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中国神华能源股份有限公司

CHINA SHENHUA ENERGY COMPANY LIMITED

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

(Stock Code: 01088)

CONTINUING CONNECTED TRANSACTIONS

TERMINATION OF THE ORIGINAL MUTUAL COAL SUPPLY AGREEMENT AND ENTERING INTO NEW MUTUAL COAL SUPPLY AGREEMENT TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES AND SERVICES AGREEMENT AND ENTERING INTO NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

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



A letter from the Board is set out on pages 1 to 24 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 25 to 26 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 55 of this circular.

Notice convening the EGM with reply slip and form of proxy for use at the said meeting will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules.

17 September 2021

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DEFINITIONS

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

“A Share(s)”	the domestic share(s) issued by the Company to domestic investors denominated in RMB and which are listed on the Shanghai Stock Exchange;
“Abstained Directors”	Mr. Wang Xiangxi, Mr. Jia Jinzhong and Mr. Yang Rongming, who had abstained from voting as Directors on the relevant board resolution(s);
“Articles of Association”	the articles of association of the Company;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“China Energy Group”	collectively, China Energy and its subsidiaries (excluding the Group);
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Director(s)”	the director(s) of the Company;
“EGM”	The Company’s first extraordinary general meeting for the year 2021 will be convened on 22 October 2021;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“H Shareholder(s)”	holder(s) of H Share(s);
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

DEFINITIONS

“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the EGM under the Hong Kong Listing Rules;
“Latest Practicable Date”	13 September 2021, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;
“New Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 27 August 2021 entered into between the Company and China Energy;
“New Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 27 August 2021 entered into between the Company and China Energy;
“Original Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 22 March 2019 entered into between the Company and China Energy;
“Original Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 22 March 2019 entered into between the Company and China Energy;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shareholder(s)”	the shareholder(s) of the Company.

LETTER FROM THE BOARD



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

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

(Stock Code: 01088)

Executive Directors:

Wang Xiangxi
Yang Jiping
Xu Mingjun

Registered Office:

Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, PRC

Non-executive Directors:

Jia Jinzhong
Yang Rongming

Independent Non-executive Directors:

Yuen Kwok Keung
Bai Chong-En
Chen Hanwen

Employee Directors:

Wang Xingzhong

17 September 2021

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**TERMINATION OF THE ORIGINAL MUTUAL COAL SUPPLY AGREEMENT
AND ENTERING INTO NEW MUTUAL COAL SUPPLY AGREEMENT
TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES AND SERVICES
AGREEMENT AND ENTERING INTO NEW MUTUAL SUPPLIES AND
SERVICES AGREEMENT**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the announcement made by the Company dated 27 August 2021 in relation to the termination of the Original Mutual Coal Supply Agreement and entering into New Mutual Coal Supply Agreement, and the termination of the Original Mutual Supplies and Services Agreement and entering into New Mutual Supplies and Services Agreement.

The purpose of this circular is to provide you with further information in relation to the above matters, and the recommendation from the Independent Board Committee in relation to the termination of the Original Mutual Coal Supply Agreement and entering into New Mutual Coal Supply Agreement, and the termination of the Original Mutual Supplies and Services Agreement and entering into New Mutual Supplies and Services Agreement, and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to entering into New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement.

TERMINATION OF THE ORIGINAL MUTUAL COAL SUPPLY AGREEMENT AND ENTERING INTO NEW MUTUAL COAL SUPPLY AGREEMENT

Background

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

China Energy and its subsidiaries have 8 industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and finance activities. China Energy is the controlling shareholder of the Company. As at the date of this Circular, China Energy holds 69.52% equity interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

As disclosed in the announcement dated 22 March 2019, and the circular dated 10 May 2019, the Company has entered into the Original Mutual Coal Supply Agreement with China Energy on 22 March 2019 to provide for the mutual supply of coal between the Group and China Energy, the term of which will expire on 31 December 2022.

LETTER FROM THE BOARD

The Company has entered into the New Mutual Coal Supply Agreement with China Energy on 27 August 2021. Except for the annual cap, the New Mutual Coal Supply Agreement is drafted with reference to the relevant terms of the Original Mutual Coal Supply Agreement. The New Mutual Coal Supply Agreement shall enter into force upon approval by the first EGM for the year 2021, and shall be effective from 1 January 2021 and expire on 31 December 2023. The Original Mutual Coal Supply Agreement shall terminate from the date on which the New Mutual Coal Supply Agreement becomes effective, and all rights and obligations under the Original Mutual Coal Supply Agreement of both parties shall be terminated. The Company and the China Energy will agree on their respective rights and obligations in accordance with the New Mutual Coal Supply Agreement.

Entering into New Mutual Coal Supply Agreement

Date

27 August 2021

Parties

The Company and China Energy

Details of the transaction

Pursuant to the New Mutual Coal Supply Agreement:

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

Term and termination

The New Mutual Coal Supply Agreement shall come into force upon approval by the first EGM for the year 2021 and shall be effective from 1 January 2021 and expire on 31 December 2023.

LETTER FROM THE BOARD

Price determination

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

- (1) the national industrial policy as well as industry and market conditions in the PRC;
- (2) the specified guidelines issued by NDRC setting out the coal purchase prices (if any);
- (3) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable quality that is offered to or offered by third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of 中國煤炭市場網(www.cctd.com.cn) organised by China Coal Transportation & Sale Society (《中國煤炭運銷協會》) in the PRC as determined by both parties at arm's length negotiation; (ii) the sale price of local large coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of one or more other enterprises with comparable quality, quantity and location.
- (4) the quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);
- (5) the quantity of coal; and
- (6) the estimated transportation fees.

Proposed annual caps and past transactions

The Company proposes that the annual caps of the New Mutual Coal Supply Agreement for the years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2019 and 31 December 2020 and the period from 1 January 2021 to 30 June 2021.

The aggregate transaction amounts under the Original Mutual Coal Supply Agreement are within the existing annual caps.

LETTER FROM THE BOARD

Supply of coal by the Group to the China Energy Group

(1) *Historical transaction amounts*

Year ended 31 December 2019	Year ended 31 December 2020	Period from 1 January 2021 to 30 June 2021
Aggregate transaction amount	Aggregate transaction amount	Aggregate transaction amount
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Approximately 52,238	Approximately 54,906	Approximately 38,756

(2) *Annual caps under the Original Mutual Coal Supply Agreement*

Year ended 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
Annual cap	Annual cap	Annual cap
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
65,500	65,500	65,500

(3) *Proposed annual caps under the New Mutual Coal Supply Agreement*

Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023
Annual cap	Annual cap	Annual cap
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
86,000	86,000	86,000

LETTER FROM THE BOARD

Supply of coal by the China Energy Group to the Group

(1) *Historical transaction amounts*

Year ended 31 December 2019 Aggregate transaction amount <i>(RMB million)</i>	Year ended 31 December 2020 Aggregate transaction amount <i>(RMB million)</i>	Period from 1 January 2021 to 30 June 2021 Aggregate transaction amount <i>(RMB million)</i>
Approximately 10,130	Approximately 9,131	Approximately 6,098

(2) *Annual caps under the Original Mutual Coal Supply Agreement*

Year ended 31 December 2020 Annual cap <i>(RMB million)</i>	Year ending 31 December 2021 Annual cap <i>(RMB million)</i>	Year ending 31 December 2022 Annual cap <i>(RMB million)</i>
16,000	16,000	16,000

(3) *Proposed annual caps under the New Mutual Coal Supply Agreement*

Year ending 31 December 2021 Annual cap <i>(RMB million)</i>	Year ending 31 December 2022 Annual cap <i>(RMB million)</i>	Year ending 31 December 2023 Annual cap <i>(RMB million)</i>
20,000	29,000	29,000

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

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

- (a) The coal price have increased significantly since March 2019. In the week of 22 March 2019, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB578 per tonne. In the week of 27 August 2021, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB683 per tonne. The commercial

LETTER FROM THE BOARD

coal sold by the Group includes various commercial coals with different calorific values, the sales price of which vary with the amount of calorific value generated. The average coal sales price of the Group was RMB499 per tonne (exclusive of tax) in the first half of 2021. However, the average coal sales price of the Group in 2018 was RMB429 per tonne (exclusive of tax), representing an increase of 16%.

