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

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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)

EXCEEDING OF ANNUAL CAP AND PROPOSED REVISION OF ANNUAL CAPS FOR SUPPLY OF COAL BY THE GROUP TO THE CHINA ENERGY GROUP

PROPOSED REVISION OF ANNUAL CAPS FOR SUPPLY OF PRODUCTS AND PROVISION OF SERVICES BY THE GROUP TO THE CHINA ENERGY GROUP

PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR

PROPOSED APPOINTMENT OF SUPERVISOR

PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES

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



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 1 to 19 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 20 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 22 to 35 of this circular.

Notices convening the AGM and the H Shareholders' Class Meeting with reply slips and forms of proxy for use at the said meetings will be dispatched by the Company to the Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules.

May 20, 2022

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DEFINITIONS

In this circular, 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;
“A Shareholder(s)”	holder(s) of A Share(s);
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the PRC on Friday, 24 June 2022 at 10:00 a.m.;
“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) relating to the proposed revision of the annual caps;
“AGM”	the 2021 annual general meeting of the Company to be held on Friday, 24 June 2022;
“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;

DEFINITIONS

“Director(s)”	the director(s) of the Company;
“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 Share Repurchase Mandate”	the general mandate to exercise the power of the Company to repurchase H Shares not exceeding 10% of the number of H Shares in issue as at the date of passing the proposed resolution(s) approving the H Share Repurchase Mandate at the AGM, the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting, details of which are set out in the notice of the AGM and the notice of the H Shareholders’ Class Meeting;
“H Shareholder(s)”	holder(s) of H Share(s);
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the PRC on Friday, 24 June 2022 at 10:15 a.m.;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	an independent board committee of the Board comprising all independent non-executive Directors;
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed revision of the annual caps;

DEFINITIONS

“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 AGM under the Hong Kong Listing Rules;
“Latest Practicable Date”	16 May 2022, 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 entered into between the Company and China Energy on 27 August 2021;
“New Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement entered into between the Company and China Energy on 27 August 2021;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SAFE”	State Administration of Foreign Exchange 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;
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers and Share Buybacks.

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

Xu Mingjun

Non-executive Director:

Jia Jinzhong

Yang Rongming

Independent Non-executive Directors:

Yuen Kwok Keung

Bai Chong-En

Chen Hanwen

Employee Director:

Wang Xingzhong

To the Shareholders

Dear Sir or Madam,

Office of the Board of the Company:

Shenhua Tower

22 Andingmen Xibinhe Road

Dongcheng District

Beijing, PRC

May 20, 2022

**EXCEEDING OF ANNUAL CAP AND PROPOSED REVISION OF ANNUAL
CAPS FOR SUPPLY OF COAL BY THE GROUP TO THE CHINA ENERGY
GROUP**

**PROPOSED REVISION OF ANNUAL CAPS FOR SUPPLY OF PRODUCTS AND
PROVISION OF SERVICES BY THE GROUP TO THE CHINA ENERGY GROUP**

PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR

PROPOSED APPOINTMENT OF SUPERVISOR

PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the announcements made by the Company on 25 March 2022 on continuing connected transactions.

Reference is made to the announcement made by the Company on 29 December 2021 on proposed appointment of executive director and appointment of chief executive officer.

Reference is made to the announcement made by the Company on 25 March 2022 on proposed appointment of supervisor.

The purpose of this circular is to provide you with further information in relation to the above matters and the proposal for general mandate to repurchase H Shares and the recommendation from the Independent Board Committee in relation to the revision of annual caps under the New Mutual Coal Supply Agreement and 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 the revision of annual caps under the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement.

CONTINUING CONNECTED TRANSACTIONS

Background

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% interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

Reference is made to the announcements dated 27 August 2021 (the “**Announcements**”) and the circular dated 17 September 2021 (the “**Circular**”) in relation to the termination of the Original Mutual Coal Supply Agreement and entering into the New Mutual Coal Supply Agreement, and the termination of the Original Mutual Supplies and Services Agreement and entering into the New Mutual Supplies and Services

LETTER FROM THE BOARD

Agreement. As disclosed in the Announcements and the Circular, the Company has entered into the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement with China Energy on 27 August 2021 to provide for the mutual supply of coal and mutual supply of products and services between the Group and China Energy Group, the term of which will expire on 31 December 2023.

