determine their respective remunerations.

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7. To consider and, if thought fit, to approve the emoluments of the directors of the fourth session of the board of the Company and the supervisors of the fourth session of the supervisory committee of the Company for the year of 2019.
  
- 8.00 To consider and, if thought fit, to approve the revision of annual caps of certain transactions contemplated under certain continuing connected transaction framework agreements entered into by the Company for the two years ending 31 December 2020.
  - 8.01 To consider and, if thought fit, to approve the revision of annual caps for provision of the materials and ancillary services and of the social and support services to the Company and its subsidiaries (the “**Group**”) by the China National Coal Group Corporation and its associates (excluding the Group) (the “**Parent Group**”) contemplated under the 2018 Integrated Materials and Services Mutual Provision Framework Agreement for the two years ending 31 December 2020.
  
  - 8.02 To consider and, if thought fit, to approve the revision of annual caps for the transactions contemplated under the 2018 Project Design, Construction and General Contracting Services Framework Agreement for the two years ending 31 December 2020.
  
  - 8.03 To consider and, if thought fit, to approve the revision of maximum daily balance of loans and financial leasing (including accrued interests) granted by Chinacoal Finance Co. Ltd. to the Parent Group under the 2018 Financial Services Framework Agreement for the two years ending 31 December 2020.

### AS SPECIAL RESOLUTION

9. To consider and, if thought fit, to approve

**“THAT**

- (a) the Board be and is hereby authorized to issue debt financing instruments (the “**Debt Financing Instruments**”) in the aggregate amount of not more than RMB40 billion (including RMB40 billion, calculated based on the balance outstanding on the instruments issued and, in the case of an instrument denominated in a foreign currency, based on the median price of the exchange rate announced by the People’s Bank of China on the date of such issuance) on an one-off or multi-tranche issuances bases, including but not limited to enterprise bonds, corporate bonds, ultra-short-term financing bonds, short-term financing bonds, medium-term notes, non-public targeted debt financing instruments, project return notes, project return bonds and other domestic

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and/or overseas debt financing instruments in RMB or foreign currency permitted to be issued by the regulatory authorities (excluding convertible bonds and exchangeable bonds;

- (b) the Board (which be and is hereby agreed to further authorize the management of the Company) be and is hereby authorized generally and unconditionally, with full power and authority, to deal with the matters in connection with the issuances of the Debt Financing Instruments in accordance with the specific needs of the Company and other capital market conditions in the valid period of the resolutions, including but not limited to:
  - i. to decide whether to issue and to determine, modify and adjust the type of issuance, size of issuance, specific term, type and size, detailed terms, conditions and other matters relating to the issuance of the Debt Financing Instruments (including, but not limited to, the issue amount, actual total amount, face value, currency, issue price, interest rate or mechanism for determining the interest rate and whether or not to adjust the interest rate during the duration of the bonds, transfer price, issue place, issue targets, issue timing, term, whether or not to issue in multiple tranches and number of tranches, whether or not to set repurchase, redemption and extension terms, priorities for repayment of creditors, credit rating, security matter, terms and method of repayment of the principal and interests, online and offline issue proportion, specific methods of subscription, whether or not to be listed, where to be listed, specific arrangement of proceeds raised within the scope of use approved by the general meeting, detailed placing arrangements, underwriting arrangements, bonds' listing and all other matters relating to the issuance);
  - ii. to carry out all necessary and ancillary actions and procedures relating to the application, issuance, trading and circulation of the Debt Financing Instruments (including, but not limited to, to engage intermediary institutions, handle all approval, enrollment, registration and filing procedures with the relevant regulatory authorities in connection with application, issuance, trading and circulation on behalf of the Company, formulate, sign, execute, revise and complete all necessary documents, contracts/agreements, deeds and other legal documents in connection with application, issuance, trading and circulation, approve, execute and dispatch announcements and circulars relevant to this issuance in accordance with the regulatory rules of the place of listing of the Company as well as make related disclosure in accordance with applicable laws and regulations, select bonds trustee manager for the issuance, formulate rules for the bondholders' meeting and handle any other matters relating to application, issuance, trading and circulation);

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## NOTICE OF ANNUAL GENERAL MEETING

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- iii. to approve, confirm and ratify the actions and procedures, if any action or procedure in connection with the issuances of the Debt Financing Instruments as mentioned above had been already taken by the Board or the management of the Company;
- iv. to make corresponding adjustments to the detailed proposals and other related matters for the issuance of the Debt Financing Instruments in accordance with the comments from the relevant regulatory authorities or then market conditions within the authorities granted at a general meeting, in the case of any change in policies of regulatory authorities in relation to the issuance or any change of market conditions, except where re-voting at a general meeting is required by any relevant laws and regulations and the Articles of Association;
- v. to determine and handle all relevant matters relating to the trading and circulation of the Debt Financing Instruments upon the completion of the issuance, to formulate, sign, execute, revise and complete all necessary documents, contracts/agreements and deeds in connection with the trading and circulation, and to make related disclosure in accordance with applicable laws and regulations;
- vi. in the case of issuance of corporate bonds, during duration of the corporate bonds, to determine not to distribute dividends to the Shareholders and make other decisions to safeguard repayment of debts as required under the relevant laws and regulations in the event that the Company expects to fail, or does fail to pay the principal and coupon interests of such bonds as they fall due; and
- vii. to deal with other matters in relation to the application, issuance, trading and circulation of the domestic and overseas Debt Financing Instruments.”