- (b) In the first half of 2021, the demand for coal of China Energy Group from the Group increased significantly, with a transaction amount of approximately RMB38,756 million. The sales volume in the second half of the year is expected to be at same level of the first half of the year. It is expected that the transaction amount of the Group's supply of coal to China Energy Group under the New Mutual Coal Supply Agreement in 2021 will reach approximately RMB77,900 million. Taking into account factors such as fluctuations in coal price and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB86,000 million.
- (c) It is expected that the coal markets in 2022 and 2023 are at same level, and it is recommended that the annual cap for 2022 and 2023 be determined at RMB86,000 million.

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

- (a) The coal price have increased significantly since March 2019. In the week of 22 March 2019, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB578 per tonne. In the week of 27 August 2021, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB683 per tonne. The commercial coal purchased by the Group includes various commercial coals with different calorific values, the purchased price of which vary with the amount of calorific value generated. The unit purchase cost of coal purchased by the Group was RMB469 per tonne (exclusive of tax) in the first half of 2021. However, the unit purchase cost of coal purchased by the Group in 2018 was RMB352 per tonne (exclusive of tax), representing an increase of 33%.

LETTER FROM THE BOARD

- (b) In the first half of 2021, the demand for coal of the Group from China Energy Group increased significantly, with a transaction amount of approximately RMB6,098 million. It is expected that the supply and demand for coal will remain tight in the second half of the year. The coal purchased by the Group from China Energy Group will increase as compared to the first half of the year, and it is expected that the transaction amount of China Energy Group's supply of coal to the Group under the New Mutual Coal Supply Agreement in 2021 will reach approximately RMB18,200 million. Taking into account factors such as fluctuations in coal price and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB20,000 million.
- (c) It is expected that the coal production of the Group will remain stable in 2022 and 2023. The increment of coal sales plans to mainly purchase coal from outside suppliers. The Group will increase the purchase of coal from China Energy Group to stabilize the source of coal and fully utilize transportation capacity of self-owned railways. At the same time, the power plant of the Group in Sichuan region etc will be put into production, and considering economy and stabilization, the Group plans to increase the purchase of coal from the subsidiaries of China Energy Group. It is expected that the transaction amount of China Energy Group's supply of coal to the Group under the New Mutual Coal Supply Agreement in 2022 and 2023 will reach approximately RMB26,200 million. Taking into account factors such as fluctuations in coal price and setting aside a buffer, it is recommended that the annual cap for 2022 and 2023 be determined at RMB29,000 million.

Implementation agreements

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

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

LETTER FROM THE BOARD

Reasons for Entering into the New Mutual Coal Supply Agreement and their Benefits to the Company

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

Hong Kong Listing Rules Implications

China Energy holds 69.52% equity interest in the Company, and is the controlling shareholder of the Company. As such, Shenhua Group Co is a connected person of the Company under the Hong Kong Listing Rules, and the New Mutual Coal Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

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

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

LETTER FROM THE BOARD

General Information

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

TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES AND SERVICES AGREEMENT AND ENTERING INTO NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

Background

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

China Energy and its subsidiaries involve 8 industrial sectors including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection, and finance, among which are principally engaged in the coal liquefaction, coal-based chemical processing, coal production and power generation business as well as investment and financing activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.52% equity interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

As disclosed in the announcement dated 22 March 2019 and the circular dated 10 May 2019, the Company has entered into the Original Mutual Supplies and Services Agreement with China Energy on 22 March 2019 to provide for the mutual supply of products and services between the Group and the China Energy, the term of which will expire on 31 December 2022.

The Company has entered into a New Mutual Supplies and Services Agreement with China Energy on 27 August 2021. Except for the annual caps, the New Mutual Supplies and Services Agreement was prepared in accordance with the relevant terms of the Original Mutual Supplies and Services Agreement. The New Mutual Supplies and Services Agreement is conditional on the approval at the first EGM for the year 2021, and is effective from 1 January 2021 and will expire on 31 December 2023. The Original Mutual Supplies and Services Agreement shall terminate upon the effective date of the New Mutual Supplies and Services Agreement, and both parties shall terminate all rights and obligations under the Original Mutual Supplies and Services Agreement, and the Company and China Energy shall agree on their respective rights and obligations in accordance with the New Mutual Supplies and Services Agreement.

LETTER FROM THE BOARD

ENTERING INTO NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

Date

27 August 2021

Parties

The Company and China Energy

Details of the transaction

Pursuant to the New Mutual Supplies and Services Agreement:

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

LETTER FROM THE BOARD

Term and termination

The New Mutual Supplies and Services Agreement is conditional on the approval at the first EGM for the year 2021, and is effective from 1 January 2021 and will expire on 31 December 2023.

Price determination

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

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

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

- (a) Rail transportation: price prescribed by NDRC or other related government authorities.

LETTER FROM THE BOARD

- (b) Construction: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, the market price.
- (c) Oil products: government-guided price.
- (d) power trading: government-guided price if any; market price for the centralized bidding transaction execution; and the independent negotiated transaction shall refer to transaction price of the recent market comparable deals.
- (e) Hardware and software equipment and related services: market price (including tender and bidding price).
- (f) Chemical products: market price.
- (g) Production equipment and spare parts, office products: market price.
- (h) Tendering agency services: price prescribed by NDRC.
- (i) Technical consulting services: agreed price with a profit margin of approximately 10%.
- (j) Information technology services: the budget is reviewed by professional institution(s) with pricing reviewing qualification according to relevant rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to the market customs of the information technology industry, actual standards and market price, taking into account the actual condition of the Company's information technology construction. The parties negotiate and agree on the service price within the scope of budget.
- (k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%).
- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%).
- (m) Various daily administrative services to the headquarters of China Energy (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

Where the price of mutual supplies and services between the Company and China Energy is not applicable under the pricing principles of the agreement due to any changes by laws and regulations, policies and market of China, both parties may adjust pricing principles of respective supplies and services.

LETTER FROM THE BOARD

Proposed annual caps and past transactions

The Company proposes that the annual caps of the New Mutual Supplies and Services Agreement for the years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the two years ended 31 December 2019 and 31 December 2020 and the period from 1 January 2021 to 30 June 2021.

The aggregate transaction amounts under the Original Mutual Supplies and Services Agreement are within the existing annual caps.

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

(1) *Historical transaction amounts*

Year ended 31 December 2019 Aggregate transaction amount (RMB million)	Year ended 31 December 2020 Aggregate transaction amount (RMB million)	Period from 1 January 2021 to 30 June 2021 Aggregate transaction amount (RMB million)
Approximately 8,567	Approximately 9,734	Approximately 4,246

(2) *Annual caps under the Original Mutual Supplies and Services Agreement*

Year ended 31 December 2020 Annual cap (RMB million)	Year ended 31 December 2021 Annual cap (RMB million)	Year ended 31 December 2022 Annual cap (RMB million)
13,000	13,000	13,000

(3) *Proposed annual caps under the New Mutual Supplies and Services Agreement*

Year ended 31 December 2021 Annual cap (RMB million)	Year ended 31 December 2022 Annual cap (RMB million)	Year ended 31 December 2023 Annual cap (RMB million)
13,000	16,000	16,000

LETTER FROM THE BOARD

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

(1) *Historical transaction amounts*

Year ended 31 December 2019	Year ended 31 December 2020	Period from 1 January to 30 June 2021
Aggregate transaction amount	Aggregate transaction amount	Aggregate transaction amount
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Approximately 3,150	Approximately 3,270	Approximately 2,641

(2) *Annual caps under the Original Mutual Supplies and Services Agreement*

Year ended 31 December 2020	Year ended 31 December 2021	Year ended 31 December 2022
Annual cap	Annual cap	Annual cap
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
9,000	9,000	9,000

(3) *Proposed annual caps under the New Mutual Supplies and Services Agreement*

Year ended 31 December 2021	Year ended 31 December 2022	Year ended 31 December 2023
Annual cap	Annual cap	Annual cap
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
13,000	17,000	17,000

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

LETTER FROM THE BOARD

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

- (a) In the first half of 2021, the demand of China Energy Group for the Group's supplies and services increased significantly, with a transaction amount of approximately RMB4,246 million, representing a year-on-year increase of 20%. Calculating the annual income based on the year-on-year increase in the first half of 2021 and the transaction amount for the year ended 31 December 2020 which is approximately RMB9,734 million, the annual income from mutual supplies and services of 2021 is expected to be approximately RMB11,600 million. Taking into account factors such as commodity price and business growth, and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB13,000 million.
- (b) It is expected that the transaction amount for the supplies and services by the Group to the China Energy Group for each of 2022 and 2023 will increase by RMB2,500 million, including RMB790 million for information technology service, RMB460 million for transportation service, RMB460 million for chemical product and RMB790 million for power and other product and services. Therefore, the transaction amount of supplies and services provided by the Group to China Energy Group under the New Mutual Supplies and Services Agreement is expected to be approximately RMB14,100 million. Taking into account the impact of commodity price and business growth, and setting aside a buffer, it is recommended that the annual cap for each of 2022 and 2023 be determined at RMB16,000 million.