In accordance with the Hong Kong Listing Rules, the Company has been monitoring all of its transactions carried out pursuant to the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement. The transaction amount of the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 exceeded the annual cap. Additionally, the existing annual caps in respect of the supply of coal by the Group to the China Energy Group for the years ending 31 December 2022 and 31 December 2023, and the supply of products and provision of services by the Group to the China Energy Group for the years ending 31 December 2022 and 31 December 2023 will not be sufficient for the Group's needs. The Directors therefore propose to revise them.

MAJOR TERMS OF THE 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.

EXCEEDING OF ANNUAL CAP AND PROPOSED REVISION OF ANNUAL CAPS FOR SUPPLY OF COAL BY THE GROUP TO THE CHINA ENERGY GROUP

The existing annual caps for the three years ending 31 December 2021, 31 December 2022 and 31 December 2023 for the supply of coal by the Group to the China Energy Group and the proposed revised annual caps are set out below. The Company also sets out below the historic transaction amount under the same category for the year ended 31 December 2021.

LETTER FROM THE BOARD

Supply of coal by the Group to the China Energy Group

Year ended 31 December 2021			Year ended 31 December 2022		Year ended 31 December 2023	
Transaction Amount	Proposed Revised	Annual Cap	Annual Cap	Proposed Revised	Annual Cap	Proposed Revised
(Audited)						
(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
86,000	96,776	99,000	86,000	99,000	86,000	99,000

The transaction amount for the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 exceeded the annual cap due to the following reasons:

- (a) There was a significant surge in coal market price in 2021 due to the post COVID-19 industrial recovery, extreme weather, the annual sharp uptick in demand for coal for winter. Particularly, since August 2021, the coal price increased substantially due to soaring demand. During the week of 27 August 2021, as one of the most important coal market price index, the Bohai Bay Thermal Coal Index (ie. 5,500 Kcal thermal coal price) was approximately RMB683 per tonne (inclusive of tax^{Note}). Afterwards, the Bohai Bay Thermal Coal Index (ie. 5,500 Kcal thermal coal price) was consistently above RMB720 per tonne (inclusive of tax) and even exceeded RMB840 per tonne in October 2021 (inclusive of tax). As at the end of 2021, the Bohai Bay Thermal Coal Index (ie. 5,500 Kcal thermal coal price) was approximately RMB737 per tonne (inclusive of tax), representing an increase of RMB152 compared to end of 2020.

The Group's average coal sales price is affected by factors such as various calorific values of different coal products and coal market price index which are referred in medium-term and long-term contacting price. In the first half of 2021, the Group's average coal sales price (i.e. average price of different coal products with various calorific values) was just RMB499 per tonne (exclusive of tax). Affected by the market, the Group's average coal sales price reached RMB742 per tonne (exclusive of tax) in the fourth quarter of 2021, representing an increase of 48.7% as compared to the first half of 2021. The Group's average coal sales price in 2021 reached RMB588 (exclusive of tax), representing an increase of 43.3%. The Group implemented the same pricing policy for both internal and external clients which resulted in consistently high prices for coal supplied to China Energy Group.

Note: The tax rate is 13%, the same below.

LETTER FROM THE BOARD

- (b) The surge in coal prices led to the worst energy shortage in China since 2011. The significant curb in electricity use in various provinces and regions in China caused serious disruptions to the Chinese people's livelihood. On 8 October 2021, the State Council issued six specific orders to deal with the power shortages, including, among others, *"to give priority to people's livelihood, guarantee people's daily life and the energy for heating in winter and, in particular, ensure the coal and energy demand for winter in the north-eastern regions be fulfilled"*. As the world's largest thermal power generation company with an installed thermal power generation capacity of about 16% of the country, China Energy has resolutely implemented requirements to conform with the State Council's six specified orders and the Central Committee's "Six Stabilities" and "Six Guarantees" economic policy and made every effort to ensure coal and power supply and increase production and supply. Accordingly, the Group increased its coal supply to the China Energy Group significantly from what was expected at the time of the entry into the New Mutual Coal Supply Agreement, with actual supply to the China Energy Group increased by approximately 10 million tonnes more than expected in the second half of 2021. The Company expected the transaction amount for supply of coal by the Group to the China Energy Group in 2021 would reach approximately RMB77,900 million, but it ultimately surged to RMB96,776 million despite already factoring into fluctuations in coal price and buffer.
- (c) In light of the macro-environment, the Company was faced with challenges brought by the soaring sales volume and prices of coal supply against the constraint of the existing annual cap for the year ended 31 December 2021, while fulfilling its social responsibility as a listed company and in line with the State's requirement of ensuring supply. Nevertheless, the Company considers that strictly enforcing the Listing rules of Shanghai Stock Exchange and the Hong Kong Listing Rules and the pricing principles under the New Mutual Coal Supply Agreement and protecting the interests of the Company's minority shareholders are consistent. The Group implemented the same pricing policy for both internal and external clients which resulted in consistently high prices for coal supplied to China Energy Group. In concurrent with ensuring supply, the Company achieved good financial returns and ensured that the interests of the Company's minority shareholders were not compromised.