By Order of the Board

**China Coal Energy Company Limited**

**Li Yanjiang**

*Chairman of the Board, Executive Director*

*As at the date of this announcement, the executive directors of the Company are Li Yanjiang, Peng Yi and Niu Jianhua; the non-executive directors of the Company are Du Ji'an, Zhao Rongzhe and Xu Qian; and the independent non-executive directors of the Company are Zhang Ke, Zhang Chengjie and Leung Chong Shun.*

Beijing, the PRC  
29 April 2019

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# NOTICE OF ANNUAL GENERAL MEETING

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Notes:

## 1. ELIGIBILITY FOR ATTENDING THE AGM

Holders of H shares of the Company whose names appear on the register of members of the Company maintained by Computershare Hong Kong Investor Services Limited, the H Share registrar and transfer office of the Company in Hong Kong, on Wednesday, 29 May 2019 shall be entitled to attend the AGM.

To qualify for attendance and vote at the AGM to be held on Friday, 28 June 2019, all transfers of H shares of the Company accompanied by the relevant share certificate must be lodged with Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 28 May 2019.

## 2. RECOMMENDATION OF FINAL DIVIDEND, WITHHOLDING AND PAYMENT OF INCOME TAX FOR NON-RESIDENT LEGAL PERSONS AND OVERSEAS RESIDENT INDIVIDUAL SHAREHOLDERS

The board of directors of the Company has recommended a final dividend of RMB0.078 per share (tax inclusive) in an aggregate amount of approximately RMB1,030,373,400 for the year ended 31 December 2018. If the above profit distribution proposal is approved by the shareholders at the AGM by way of Ordinary Resolution No. 4, the final dividend will be paid to the holders of H share whose names appear on the register of members for H shares of the Company on Wednesday, 10 July 2019.

Pursuant to The Enterprise Income Tax Law of the People's Republic of China which came into effect on 1 January 2008 and its implementing rules and other relevant rules, the Company is required to withhold enterprise income tax at a rate of 10% before distributing the final dividend to non-resident enterprise shareholders whose names appear on the Company's H share register of members. Any shares of the Company registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organisations, will be treated as being held by non-resident enterprise shareholders and therefore an enterprise income tax shall be withheld for their dividends receivables.

Pursuant to The Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 issued by the State Administration of Taxation on 28 June 2011, the dividend received by the overseas resident individual shareholders from the stocks issued by domestic non-foreign invested enterprises in Hong Kong is subject to individual income tax at a rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary, depending on the relevant tax agreements between those countries where the overseas resident individual shareholders reside and China. Pursuant to the above mentioned notice, the Company will withhold 10% of the final dividend as individual income tax unless otherwise required by the relevant tax agreements, tax treaties or notices, while distributing the final dividend to the individual H shareholders whose names appear on the Company's register of members on Wednesday, 10 July 2019.

## 3. PROXY

- (1) Shareholders entitled to attend and vote at the AGM may appoint one or more proxies in writing to attend and vote at the meeting on his behalf. The proxy need not be a shareholder of the Company.
- (2) A proxy shall be appointed by a shareholder by a written instrument signed by the appointor or his attorney duly authorised in writing. In case of a corporation, the same must be either under its common seal or under hand of its director(s) or duly authorised attorney(s). If the written instrument is signed by an attorney of the appointor, the power of attorney or other documents of authorisation of such attorney shall be notarised.
- (3) To be valid, the notarized power of attorney or other document(s) of authorisation (if any) and the form of proxy shall be delivered to (i) the registered office address of Company for holders of A shares of the Company; and (ii) Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, for holders of H shares of the Company, no less than 24 hours before the time fixed for convening the AGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so desires.
- (4) If a shareholder appoints more than one proxy, such proxies shall only exercise their voting rights by a poll.



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## NOTICE OF ANNUAL GENERAL MEETING

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### 4. REGISTRATION PROCEDURES FOR ATTENDING THE AGM

- (1) A shareholder or his proxy shall produce his identification document when attending the AGM. Where a shareholder is a legal person, the legal representative of that shareholder or the person authorised by its board of directors or other governing body shall produce a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Holders of H shares of the Company intending to attend the AGM shall return to Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong the reply slip stating their attendance on or before Thursday, 6 June 2019.
- (3) Holders of A shares of the Company intending to attend the AGM shall return the reply slip to the registered office of the Company at No. 1 Huangsidajie, Chaoyang District, Beijing, 100120, the PRC stating their attendance.
- (4) A shareholder may return the above reply slip in person, by post or by facsimile to the Company.

### 5. CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 29 May 2019 to Friday, 28 June 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attendance and vote at the AGM to be held on Friday, 28 June 2019, all transfers of H shares of the Company accompanied by the relevant share certificate must be lodged with Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 6 June 2019.

The Register of Members will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for receiving the dividend, all transfer documents of the holders of H shares of the Company must be lodged at our H shares Registrar at Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 4 July 2019.

### 6. METHOD OF VOTING AT THE AGM

Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting of the Company must be taken by way of poll. Accordingly, the chairman of the AGM will demand a poll in relation to the resolutions to be proposed at the AGM.

### 7. MISCELLANEOUS

- (1) The AGM of the Company is expected to be held for less than half a day. Shareholders attending the AGM shall be responsible for their own travelling and accommodation expenses.
- (2) The address of the Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong is situated at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (3) The registered office and the contact details of the Company are:

No. 1 Huangsidajie  
Chaoyang District  
Beijing, 100120  
the PRC  
Telephone: (+8610) 8223 6028  
Fax: (+8610) 8225 6479