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

- (a) In the first half of 2021, the demand of China Energy Group for the Group's supplies and services increased significantly, with a transaction amount of approximately RMB2,641 million, representing a year-on-year increase of 173%. Calculating the annual expenditure based on the year-on-year increase in the first half of 2021 and the transaction amount for the year ended 31 December 2020 which is approximately RMB3,270 million, the annual expenditure from mutual supplies and services of 2021 is expected to be approximately RMB9,000 million. In addition, it is expected that in the second half of the year, the Group will increase the expenditures such as power transaction and engineering construction to China Energy Group by approximately RMB2,300 million. The expenditure for continuing connected transactions for the year 2021 is expected to be approximately RMB11,300 million. Taking into account the impact of commodity price and business growth, and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB13,000 million.

LETTER FROM THE BOARD

- (b) On the basis of the expenditure for continuing connected transactions in 2021, it is expected that the transaction amount for the supplies and services by the China Energy Group to the Group for each of 2022 and 2023 will increase by RMB3,900 million, including RMB1,100 million for construction, RMB200 million for power and RMB2,600 million for production material, office products and labor protection gears. The annual expenditure for continuing connected transactions is expected to be approximately RMB15,200 million. Taking into account the impact of commodity price and business growth, and setting aside a buffer it is recommended that the annual cap for each of 2022 and 2023 be determined at RMB17,000 million.

Implementation agreements

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

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

Reasons for Entering into the New Mutual Supplies and Services Agreement and their Benefits to the Company

As disclosed in the Prospectus, the China Energy Group retained certain assets and businesses which are necessary for and beneficial to the business development of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's length basis after the listing of the Company. In addition, the Group provides certain goods and services to the China Energy Group on an arm's length basis to support the businesses retained by the China Energy Group. Due to the long-term co-operation relationship between the Company and the China Energy Group and the advantages, good reputation and gigantic scale of the China Energy Group in various aspects, the above-mentioned continuing connected transactions ensure that the Group and China Energy Group receive a reliable supply of high quality products and services which ultimately benefit the normal production and operations of the Company. The Board is of the opinion that the entering into such transactions on an continuing basis is essential to the continuation of the Group's business and will be beneficial to the Group as the transactions under the New Mutual Supplies and Services Agreement facilitate and will facilitate the business operation and growth of the Group and reduce the unnecessary risks which might be incurred during the course of operation.

LETTER FROM THE BOARD

Hong Kong Listing Rules Implications

China Energy holds 69.52% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and New Mutual Supplies and Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the New Mutual Supplies and Services Agreement, as one or more of the applicable percentage ratios exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the New Mutual Supplies and Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

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

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

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

LETTER FROM THE BOARD

Connected Transaction Decision Making System of China Shenhua Energy Company Limited

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

Connected Transaction Management Measures of China Shenhua Energy Company Limited

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

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

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

LETTER FROM THE BOARD

- (3) Under the leadership of the Board, the Company has set up a connected transaction group headed by the chief accountant. This connected transaction group is responsible for formulating and overseeing the internal control systems for the connected transactions, negotiating and signing various connected transaction agreements, regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly reviewing the Group's internal control systems for the connected transactions and offering proposals for modification, organising the training of connected transactions across the Group and periodically conducting supervision and inspection of the connected transactions.
- (4) Each subsidiary of the Group has established the connected transaction group. Specific personnel are arranged to be in charge of the pricing of the continuing connected transactions and required to strictly observe the pricing principles and policies for the continuing connected transaction disclosed in this circular to set the price for each transaction. (i) For the New Mutual Coal Supply Agreement, specific personnel seek to obtain information about spot market price of coal through various channels; (ii) For the New Mutual Supplies and Services Agreement, according to the Group's rules and regulations for procurement and sales, when the government-prescribed price or government-guided price is absent, the Company will seek to obtain information about market price through various channels, for example, considering at least two comparable transactions with independent third parties for the same period, comparable transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Such price is determined by the contracting parties (i.e., the subsidiaries of the Group on the one hand and the subsidiaries of the China Energy Group on the other hand) on normal commercial terms with reference to the information obtained as mentioned above. Where tender and bidding process is necessary under applicable laws, regulations and rules, the Group and the China Energy Group shall entrust professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group or the China Energy Group shall participate fairly. For products and services with agreed prices, the supplier shall provide a cost list and the purchaser conducts comparison with the comparable average cost of similar enterprises in the neighbouring areas or the cost of the same type of products to determine the reasonable cost for ascertaining the price of the connected transaction. Once the price is executed, unilateral change is prohibited. The Company's connected transaction leading group reviews the pricing of continuing connected transactions periodically to ensure every transaction is priced strictly according to the pricing principles and policies for the continuing connected transaction disclosed in this circular.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

- (10) The Audit Committee reviews the annual reports, annual financial reports, the interim financial reports and interim reports which consist of the implementation of the continuing connected transactions and opine on the connected transactions during the relevant periods on matters mainly including the fairness of the connected transactions and whether the transaction amount incurred are within the annual caps.
- (11) The external auditor of the Company conducts year-end audit for each financial year, issues its opinions and letters to the Board in relation to the implementation of the pricing policies and whether the actual connected transaction amount incurred is within the annual caps during the preceding year pursuant to the Hong Kong Listing Rules and submits the same to the Hong Kong Stock Exchange.

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

Extraordinary General Meeting

The EGM will be convened and held on 22 October 2021 (Friday) at 10:00 a.m. at Conference Room 1906, 19/F, Block C, Shenhua Building, 16 Ande Road, Dongcheng District, Beijing, People's Republic of China, to, inter alia, consider and approve:

- (1) the New Mutual Coal Supply Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder by way of ordinary resolution(s) by the Independent Shareholders;
- (2) the New Mutual Supplies and Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder by way of ordinary resolution(s) by the Independent Shareholders.

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

Pursuant to the Hong Kong Listing Rules, China Energy and its associates will abstain from voting on all resolutions relating to the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement to be proposed, considered and voted on at the EGM. As of the Latest Practicable Date, China Energy and its associates hold in aggregate 13,812,709,196 shares of the Company, which amounts to approximately 69.52% of total issued shares of the Company.

LETTER FROM THE BOARD

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

Notices convening the EGM and forms of proxy for use at the said meetings will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules.

RECOMMENDATION

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

The Board has resolved and approved the above. Of the Directors attending the board meetings, the Abstained Directors were considered to have material interests by virtue of being employed by China Energy, and had thus abstained from voting on the board resolutions in respect of the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement.

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

Gram Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the above terms, proposed annual caps of and the transactions contemplated under the New Mutual Coal Supply Agreement, and proposed annual caps of and the transactions contemplated under the New Mutual Supplies and Services Agreement.

LETTER FROM THE BOARD

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

Your attention is also drawn to the letter from the Independent Board Committee set out on page 25, the letter from the Independent Financial Adviser set out on pages 27 to 55 and the other information set out in the appendices to this circular.