In addition to the above, the following factors were taken into consideration in revising the existing annual caps for the three years ending 31 December 2021, 31 December 2022 and 31 December 2023 for the supply of coal by the Group to the China Energy Group under the New Mutual Coal Supply Agreement:

- (a) The total transaction amount for the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 was RMB96,776 million.
- (b) The Group's coal sales volume in 2021 was approximately 482 million tonnes, of which approximately 167 million tonnes were sold to China Energy Group. The Group's projected coal sales volume in 2022 is 403 million tonnes. Based on the proportion of coal sales to the China Energy Group to the total sales volume in 2021 (approximately 35%), it is estimated that 140

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million tonnes will be sold to China Energy Group in 2022. Considering factors such as the increase of supply in coal market and the state has pushed for the coal price to return to reasonable price range, it is estimated that the coal market price will fall as compared to fourth quarter of 2021 but continue to be at the average level in the second half of 2021. Between January and March 2022, the Group's average coal sales price was RMB624 (exclusive of tax), representing an increase of 31.4%. Using the Group's average sales price of approximately RMB677 per tonne of coal (exclusive of tax) in the second half of 2021 as the projected sales price for a tonne of coal to the China Energy Group for the full year of 2022, the total transaction amount is expected to be approximately RMB94,600 million in 2022. Setting aside a 5% buffer, it is proposed that the annual cap be revised to RMB99,000 million.

- (c) It is expected that the transaction amount of the supply of coal by the Group to the China Energy Group in 2023 will remain stable as compared to 2022, and thus it is proposed that the annual cap for 2023 remains the same as 2022.

MAJOR TERMS OF THE 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.

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- (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.

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.

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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 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.
- (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%.

LETTER FROM THE BOARD

- (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.

PROPOSED REVISION OF ANNUAL CAPS FOR SUPPLY OF PRODUCTS AND PROVISION OF SERVICES BY THE GROUP TO THE CHINA ENERGY GROUP

The existing annual caps for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 for the supply of coal by the Group to the China Energy Group and the proposed revised annual caps are set out below. The Company also sets out below the historic transaction amount under the same category for the year ended 31 December 2021.

Supply of Products and Provision of Services by the Group to the China Energy Group

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	
Annual Cap	Transaction Amount (Audited)	Annual Cap	Proposed Revised Annual Cap	Annual Cap	Proposed Revised Annual Cap
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
13,000	10,502	16,000	39,000	16,000	39,000

LETTER FROM THE BOARD

The following factors were taken into consideration in revising the existing annual caps for the two years ending 31 December 2022 and 31 December 2023 for the supply of products and provision of services by the Group to the China Energy Group under the New Mutual Supplies and Services Agreement:

- (a) The transaction amount of the supply of products and provision of services by the Group to the China Energy Group was RMB10,502 million in 2021. An additional 80 million tonnes of transportation is expected to be provided to the China Energy Group in 2022, increasing the revenue for transportation service (including rail freight, port handling fees, shipping fees, etc.) by approximately RMB16,000 million. Meanwhile, some power plants of the Group are expected to add the sale of electricity through regional power sales companies of the China Energy Group in 2022. The Group generated 166.45 billion kWh of electricity in 2021 and expects to generate 180.5 billion kWh of electricity in 2022, a year-on-year increase of approximately 8%. The revenue of the Group from electricity sales in 2021 was approximately RMB54,300 million. Electricity sales revenue is measured at the same proportional growth as electricity generation, and thus the Group's electricity sales revenue is expected to be RMB58,900 million in 2022. Based on 10% of the electricity sales revenue in 2022 being sold through power sales companies of the China Energy Group, the increase in revenue from connected transactions is approximately RMB5,900 million. Additionally, it is expected that there will be a year-on-year increase for revenue from information technology services by approximately RMB820 million, mining engineering services by approximately RMB530 million, sales of materials, such as diesel and lubricants, by approximately RMB510 million and chemicals, by-products and training by approximately RMB840 million in 2022. As a result, the transaction amount of the supply of products and provision of services by the Group to the China Energy Group is expected to be approximately RMB35,100 million in 2022. Setting aside a 10% buffer with a measured cap of RMB38,610 million, it is proposed that the annual cap for the supply produces and provision of services by the Group to the China Energy Group be revised to RMB39,000 million.
- (b) It is expected that the transaction amount of the supply of products and provision of services by the Group to the China Energy Group in 2023 will remain stable as compared to 2022, and thus it is proposed that the annual cap for 2023 remains the same as 2022.

LETTER FROM THE BOARD

Measures Adopted by the Company for Future Compliance

The Directors consider that the failure to re-comply with the requirements under Rule 14A.54(1) of the Hong Kong Listing Rules on a timely basis, which was inadvertent and regretful, was an *force majeure* event. In order to avoid any occurrence of similar events in the future, the Company has taken necessary and additional measures to strengthen the reporting and documentation system of the Company and its subsidiaries including:

- (a) The connected transaction leading group will frequently monitor and update the trend of coal prices on a weekly basis by taking into account the Group's development and market conditions for a more accurate assessment of market expectations. As and when any adjustments to the annual caps of continuing connected transaction become foreseeable, the Company will promptly make necessary announcement and seek prior approval from independent shareholders.
- (b) The Company will conduct more frequent review of the total volume of continuing connected transactions and assign additional executives from the business unit and key subsidiaries of the Company to the connected transaction leading group to report on the projected volume of continuing connected transactions on a monthly basis, with such frequency increased to biweekly during periods of high market volatility to avoid exceeding the approved annual caps for continuing connected transactions.
- (c) The Company will review and strengthen the Group's internal control policies and measures on continuing connected transactions, including, but not limited to, the data collection and cross-checking process, reporting, filing system, and intervals of regular meetings between the Group's finance and compliance departments to discuss potential issues and streamline of internal reporting process.
- (d) The connected transaction leading group will provide monthly transaction data for review by the Company's management and members of the Audit and Risk Committee in order to enhance oversight of the Group's continuing connected transactions.
- (e) The Company will engage external legal advisers to provide not less than 15 hours of additional trainings on connected transactions to the directors, senior management and relevant employees to enhance their familiarity with the Hong Kong Listing Rules, and to conduct frequent trainings and distribute compliance guidelines and training material on a regular basis to remind of and update their knowledge and understanding of the requirements of the Hong Kong Listing Rules and compliance with internal control procedures in relation to the Group's continuing connected transactions to ensure that the Company will continue to comply with the Hong Kong Listing Rules in a timely manner.

LETTER FROM THE BOARD

- (f) The Company will promptly consult with professional advisers, including the legal advisers as and when appropriate in planning for and reviewing of future transactions.

The Company undertakes that, in the event that it is necessary to adjust the annual caps under the New Mutual Coal Supply Agreement or other continuing connected transaction agreements for any reasons, arrangements will be made in advance and the relevant requirements of the Hong Kong Listing Rules will be strictly complied with to avoid future similar incidents.

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 the New Mutual Coal Supply Agreement, the 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 revision of the annual caps, 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 proposed revision of the annual caps is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

General Information

The Directors consider that the proposed revision of the annual caps is fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and is in the interests of the Company and its shareholders as a whole.

The Board has resolved and approved the proposed revision of the annual caps on 25 March 2022. Of the Directors attending the board meeting, the Abstained Directors were considered to have material interest by virtue of being employed by China Energy, and thus abstained from voting on the board resolution(s) in respect of the proposed revision of the annual caps.

PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR

In accordance with the Articles of Association, the Company Law of the People's Republic of China and applicable laws and regulations, the Board proposed the appointment of Mr. Lv Zhiren as an executive director of the fifth session of the Board of the Company. The proposed appointment of executive director is subject to the approval of the shareholders of the Company by way of ordinary resolution at the general meeting.

LETTER FROM THE BOARD

Background of Mr. Lv Zhiren

Lv Zhiren, male, born in November 1964, aged 57, Chinese, senior engineer, CPC member. Mr. Lv has extensive experience in business management. He graduated from the School of Economics and Management of Beijing Union University in 1987, majoring in national economic management. He received an EMBA degree from Shanghai University of Finance and Economics in 2005.

Mr. Lv has served as the Chief Executive Officer of the Company since December 2021, and deputy secretary of the Party Committee of the Company since November 2021. Mr. Lv served as the secretary to the Party Committee and deputy general manager of GD Power Development Co., Ltd. from September 2018 to December 2021, and the director of GD Power Development Co., Ltd from February 2020 to December 2021. He served as director, secretary to the Party Committee and executive vice president of Beijing GD Power Co., Ltd. from February 2019 to December 2021. He served as vice president of the Company from March 2017 to September 2018. He served as managers of the strategic planning departments both of the former Shenhua Group Corporation Limited and the Company from November 2009 to March 2017. He served as manager of the strategic planning department of the Company from November 2004 to November 2009.

Prior to the foregoing, Mr. Lv had successively held the posts of deputy director of the general division, deputy director and director of the annual planning division, and deputy department manager of the planning department of the former Shenhua Group Corporation Limited.

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

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

Upon approval of appointment of Mr. Lv by the shareholders of the Company, Mr. Lv will enter into a service contract with the Company, with a term of office from the date of this appointment till the expiry of the tenure of the fifth session of the Board of the Company. Pursuant to the Articles of Association, Mr. Lv shall be elected and appointed at a general meeting of the Company and may be re-elected and re-appointed at a general meeting of the Company.

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

LETTER FROM THE BOARD

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

PROPOSED APPOINTMENT OF SUPERVISOR

According to the Articles of Association, the Company Law of the People's Republic of China and applicable laws and regulations, the supervisory committee of the Company (the “**Supervisory Committee**”) proposes the appointment of Mr. Tang Chaoxiong as a shareholder representative supervisor of the fifth session of the Supervisory Committee of the Company.

The proposed appointment of supervisor is subject to the approval of the shareholders of the Company by way of ordinary resolution at the general meeting.

Background of Mr. Tang Chaoxiong

Tang Chaoxiong, male, born in February 1968, aged 54, Chinese, a senior accountant and a member of the Communist Party. Mr. Tang has extensive experience in financial management. He graduated from Changsha Institute of Water Conservancy and Electric Power in 1991, majoring in finance and accounting.

Mr. Tang has been serving as the director of the capital operation department of China Energy Investment Corporation Limited since April 2021. From November 2016 to April 2021, Mr. Tang served as the chief accountant, deputy general manager and a member of the Party Committee of Guodian Technology & Environment Group Co., Ltd.. From September 2015 to November 2016, he served as the director, deputy general manager, chief accountant and member of the Party Members' Group of Guodian Technology & Environment Group Co., Ltd.. From May 2010 to September 2015, he served as the deputy general manager and a member of the Party Members' Group of the former Guodian Capital Holdings Co., Ltd.. From December 2006 to May 2010, he served as the deputy general manager and a member of the Party Members' Group of the former Guodian Finance Co., Ltd..

Prior to the foregoing, Mr. Tang served as the deputy director of the accounting division and the audit division of the finance and property rights management department of State Power Corporation of China, and the director of the finance and accounting division of the finance and property rights department of the former China Guodian Corporation.

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

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

LETTER FROM THE BOARD

Upon approval of Mr. Tang's appointment by the shareholders of the Company, Mr. Tang will enter into a service contract with the Company for a term till the expiry of the tenure of the fifth session of the Supervisory Committee of the Company (28 May 2023) commencing from the date of appointment. Pursuant to the Articles of Association, Mr. Tang will be elected and appointed at a general meeting of the Company and may be re-elected at a general meeting of the Company.