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



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

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

(Stock Code: 01088)

17 September 2021

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**TERMINATION OF THE ORIGINAL MUTUAL COAL SUPPLY AGREEMENT
AND ENTERING INTO NEW MUTUAL COAL SUPPLY AGREEMENT
TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES AND SERVICES
AGREEMENT AND ENTERING INTO NEW MUTUAL SUPPLIES AND
SERVICES AGREEMENT**

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

Having considered the above and the advice of the Independent Financial Adviser in relation thereto as set out on pages 27 to 55 of this circular, we are of the opinion that the terms, proposed annual caps of and the transactions contemplated under the New Mutual Coal Supply Agreement, and proposed annual caps of and the transactions contemplated under the New Mutual Supplies and Services Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

For and on behalf of the Independent Board Committee

*Independent Non-executive
Director*

Dr. Yuen Kwok Keung

*Independent Non-executive
Director*

Dr. Bai Chong-En

*Independent Non-executive
Director*

Dr. Chen Hanwen

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

17 September 2021

*To: The independent board committee and the independent shareholders
of China Shenhua Energy Company Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

TERMINATION OF THE ORIGINAL MUTUAL COAL SUPPLY AGREEMENT AND ENTERING INTO NEW MUTUAL COAL SUPPLY AGREEMENT TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES AND SERVICES AGREEMENT AND ENTERING INTO NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the New Mutual Coal Supply Agreement and transactions contemplated thereunder (the “**Mutual Coal Supply Transaction**”); and (ii) the New Mutual Supplies and Services Agreement and transactions contemplated thereunder (the “**Mutual Supplies and Services Transaction**”, together with the Mutual Coal Supply Transaction as the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 17 September 2021 issued by the Company to the Shareholders (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 requires otherwise.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Company entered into (i) the New Mutual Coal Supply Agreement; and (ii) New Mutual Supplies and Services Agreement, with China Energy on 27 August 2021. Except for the annual caps, the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement were prepared in accordance with the relevant terms of the Original Mutual Coal Supply Agreement and the Original Mutual Supplies and Services Agreement respectively. The New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement are conditional on the approval at the first EGM, and are effective from 1 January 2021 and will expire on 31 December 2023. The Original Mutual Coal Supply Agreement and Original Mutual Supplies and Services Agreement shall terminate upon the effective date of the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement respectively, and both parties shall terminate all rights and obligations under the Original Mutual Coal Supply Agreement and the Original Mutual Supplies and Services Agreement, and the Company and China Energy shall agree on their respective rights and obligations in accordance with the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement.

With reference to the Board Letter, in respect of the proposed annual caps for the Transactions, as one or more of the applicable percentage ratios exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Transactions are subject to reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions 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; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of discloseable and continuing connected transactions of the Company, details of which are set out in the Company's circular dated 14 May 2021.

Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

Besides, apart from the advisory fee payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

Having considered the above, in particular (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only an independent financial adviser engagement, we are of the view that we are independent to act as the Independent Financial Adviser.

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. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. 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 contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors', the Company's or the management's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement. 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The 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 relating to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make the Circular or any statement therein misleading. We, as the Independent Financial Adviser, 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, conducted any independent in-depth investigation into the business and affairs of the Company, China Energy or their respective subsidiaries or associates, nor have we considered the taxation implication on the Company or the Shareholders as a result of the entering into of the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Company

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

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Information on China Energy Group

As set out in the Board Letter, China Energy and its subsidiaries have 8 industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and finance activities. China Energy is the controlling shareholder of the Company.

Reasons for and Underlying Benefit of Implementing the Transactions

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

As disclosed in the Prospectus, the China Energy Group retained certain assets and businesses which are necessary for and beneficial to the business development of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's length basis after the listing of the Company. In addition, the Group provides certain goods and services to the China Energy Group on an arm's length basis to support the businesses retained by the China Energy Group. Due to the long-term co-operation relationship between the Company and the China Energy Group and the advantages, good reputation and gigantic scale of the China Energy Group in various aspects, the above-mentioned continuing connected transactions ensure that the Group and China Energy Group receive a reliable supply of high quality products and services which ultimately benefit the normal production and operations of the Company. The Board is of the opinion that the entering into such transactions on a continuing basis is essential to the continuation of the Group's business and will be beneficial to the Group as the transactions under the New Mutual Supplies and Services Agreement facilitate and will facilitate the business operation and growth of the Group and reduce the unnecessary risks which might be incurred during the course of operation.

In addition, the coal supply transaction from the Group to China Energy Group under the New Mutual Coal Supply Agreement; and the provision of supplies and services transactions from the Group to China Energy Group under the New Mutual Supplies and Services Agreement are revenue transactions in nature, and will have positive impact on the Group's revenue.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Although the Original Mutual Coal Supply Agreement and the Original Mutual Supplies and Services Agreement will expire on 31 December 2022, we understood that the Company expected that the existing annual caps under the Original Mutual Coal Supply Agreement and the Original Mutual Supplies and Services Agreement may not be sufficient to meet the business demand of the Group and proposes to revise the annual caps for 2021 and 2022 and to apply for the annual caps for 2023.

Having considered that (i) the Transactions could ensure the Group and China Energy Group to have (a) a steady supply of high quality of coal, products and ancillary services; and (b) a reliable supply of high quality products and services; and (ii) the coal supply transaction from the Group to China Energy Group and the provision of supplies and services transactions from the Group to China Energy Group are revenue transactions in nature, and will have positive impact on the Group's revenue; and (iii) the Company expects that the existing annual caps will not be sufficient to meet the business demand of the Group, we concur with the Directors' view and consider the Transactions to be in the interests of the Company and the Shareholders as a whole and are entered into in the ordinary and usual course of business of the Group.

A. MUTUAL COAL SUPPLY TRANSACTION

1. Principal Terms of the Mutual Coal Supply Transaction

Set out below are the major terms of the Mutual Coal Supply Transaction, details of which are set out under section headed "Entering into New Mutual Coal Supply Agreement" of the Board Letter.

Date:

27 August 2021

Parties:

- (1) the Company; and
- (2) China Energy.

Details of the transaction:

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

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Term and termination

The New Mutual Coal Supply Agreement shall come into force upon approval by the first EGM for the year 2021 and shall be effective from 1 January 2021 and expire on 31 December 2023.

Price determination policy

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

- (1) the national industrial policy as well as industry and market conditions in the PRC;
- (2) the specified guidelines issued by NDRC setting out the coal purchase prices (if any);
- (3) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable quality that is offered to or offered by third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of 中國煤炭市場網 (www.cctd.com.cn) organised by China Coal Transportation & Sale Society (《中國煤炭運銷協會》) in the PRC as determined by both parties at arm's length negotiation; (ii) the sale price of local large coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of one or more other enterprises with comparable quality, quantity and location;
- (4) the quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);
- (5) the quantity of coal; and
- (6) the estimated transportation fees.

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Upon our request, we obtained certain documents (contracts, price confirmation letters and settlement letters), including (i) three copies of documents in respect of the Group's provision of coal to China Energy Group and three copies of documents in respect of the Group's provision of coal (which was the same type of the coal provided to China Energy Group) to independent third parties respectively; and (ii) three copies of documents in respect of the Group's purchase of coal from China Energy Group and three copies of documents in respect of the Group's purchase of coal (which was comparable to the coal purchased from China Energy Group as confirmed by the Company) from independent third parties respectively. After reviewing the aforesaid contracts, price confirmation letters and settlement letters, we noticed that (i) the coal price of same coal offered by the Group to China Energy Group were not more favourable than those offered to independent third parties; and (ii) the coal price of similar coal offered by the China Energy Group to the Group were no less favourable than those offered by independent third parties to the Group.

With reference to the Board Letter, the Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions are fair and reasonable and no less favourable than the terms provided by any independent third party, so as to ensure that they serve the interests of the Company and its Shareholders as a whole. Details of such procedures and internal control measures are set out in the section headed "Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions" in the Board Letter. Having considered that (i) the "Connected Transaction Application and Reporting Rules of China Shenhua Energy Company Limited" require subsidiaries of the Company to explain pricing policy of the connected transaction and measures taken to ensure the fairness of the transaction; (ii) under the leadership of the Board, the Company has set up a connected transaction group headed by the chief accountant. This connected transaction group is responsible for formulating and overseeing the internal control systems for the connected transactions, negotiating and signing various connected transaction agreements, regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly reviewing the Group's internal control systems for the connected transactions and offering proposals for modification, organising the training of connected transactions across the Group and periodically conducting supervision and inspection of the connected transactions; (iii) each subsidiary of the Group has established the connected transaction group. Specific personnel are arranged to be in charge of the pricing of the continuing connected transactions and required to strictly observe the pricing principles and policies for the continuing connected transaction disclosed in this circular to set the price for each transaction (for the New Mutual Coal Supply Agreement, specific personnel seek to obtain information about spot market price of coal through various channels); and (iv) the Group has adopted the legal management and other system (when specific personnel recommend pricing of continuing connected transactions, they shall submit the same to the system for the connected transaction

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groups and finance departments of the subsidiaries of the Group to determine the pricing. The connected transaction groups and finance departments also monitor the pricing through the system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price), we consider the effective implementation of the internal control system will ensure fair pricing for transactions under the Mutual Coal Supply Transaction.

In addition, the internal control system also include measures on monitoring usage of the annual caps as follows: the Company implements connected transactions in accordance with the internal control process, and requires all of the subsidiaries to submit implementation reports of connected transactions on a monthly basis. The Company consolidates, reviews, sums up and analyses the data, and monitors whether the transaction amounts are within the annual caps, and recommends improvement measures for any issues identified.

Having considered the above factors, we are of the view that the terms of the Mutual Coal Supply Transaction are on normal commercial terms and are fair and reasonable.

Proposed Annual Caps

Supply of coal by the Group to China Energy Group

The following table sets out (i) the actual historical amounts and the existing annual caps in respect of supply of coal from the Group to China Energy Group; and (ii) the new annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2020 ("FY2020") (RMB million)	For the year ending 31 December 2021 ("FY2021") (RMB million)	For the year ending 31 December 2022 ("FY2022") (RMB million)
Historical transaction amounts	54,906	38,756(<i>Note</i>)	N/A
Existing annual caps	65,500	65,500	65,500
Utilisation rate	84%	N/A	N/A
			For the year ending 31 December 2023 ("FY2023") (RMB million)
Proposed annual caps	For the year ending 31 December 2021 (RMB million)	For the year ending 31 December 2022 (RMB million)	
New annual caps	86,000	86,000	86,000

Note: data for the six months ended 30 June 2021.

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Bases for determining the new annual caps for the three years ending 31 December 2023 are set out in the section headed “Entering into New Mutual Coal Supply Agreement” in the Board Letter.

As illustrated in the table above, the utilisation rate of the existing annual cap for FY2020 of the Group is relatively high. In addition, the annualised amounts based on the historical transaction amounts in the first half of 2021 would exceed the existing annual cap for FY2021. The new annual caps for the three years ending 31 December 2023 represent a substantial increase of approximately 31% to the existing annual caps.

Upon our request, the Company provided the calculation in respect of the new annual caps. According to the calculation, we noticed that the new annual caps are based on the estimated amounts of coal supply from the Group to China Energy Group for the three years ending 31 December 2023 and a buffer of 10%.

To assess the fairness and reasonableness of the estimated amounts of coal supply from the Group to China Energy Group for the three years ending 31 December 2023, we conducted the following analyses:

- As advised by the Company, the Group expected that the volume of coal to be supplied to China Energy Group in the second half of 2021 would be the same as that for the first half of 2021.

For due diligence purpose, we reviewed past annual report and interim report of the Company and noticed that the amounts of coal supply from the Group to China Energy Group in the first half of FY2020 amounted to approximately 63 million tonnes, representing approximately 47% of the annual coal supply from the Group to China Energy Group for FY2020.

Therefore, we consider the volume of coal to be supplied to China Energy Group in the second half of 2021 to be the same as that for the first half of 2021 to be acceptable.

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- According to the 2020 annual report of the Company, in 2020, the average coal sales price of the Group was RMB410/tonne (tax exclusive). According to the 2021 interim report of the Company, in the first half of 2021, the average coal sales price of the Group was RMB499/tonne (tax exclusive).

For due diligence purpose, we also reviewed (i) the comprehensive average Bohai-Rim Thermal Coal (Q5500K) Price Index for 2020 and 2021 (till the date of New Mutual Coal Supply Agreement) and noticed that the average of the comprehensive average Bohai-Rim Thermal Coal (Q5500K) Price Index for 2020 amounted to approximately RMB549/tonne while that for 2021 (till the date of New Mutual Coal Supply Agreement) amounted to approximately RMB623/tonne; and (ii) CCTD Qinhuangdao Thermal Coal Spot Trading Price (Q5500K) for 2020 and 2021 (till the date of New Mutual Coal Supply Agreement) and noticed that the average spot trading price for 2020 amounted to approximately RMB574/tonne while that for 2021 (till the date of New Mutual Coal Supply Agreement) amounted to approximately RMB813/tonne; and (iii) CCTD Qinhuangdao Thermal Coal Comprehensive Price (Q5500K) for 2020 and 2021 (till the date of New Mutual Coal Supply Agreement) and noticed that the average price for 2020 amounted to approximately RMB558/tonne while that for 2021 (till the date of New Mutual Coal Supply Agreement) amounted to approximately RMB714/tonne.

In view of the above, the average coal price for 2021 represents a substantial increase as compared to that for 2020.

We also noticed that the estimated coal sales price of the Group for 2021 is in line with the average coal price for the first half of 2021.

- Based on (i) the actual quantity of coal supply by the Group to China Energy Group for the first half of 2021 (i.e. approximately 78.5 million tonnes); (ii) the volume of coal to be supplied to China Energy Group in the second half of 2021 to be the same as that for the first half of 2021; and (iii) the estimated coal sales price of the Group for 2021, the implied coal sales amounts of FY2021 is in line with the estimated coal supply amounts from the Group to China Energy Group for FY2021. Therefore, we consider the estimated coal supply amounts from the Group to China Energy Group for FY2021 to be reasonable.

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- The coal supply amounts from the Group to China Energy Group for the year ending 31 December 2022 and 31 December 2023 are the same as the estimated amounts for FY2021. As advised by the Company, the predictions are based on the assumption that the amounts for coal supply from the Group to China Energy Group for FY2022 and FY2023 would remain stable as compared to FY2021. Therefore, we consider the estimated amounts for provision of supplies and services from the Group to China Energy Group for FY2022 and FY2023 to be fair and reasonable.

As mentioned above, the Company applied a buffer of 10% in determining the proposed annual caps. Having considered that additional buffer applies to unpredictable circumstances, e.g. unpredictable increase in coal sales price in the future or unpredictable increase in demand for coal by China Energy Group, we consider the buffer of 10% to be acceptable.

Based on the above factors, including (i) the estimated coal supply amounts by the Group to China Energy Group for FY2021 to FY2023 being reasonable; and (ii) the buffer of 10% being acceptable, we consider the new annual caps for three years ending 31 December 2023 to be fair and reasonable.

Supply of coal by China Energy Group to the Group

The following table sets out (i) the actual historical amounts and the existing annual caps in respect of supply of coal from China Energy Group to the Group; and (ii) the new annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2020 <i>(RMB million)</i>	For the year ending 31 December 2021 <i>(RMB million)</i>	For the year ending 31 December 2022 <i>(RMB million)</i>
Historical transaction amounts	9,131	6,098 <i>(Note)</i>	N/A
Existing annual caps	16,000	16,000	16,000
Utilisation rate	57%	N/A	N/A

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Proposed annual caps	For the year ending	For the year ending	For the year ending
	31 December 2021	31 December 2022	31 December 2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
New annual caps	20,000	29,000	29,000

Note: data for the six months ended 30 June 2021.

Basis for determining the new annual caps for the three years ending 31 December 2023 is set out in the section headed “Entering into New Mutual Coal Supply Agreement” in the Board Letter.

As illustrated in the table above, the utilisation rate of the existing annual caps for FY2020 is approximately 57%. The new annual caps for FY2021, FY2022 and FY2023 represent substantial increase of approximately 25%, 81% and 81% to the existing annual cap for FY2021. As advised by the Company, the aforementioned increase in the existing caps were mainly due to (i) the relatively large increase in coal purchase from China Energy Group by the Group for the first half of 2021 compared to the same period of 2020; (ii) increase in average coal purchase price; and (iii) the increase in coal sales of the Group for the first half of 2021 being far more than the increase in commercial coal production of the Group which were remained stable in recent years.

Upon our request, the Company provided the calculation in respect of the new annual caps. According to the calculation, we noticed that the new annual caps are based on the estimated amounts of coal purchase from China Energy Group by the Group for the three years ending 31 December 2023 and a buffer of 10%.