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

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

PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES

The Company Law of the People's Republic of China (to which the Company is subject to and has incorporated in its Articles of Association) provides that a joint stock limited company incorporated in the PRC may not repurchase its shares unless such repurchase is effected for the purpose of (a) cancellation of shares for the purpose of reducing its capital; (b) merging with other companies that hold shares in the Company; (c) allocating shares for the purpose of the employee stock ownership plan or share option incentive; (d) shareholders objecting to resolutions of the general meeting of shareholders concerning merger or division of the Company, requiring the Company to buy their shares; (e) allocating shares for the conversion of corporate bonds which are convertible into shares issued by the Company; or (f) as necessary for maintaining the value of the Company and safeguarding the rights and interests of shareholders.

PRC laws and regulations and the Hong Kong Listing Rules permit shareholders of a PRC joint stock limited company to grant a general mandate to the directors to repurchase H shares of such company that are listed on the Hong Kong Stock Exchange. Such mandate is required to be given by way of a special resolution passed by shareholders in general meeting and special resolutions passed by holders of domestic shares and overseas listed foreign shares in separate class meetings.

As H Shares are traded on the Hong Kong Stock Exchange in Hong Kong dollars and the price payable by the Company upon any repurchase of H Shares will, therefore, be paid in Hong Kong dollars, and the approval of the Beijing Administrative Office of SAFE will be required.

LETTER FROM THE BOARD

In accordance with the requirements of the Articles of Association applicable to capital reduction, the Company will have to notify its creditors of the passing of the resolution for the reduction of the registered capital of the Company within 10 days after the passing of such resolution and also by way of the publication on a newspaper within 30 days after the passing of the resolution. Creditors then have a period of up to 30 days after the receipt of Company's written notification or if no such notification has been received, up to 45 days after the publication of the press announcement to require the Company to repay amounts due to them or to provide guarantees in respect of such amounts.

Accordingly, approval is being sought from the Shareholders for a general mandate to repurchase H Shares in issue. In accordance with the legal and regulatory requirements described herein, the Directors will convene the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting. A special resolution will be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting to grant the Board the H Share Repurchase Mandate, details of which will be set out in the notice of the AGM and the notice of the H Shareholders' Class Meeting. The H Shares which may be repurchased pursuant to the H Share Repurchase Mandate shall not exceed 10% of the number of H Shares in issue of the Company as at the date of passing of the resolution(s) approving the H Share Repurchase Mandate. The period of the H Share Repurchase Mandate shall not exceed the relevant period (the "Relevant Period"). The Relevant Period commences from the day when the authority conferred by this special resolution is approved by a special resolution of shareholders at a general meeting, a class meeting of holders of A Shares and a class meeting of holders of H Shares and ends at the earlier of: (a) the conclusion of the annual general meeting for 2022; or (b) the date on which the authority conferred by this special resolution is revoked or varied by a special resolution at a general meeting, or a special resolution at a class meeting of holders of A Shares or a class meeting of holders of H Shares.

An explanatory statement giving certain information regarding the H Share Repurchase Mandate is set out in Appendix II to this circular.

THE AGM AND THE CLASS MEETINGS

The AGM will be convened and held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People's Republic of China at 9:30 a.m. on Friday, 24 June 2022 for the purpose of, inter alia, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), the revision of the annual caps for supply of coal by the Group to the China Energy Group and the revision of the annual caps for supply of product and provision of services by the Group to the China Energy Group;
- (2) by the Shareholders, and by way of ordinary resolution(s), proposed appointment of executive director;

LETTER FROM THE BOARD

(3) by the Shareholders, and by way of ordinary resolution(s), proposed appointment of supervisor;

(4) by the Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

The A Shareholders' Class Meeting will be convened and held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People's Republic of China at 10:00 a.m. on Friday, 24 June 2022 for the purpose of considering and approving by the A Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

The H Shareholders' Class Meeting will be convened and held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People's Republic of China at 10:15 a.m. on Friday, 24 June 2022 for the purpose of considering and approving by the H Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

Votes for all resolution(s) at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting shall be taken by way of poll.

Pursuant to the Hong Kong Listing Rules, China Energy and its associates will abstain from voting on resolution(s) relating to the proposed revision of the annual caps, to be proposed, considered and voted on at the AGM. As of the Latest Practicable Date, China Energy and its associates hold in aggregate 13,812,709,196 shares of the Company, which amounts to approximately 69.52% of total issued shares of the Company.