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To assess the fairness and reasonableness of the estimated amounts of coal supply by China Energy Group to the Group for the three years ending 31 December 2023, we conducted the following analyses:

- As advised by the Company, the Group expected that the amounts of coal purchase from China Energy Group in the second half of a year would be higher than that for the first half of the year.

For due diligence purpose, we reviewed past annual report and interim report of the Company and noticed that the amounts of coal sales (which were purchased coal) of the Group amounted to approximately 63.4 million tonnes for the first half of 2020, representing approximately 42% of the annual coal sales (which were purchased coal) for FY2020. In addition, the amounts of coal purchased by the Group from China Energy Group for the first half of 2020 represent approximately 36% of the annual amounts for 2020.

We noticed that the estimated coal purchase quantity by the Company from China Energy Group for FY2021 is generally in line with the implied estimated coal purchase quantity for FY2021 (calculated by the coal purchased quantity from China Energy Group for the first half of FY2021 and the proportion for the first half of FY2020).

In addition, we enquired the Company on the coal unit purchase cost of the Group for the first half of 2021. The estimated coal purchase price of the Group for second half of 2021 is in line with the coal unit purchase cost of the Group for the first half of 2021.

The estimated coal supply amounts by China Energy Group to the Group for FY2021 are in line with the purchase amounts as calculated by the historical amounts of coal purchase for the first half of 2021, the estimated coal purchase quantity of the Company for second half of 2021 and the estimated coal unit purchase cost for second half of 2021. Therefore, we consider the estimated coal supply amounts by China Energy Group to the Group for the year ending 31 December 2021 to be fair and reasonable.

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- The estimated amounts of coal supply by China Energy Group to the Group for the year ended 31 December 2022 represent an increase of RMB8,000 million to the estimated amounts for FY2021. As advised by the Company, the increase was mainly due to the estimated increased amounts of coal purchase from China Energy Group for FY2022 to deal with the growing coal sales quantity (representing approximately 75% of RMB8,000 million increase).

Upon our request, the Company further provided the estimated increase in quantity of coal purchase from China Energy Group and the estimated coal unit purchase cost.

According to the announcement on the major operational data of June 2021 published by the Company on 16 July 2021, the exposure (being the parts that coal sales quantity exceeded coal production quantity) between coal sales and commercial coal production of the Group further increased from approximately 59.7 million tonnes for the first half of 2020 to approximately 88.4 million tonnes for the first half of 2021, representing an increase of approximately 28.7 million tonnes.

Having considered (i) the exposure between coal sales and commercial coal production of the Group for the first half of 2021; (ii) the comparison between the estimated coal sales quantity of the Group for FY2022 and FY2023 with that for FY2021, we consider the estimated increase in purchased coal quantity to be acceptable.

In addition, we also noticed that the estimated coal unit purchase cost for FY2022 is in line with the coal unit purchase cost of the Group for the first half of 2021. Therefore, we consider the amounts (representing approximately 75% of the increase of RMB8,000 million) which the Group plans to increase coal purchase from China Energy Group to deal with the growing coal sales quantity to be reasonable.

As advised by the Company, 25% of the increase of RMB8,000 million is mainly attributable to the Group's power plant in Sichuan region etc plans to increase the purchase of coal from China Energy Group's subsidiaries.

In light of the above, we consider the estimated coal supply amounts from China Energy Group to the Group for the year ending 31 December 2022 to be fair and reasonable.

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- The estimated coal supply amounts by China Energy Group to the Group for the year ending 31 December 2023 are the same as the estimated amounts for FY2022. As advised by the Company, the predictions are based on the assumption that the coal supply amounts from China Energy Group to the Group for FY2023 would remain stable as compared to that for FY2022. Therefore, we consider the estimated coal supply amounts from China Energy Group to the Group for the year ending 31 December 2023 to be fair and reasonable.

As mentioned above, the Company applied a buffer of 10% in determining the proposed annual caps. Having considered that additional buffer applies to unpredictable circumstances, e.g. unpredictable increase in coal purchase price in the future or the unpredictable increase of exposure between sales of purchased coal and commercial coal production of the Group, we consider the buffer of 10% to be acceptable.

Based on the above factors, including (i) the estimated coal supply amounts from China Energy Group to the Group for FY2021 to FY2023 being reasonable; and (ii) the buffer of 10% being acceptable, we consider the new annual caps for three years ending 31 December 2023 to be fair and reasonable.

Shareholders should note that the new annual caps relate to future events and are estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, which do not represent forecast on actual income/costs/fees to arise from coal supply/purchase transactions. Therefore, we express no opinion as to how closely the actual income/costs/fees to arise from coal supply/purchase transactions correspond with the new annual caps.

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B. MUTUAL SUPPLIES AND SERVICES TRANSACTION

1. Principal Terms of the Mutual Supplies and Services Transaction

Set out below are the major terms of the Mutual Supplies and Services Transaction, details of which are set out under section headed “ENTERING INTO NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT” of the Board Letter.

Date:

27 August 2021

Parties:

- (1) the Company; and
- (2) China Energy.

Details of the transaction:

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

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- (b) the China Energy Group has agreed to supply products and provide services to the Group, including:
 - (i) production: power trading and other related or similar services.
 - (ii) production supplies: oil products, and other related or similar production supplies and services.
 - (iii) ancillary production services: construction, logistics and support services, training, tendering services, technical consulting and other related or similar services.
 - (iv) administrative services: social security and pension management services and staff data recording services.

Term and termination

The New Mutual Supplies and Services Agreement is conditional on the approval at the first EGM for the year 2021, and is effective from 1 January 2021 and will expire on 31 December 2023.

Price determination policy

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

- a. Government-prescribed price and government-guided price: if at any time, the government prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price.
- b. Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.

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- c. Market price: the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third parties for the same period when determining whether the price for any product transaction under the New Mutual Supplies and Services Agreement is the market price.
- d. Agreed price: to be determined by adding a reasonable profit margin over a reasonable cost. The management shall consider at least two comparable deals with independent third parties for the same period when determining the reasonable profit of any product transaction under the New Mutual Supplies and Services Agreement.

Details of each of the pricing mechanism and the relevant pricing mechanism to be adopted for each type of the services and products are set out in the Board Letter.

Upon our request, we obtained three copies of documents in respect of the Group's provision of services to China Energy Group. As advised by the Company, services prices for the transactions contemplated under the aforesaid documents were based on government-prescribed price. The Company further provided documents in respect of the Group's provision of same services to independent third parties and government prescribed price/ government-guided price documents. After reviewing the aforesaid documents, we noticed that the services prices are in line with relevant government-prescribed price.

In addition, we also obtained three copies of documents in respect of the Group's accept of services from China Energy Group; and certain copies of similar services provided by independent third parties. After reviewing the aforesaid documents, we noticed that (i) the services fees offered by China Energy Group fell within the services fees range for the same service offered by independent third parties should the service provider was selected by bid and tender procedures; and (ii) the services fees offered by China Energy Group fell within the service fees range for same service in same district offered by independent third parties should the services price was market price.

The Company also provided us three copies of contracts in respect of the mutual provision of services between the Group and China Energy Group, with services prices for such services being agreed price. The Company further provided us the gross profit margins of the aforesaid contracts and gross profit margins for relevant industries (as extracted from 企業績效評價標準值 (Enterprise Performance Evaluation Standard Value*) as prepared by 國務院國資委考核分配局 (Assessment and Distribution Department of State-owned Assets Supervision and Administration Commission of the State Council*) in 2019 and 2020). We noticed that the gross profit margins of the aforesaid contracts were in line with gross profit margins for relevant industries.

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With reference to the Board Letter, the Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions are fair and reasonable and no less favourable than the terms provided by any independent third party, so as to ensure that they serve the interests of the Company and its Shareholders as a whole. Details of such procedures and internal control measures are set out in the section headed “Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions” in the Board Letter. Having considered that (i) the “Connected Transaction Application and Reporting Rules of China Shenhua Energy Company Limited” require subsidiaries of the Company to explain pricing policy of the connected transaction and measures taken to ensure the fairness of the transaction; (ii) under the leadership of the Board, the Company has set up a connected transaction group headed by the chief accountant. This connected transaction group is responsible for formulating and overseeing the internal control systems for the connected transactions, negotiating and signing various connected transaction agreements, regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly reviewing the Group’s internal control systems for the connected transactions and offering proposals for modification, organising the training of connected transactions across the Group and periodically conducting supervision and inspection of the connected transactions; (iii) each subsidiary of the Group has established the connected transaction group. Specific personnel are arranged to be in charge of the pricing of the continuing connected transactions and required to strictly observe the pricing principles and policies for the continuing connected transaction disclosed in this circular to set the price for each transaction (For the New Mutual Supplies and Services Agreement, according to the Group’s internal rules and regulations for procurement and sales, when the government-prescribed price or government-guided price is absent, the Company will seek to obtain information about market price through various channels, for example, considering at least two comparable transactions with independent third parties for the same period, comparable transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Such price is determined by the contracting parties (i.e., the subsidiaries of the Group on the one hand and the subsidiaries of the China Energy Group on the other hand) on normal commercial terms with reference to the information obtained as mentioned above. Where tender and bidding process is necessary under applicable laws, regulations and rules, the Group and the China Energy Group shall entrust professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group and the China Energy Group shall participate fairly. For products and services with agreed prices, the supplier shall provide a cost list and the purchaser conducts comparison with the comparable average cost of similar enterprises in the neighbouring areas or the cost of the same type of products to determine the reasonable cost for ascertaining the price of

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the connected transaction); and (iv) the Group has adopted the legal management and other system (when specific personnel recommend pricing of continuing connected transactions, they shall submit the same to the system for the connected transaction groups and finance departments of the subsidiaries of the Group to determine the pricing. The connected transaction groups and finance departments also monitor the pricing through the system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price), we consider the effective implementation of the internal control system will ensure fair pricing for transactions under the Mutual Coal Supply Transaction.

In addition, the internal control system also include measures on monitoring usage of the annual caps as follows: the Company implements connected transactions in accordance with the internal control process, and requires all of the subsidiaries to submit implementation reports of connected transactions on a monthly basis. The Company consolidates, reviews, sums up and analyses the data, and monitors whether the transaction amounts are within the annual caps, and recommends improvement measures for any issues identified.

With reference to the Board Letter, the Group shall conduct market price research through various independent industry information vendors (e.g., industry websites), and participate in activities organised by leading industry organisations. In light of that the Group may obtain relevant market information through the aforesaid procedures, we consider the procedures will ensure the fairness of “market price” and “agreed price”, which will be based on (among other things) at least two comparable deals with independent third parties for the same period.

Having considered the above factors, we are of the view that the terms of the Mutual Supplies and Services Transaction are on normal commercial terms and are fair and reasonable.

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Proposed annual caps

Provision of supplies and services by the Group to China Energy Group

The following table sets out (i) the actual historical amounts and the existing annual caps in respect of provision of supplies and services from the Group to China Energy Group; and (ii) the new annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Historical transaction amounts	9,734	4,246 <i>(Note)</i>	N/A
Existing annual caps	13,000	13,000	13,000
Utilisation rate	75%	N/A	N/A
Proposed annual caps	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
New annual caps	13,000	16,000	16,000

Note: data for the six months ended 30 June 2021.

Basis for determining the new annual caps for the three years ending 31 December 2023 is set out in the section headed “Entering into New Mutual Supplies and Services Agreement” in the Board Letter.

As illustrated in the table above, the utilisation rate of the existing annual cap for FY2020 of the Group was relatively high. The new annual cap for FY2021 represents no change to the existing annual cap, while the new annual caps for FY2022 and FY2023 represent a substantial increase of approximately 23% to the existing annual caps.

Upon our request, the Company provided the calculation in respect of the new annual caps. According to the calculation, we noticed that the new annual caps are based on the estimated amounts of provision of supplies and services by the Group to China Energy Group for the three years ending 31 December 2023 and a buffer of 10%.

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To assess the fairness and reasonableness of the estimated amounts of provision of supplies and services by the Group to China Energy Group for the three years ending 31 December 2023, we conducted the following analyses:

- The amounts of provision of supplies and services by the Group to China Energy Group for the first half of 2020 represent approximately 36% of the annual amounts for 2020. The estimated amounts of provision of supplies and services by the Group to China Energy Group for 2021 is close to the implied amounts of provision of supplies and services from the Group to China Energy Group for the year ending 31 December 2021, which was calculated by the actual amounts for the first half of 2021 and the percentage of the amounts for the first half of 2020 to the annual amounts for 2020.

Therefore, we consider the estimated amounts for provision of supplies and services from the Group to China Energy Group for the year ending 31 December 2021 to be fair and reasonable.

- The estimated amounts for provision of supplies and services from the Group to China Energy Group for the year ending 31 December 2022 represent a substantial increase of approximately 22% to the estimated amounts for FY2021 (the “**Increase**”). As advised by the Company, the Increase is mainly attributable to the Company’s expectation that increase would be recorded in supplies of information technology services, logistics services and chemical products etc. for FY2022.

For due diligence purpose, we referred to the China Coastal Bulk (Coal) Freight Index which reflects the fluctuations of freight price in coastal coal freight markets. We noticed that from 1 January 2021 to 27 August 2021, the average of this index is 1,047 which represents an increase of approximately 83% to the average of this index of approximately 572 for the same period of 2020. In view of the increase in the index, we consider the expectation of a substantial increase in freight rate for FY2022 compared to that for FY2020 when contemplating the freight services to be reasonable.

In addition, we noticed that the amounts for provision of supplies and services from the Group to China Energy Group for 2019 represent an increase of approximately 23% to that for 2018; while the amounts for provision of supplies and services from the Group to China Energy Group for 2020 represent an increase of approximately 14% to that for 2019.

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As further advised by the Company, (i) the information company of the Group is in charge of the development of more than 80 projects, upon completion of which fees will be charged to the user; (ii) with the development of the chemical business of China Energy Group, it's predicted that the Group may provide more logistics service to China Energy Group; and (iii) price for chemical products such as polythene bounced back from the low point and is expected to stabilise gradually. Therefore, it's predicted that the amounts for provision of supplies and services from the Group to China Energy Group for FY2022 will have a relatively large increase as compared to that for 2021.

In view of the above, we consider the Increase to be acceptable. Therefore, we consider the estimated amounts for provision of supplies and services by the Group to China Energy Group for the year ending 31 December 2022 to be fair and reasonable.

- The estimated amounts for provision of supplies and services by the Group to China Energy Group for the year ending 31 December 2023 are the same as the estimated amounts for FY2022. As advised by the Company, the predictions are based on the assumption that the amounts for provision of supplies and services from the Group to China Energy Group for FY2023 would remain stable as compared to FY2022. Therefore, we consider the estimated amounts for provision of supplies and services from the Group to China Energy Group for the year ending 31 December 2023 to be fair and reasonable.

As mentioned above, the Company applied a buffer of 10% in determining the proposed annual caps. Having considered that additional buffer applies to unpredictable circumstances, e.g. unpredictable increase in demand by China Energy Group for supplies and services provided by the Company or the unpredictable increase in costs for the relevant supplies and services, we consider the buffer of 10% to be acceptable.

Based on the above factors, including (i) the estimated amounts for provision of supplies and services from the Group to China Energy Group for FY2021 to FY2023 being reasonable; and (ii) the buffer of 10% being acceptable, we consider the new annual caps for three years ending 31 December 2023 to be fair and reasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Provision of supplies and services from China Energy Group to the Group

The following table sets out (i) the actual historical amounts and the existing annual caps in respect of provision of supplies and services by China Energy Group to the Group; and (ii) the new annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Historical transaction amounts	3,270	2,641 <i>(Note)</i>	N/A
Existing annual caps	9,000	9,000	9,000
Utilisation rate	36%	N/A	N/A
Proposed annual caps	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
New annual caps	13,000	17,000	17,000

Note: data for the six months ended 30 June 2021.

Basis for determining the new annual caps for the three years ending 31 December 2023 is set out in the section headed “Entering into New Mutual Supplies and Services Agreement” in the Board Letter.