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

Notices convening the AGM and the H Shareholders' Class Meeting and forms of proxy for use at the said meetings will be dispatched by the Company to the H Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that the proposed revision of the annual caps, proposed appointment of executive director, proposed appointment of supervisor and the H Share Repurchase Mandate set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

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

Accordingly, the Board recommends that all Shareholders, A Shareholders and H Shareholders should vote in favour of the relevant resolutions to be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting.

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the resolutions in relation to the proposed revision of the annual caps.

Having considered the advices given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion that the proposed revision of the annual caps set out herein is 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 resolutions in relation to the proposed revision of the annual caps to be proposed at the AGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on page 20, the letter from the Independent Financial Adviser set out on pages 22 to 35 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)

May 20, 2022

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**EXCEEDING OF ANNUAL CAP AND PROPOSED REVISION OF ANNUAL
CAPS FOR SUPPLY OF COAL BY THE GROUP TO THE CHINA ENERGY
GROUP**

**PROPOSED REVISION OF ANNUAL CAPS FOR SUPPLY OF PRODUCTS AND
PROVISION OF SERVICES BY THE GROUP TO THE CHINA ENERGY GROUP**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the proposed revision of annual caps for supply of coal by the Group to the China Energy Group under the New Mutual Coal Supply Agreement, and the proposed revision of annual caps for supply of products and provision of services by the Group to the China Energy Group 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 22 to 35 of this circular, we are of the opinion that the proposed revision of annual caps for supply of coal by the Group to the China Energy Group under the New Mutual Coal Supply Agreement, and the proposed revision of annual caps for supply of products and provision of services by the Group to the China Energy Group 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 proposed revision of the annual caps to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Dr. Yuen Kwok Keung

Independent

Non-executive Director

Dr. Bai Chong-En

Independent

Non-executive Director

Dr. Chen Hanwen

Independent

Non-executive Director

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Shareholders in respect of the Transactions.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

20 May 2022

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with the revision of annual caps relating to (i) the supply of coal by the Group to the China Energy Group under the New Mutual Coal Supply Agreement; and (ii) the supply of products and provision of services by the Group to China Energy Group under the New Mutual Supplies and Services Agreement (together, the “**Transactions**”). Details of the Transactions are set out in the letter from the Board contained in the circular of the Company to its Shareholders dated 20 May 2022 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, 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 the New Mutual Coal Supply Agreement and the 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.

As the highest applicable percentage ratio under Rule 14.07 of the Hong Kong Listing Rules for the proposed revision of the annual caps of the transactions contemplated under the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement with China Energy exceeds 5%, the Transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all independent non-executive Directors, namely Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen, has been formed to advise the Independent Shareholders on the proposed revision of the annual caps. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in this regard.

We are not associated or connected with the Company, China Energy or their respective core connected persons or associates and, accordingly, are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, China Energy or their respective core connected persons or associates.

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to, the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement, annual reports of the Company for each of the years ended 31 December 2020 (“**FY2020**”) (“**2020 Annual Report**”) and 31 December 2021 (“**FY2021**”) (“**2021 Annual Report**”), the interim report of the Company for the six months ended 30 June 2021 (“**1H2021**”) (“**2021 Interim Report**”) and other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed by the Directors and management of the Company (collectively, the “**Management**”), which we have assumed to be true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete in all material aspects up to the date of the AGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group and China Energy Group, nor have we carried out any independent verification of the information supplied.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Transactions, we have considered the following principal factors and reasons:

1. Information on the parties

The Group

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

According to the 2021 Annual Report, revenue of the Group for FY2021 was approximately RMB335,216 million, representing a year-on-year increase of approximately 43.7% as compared with approximately RMB233,263 million in FY2020. The main reasons for the revenue increase were (i) with strong market demand for coal and rising coal prices, the Group's coal sales volume and average sales price increased by approximately 8.0% and approximately 43.4% year-on-year, respectively; (ii) with the growth in domestic electricity demand, the Group has actively leveraged its integrated operation advantages to ensure the coal supply of power plants, and several new generating units have been put into operation successively from 2021 onwards, resulting in a year-on-year increase of approximately 22.3% in the Group's power output dispatch; (iii) the Group integrated shipping resources, improved the scale and intensification of shipping business, and ensured effective energy supply. The shipping volume increased by approximately 7.3% year-on-year, and freight rate increased; (iv) affected by international oil prices and other factors, the sales prices of polyethylene and polypropylene increased by approximately 21.7% and approximately 13.9% year-on-year, respectively.