As illustrated in the table above, the utilisation rate of the existing annual cap for FY2020 was approximately 36%. Despite that the utilisation rate of the existing annual caps for FY2020 was relatively low, the Company increased the annual caps for FY2021 and FY2022. The new annual caps for FY2021, FY2022 and FY2023 represent substantial increase of approximately 44%, 89% and 89% as compared to the existing annual caps. As advised by the Company, the substantial increase in the new annual caps as compared to the existing annual caps was mainly due to (i) the relatively substantial increase in the amounts for provision of products and services by China Energy Group to the Group for the first half of 2021 as compared to the correspondence period of 2020; and (ii) that the Group expects to increase expenditure on products to be purchased from China Energy Group for FY2022 and FY2023.

Upon our request, the Company provided the calculation in respect of the new annual caps. According to the calculation, we noticed that the new annual caps are based on the estimated amounts of provision of supplies and services by China Energy Group to the Group for the three years ending 31 December 2023 and a buffer of 10%.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the estimated amounts of provision of supplies and services by China Energy Group to the Group for the three years ending 31 December 2023, we conducted the following analyses:

- The amounts of provision of supplies and services from China Energy Group to the Group for the first half of 2020 represent approximately 30% of the annual amounts for FY2020.

Based on the historical transaction amounts for the first half of 2021 and the percentage of the amounts for the first half of 2020 to the annual amounts of the expenditure, the implied annual amounts for provision of supplies and services by China Energy Group to the Group for FY2021 would amount to approximately RMB8,912 million.

In addition, as advised by the Company, the Group is expected to increase expenditure of approximately RMB2,300 million on production and ancillary production services such as power trading and engineering construction for the second half of 2021. We further understood that the sum of increase in expenditure on additional purchase of products and increase in expenditure on engineering construction projects such as technology renovation, which may be provided by China Energy Group and its affiliated companies represent more than 90% of the increase in expenditure for the second half of 2021.

For due diligence purpose, we reviewed 2020 interim report and 2020 annual report of the Company. According to the aforementioned documents, we noticed that the implied purchase amounts for products of the Group (including those from connected persons and from parties which are not connected persons), calculated by dividing the amounts for products purchase by the Group from connected persons by its proportion in the same type of transactions, were approximately RMB25,850 million for the six months ended 30 June 2020 and RMB75,050 million for FY2020. The implied purchase amount for products of the Group (including those from connected persons and from parties which are not connected persons) was approximately RMB49,200 million for the second half of 2020. It is expected that the increase in products purchase expenditure is far below the implied purchase amounts for products of the Group (including those from connected persons and from parties which are not connected persons) for the second half of 2020. In view of the mere percentage of 2.0% of the purchase amounts from connected persons to transaction amounts of the same category, the Company also took into account of the increase in possibility of purchase from China Energy Group when contemplating the purchase of products for the second half of 2021.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In addition, in respect of the increase in expenditure on engineering construction projects such as technology renovation, we noticed from 2020 Annual Report that in the capital expenditure plan for 2021 approved by the Board, (1) among the capital expenditures of the coal segment, RMB1,791 million will be used in technical renovation for equipment purchase and RMB2,438 million will be used in technical renovation for non-equipment purchases; (2) among the capital expenditure of the power segment, RMB304 million will be used in technology renovation in environmental protection and RMB1,170 million will be used in technology renovation in non-environmental protection. The aforementioned expenditure on technology renovation have far exceeded the expected increase in expenditure on engineering construction projects such as technology renovation for FY2021.

In light of the above, we consider the sum of expenditure increase on additional purchase of products and expenditure on engineering construction projects such as technology renovation by the Group from China Energy Group which may be occurred to be acceptable. Therefore, we consider the estimated amounts for provision of supplies and services by China Energy Group to the Group for the year ending 31 December 2021 to be fair and reasonable.

- The estimated amounts for provision of supplies and services by China Energy Group to the Group for the year ending 31 December 2022 represent an increase of RMB3,900 million to the estimated amounts for FY2021. As advised by the Company, the increase is mainly attributable to the Company's expectation that purchase of products by China Energy Group will be further increased and engineering construction projects to be provided by China Energy Group will be further accepted for FY2022.

In light of proportion of amounts for products purchase by the Group from connected persons to the amounts for transactions of the same category; capital expenditure plan on engineering construction projects such as technology renovation for FY2021 as mentioned above, the continued implementation of certain upgraded demonstration projects, we consider the estimated amounts for provision of supplies and services from China Energy Group to the Group for the year ending 31 December 2022 to be reasonable.

- The estimated amounts for provision of supplies and services by China Energy Group to the Group for the year ending 31 December 2023 are the same as the estimated amounts for FY2022. As advised by the Company, the predictions are based on the assumption that the amounts for provision of supplies and services from China Energy Group to the Group for FY2023 would remain stable as compared to FY2022.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Therefore, we consider the estimated amounts for provision of supplies and services by China Energy Group to the Group for the year ending 31 December 2023 to be fair and reasonable.

As mentioned above, the Company applied a buffer of 10% in determining the proposed annual caps. Having considered that additional buffer applies to unpredictable circumstances, e.g. unpredictable increase in demand by the Group for supplies and services provided by China Energy Group or the unpredictable increase in costs for the relevant supplies and services, we consider the buffer of 10% to be acceptable.

Based on the above factors, including (i) the estimated amounts for provision of supplies and services from China Energy Group to the Group for FY2021 to FY2023 being reasonable; and (ii) the buffer of 10% being acceptable, we consider the new annual caps for three years ending 31 December 2023 to be fair and reasonable.

Shareholders should note that the new annual caps relate to future events and are estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, which do not represent forecast on actual income/costs/fees to arise from provision/acceptance of the Mutual Supplies and Services Transactions. Therefore, we express no opinion as to how closely the actual income/costs/fees to arise from provision/acceptance of Mutual Supplies and Services Transactions correspond with the new annual caps.

HONG KONG LISTING RULES IMPLICATION

As confirmed by the Company, 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 amounts of the Transactions must be restricted by the annual caps contemplated under relevant framework agreements; (ii) the Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports.

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 Transactions (1) have not been approved by the Board; (2) 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; (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (4) have exceeded the cap.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In the event that the amounts of the Transactions are anticipated to exceed proposed annual caps, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Company, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

With the stipulation of the above 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 Transactions and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into account that above factors and reasons, we are of the opinion that (i) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Transactions are on normal commercial terms and are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS IN SHARES

As at the Latest Practicable Date:

- 2.1 none of the Directors, chief executive, supervisors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, and so far as is known to the Directors and chief executive of the Company, the following persons had the following interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Interests in the Shares of the Company

No.	Name of shareholders	Capacity	H Share/A Share	Nature of interest	Number of H Shares/A Shares held	Percentage of	Percentage of total
						H shares/A shares over total Issued respectively	issued share capital of the Company
						%	%
1	China Energy	Beneficial owner	A Shares	N/A	13,812,709,196	83.76	69.52
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholders	H Shares	Long position	179,223,741	5.31	0.90

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

4. EXPERT

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

Name	Qualifications
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

4.2 As at the Latest Practicable Date, the professional adviser above has no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

4.3 The professional adviser above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they respectively appear.

4.4 As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, the date to which the latest published audited financial statements of the Company were made up.

5. SERVICE CONTRACTS

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

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there are some changes in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the Articles of Association, at any general meeting of shareholders, a resolution shall be decided on a show of hands unless otherwise required by the Hong Kong Listing Rules, or a poll is demanded, before or after any vote by show of hands:

- (i) the chairman of the meeting;
- (ii) at least two shareholders with voting rights or proxies for shareholders with voting rights;
- (iii) one or more shareholders (including proxies) holding, individually or in combination, more than ten percent (10%) of the shares entitled to vote at such meeting.

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

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

8. DIRECTORS' INTERESTS

- 8.1 There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director or supervisor of the Company is materially interested and which is significant in relation to the business of the Group.
- 8.2 The following Directors also serve as a director or employee of China Energy Investment Corporation Limited or its subsidiaries:

Name	Name of company	Position held	Commencement of term of office
Wang Xiangxi	China Energy	Party Secretary, Chairman	March 2019
Jia Jinzhong	China Energy	Senior Business Director	July 2021
Yang Rongming	China Energy	Director of Coal and Transportation Industry Management Department	December 2020

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

- 8.3 None of the Directors or any of their respective associates has interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Hong Kong Listing Rules.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

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