In FY2021, profit from operations of the Group was approximately RMB80,008 million, representing a year-on-year increase of approximately 38.0% as compared with approximately RMB57,977 million in FY2020. Profit from operations of the coal segment, the shipping segment and the coal chemical segment of the Group before elimination on consolidation increased significantly by approximately 98.2%, approximately 368.9% and approximately 178.8% respectively, year-on-year for FY2021. Among them, profit from operations of the coal segment amounted to approximately RMB59,125 million and the relevant profit margin from operations was approximately 20.2%. The main reasons for the increase in the coal segment's profit margin were the net effect of: (i) increase in coal sales volume and average sales price; (ii) increase in the sales volume and unit production cost of self-produced coal and increase in the sales volume and unit purchase cost of purchased coal.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In FY2021, profit for the year attributable to equity holders of the Company was approximately RMB51,607 million, representing a year-on-year increase of approximately 44.0%, compared to approximately RMB35,849 million in 2020.

According to the 2020 Annual Report, in FY2020, revenue of the Group was approximately RMB233,263 million, representing a year-on-year decrease of approximately 3.6% as compared with approximately RMB241,871 million for the year ended 31 December 2019 (“**FY2019**”). The main reasons for the decrease in revenue were: (i) the year-on-year decrease of approximately 3.8% in the Group’s average sales price of coal resulted in the decrease in revenue from coal sales; (ii) change in consolidation scope of financial statement of the Company and year-on-year decrease in power output dispatch and average power output price resulted in the decrease in revenue from sale of power. Profit from operations decreased by approximately 9.8% to approximately RMB57,977 million in FY2020. Profit for the year attributable to equity holders of the Company for FY2020 was approximately RMB35,849 million, representing a year-on-year decrease of approximately 14.0%, compared to RMB41,707 million in FY2019.

China Energy

China Energy is the controlling shareholder of the Company holding around 69.52% interest in the Company as at the Latest Practicable Date. 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. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

2. Background of and reasons for the Transactions

In considering the fairness and reasonableness of the Transactions, we have reviewed the reasons for the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement (together, the “**Agreements**”). We understand from the Management that aforesaid mutual arrangements between the Group and China Energy have long been in existence prior to the Group’s listing in Hong Kong in 2005. With reference to the Company’s circular dated 17 September 2021 in relation to the entering into of the Agreements (“**2021 Circular**”), we noted that the Agreements were crucial to the continuation of businesses of both the Group and the China Energy Group in terms of facilitating business growth and development.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As set out in the 2021 Circular, pursuant to the New Mutual Coal Supply Agreement, the Group sells 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. Under the New Mutual Coal Supply Agreement, the China Energy Group also supplies the Group with coals of various calorific values for the purposes of coal blending and re-sale.

Mutual sales and purchases between the Group and China Energy Group is beneficial 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 and such business relationship also ensures both parties would be able to maintain a reliable supply of high-quality coal.

As with the New Mutual Supplies and Services Agreement, China Energy Group continues to purchase from/sell to the Group, and the Group continues to purchase from/sell to China Energy Group, certain goods and/or ancillary services on a mutual basis. Such mutual cooperation has been ensuring both the Company and the China Energy Group the advantages of having a reputable supplier of goods and/or services who are also familiar with each other's businesses and ultimately benefiting the normal production and operations of both parties.

Please refer to the sections headed "Major Terms of the New Mutual Coal Supply Agreement" and "Major Terms of the New Mutual Supplies and Services Agreement" in the letter from the Board of the Circular for additional information relating to the Agreements.

Most importantly, the supply of coal, other products and services by the Group to China Energy Group under the Transactions, in particular, has been contributing to the revenue of the Group. In FY2020 and FY2021, (i) revenue generated from sales of coal by the Group to China Energy Group represented around 33.5%% and 38.8% of the Group's revenue from the same type of transactions, respectively; (ii) sales generated from products provided by the Group to the China Energy Group accounted for approximately 16.1% and 11.8% of the same type of transactions entered into by the Group, respectively; and (iii) sales generated from services provided by the Group to the China Energy Group accounted for approximately 9.4% and 13.4% of the same type of transactions entered into by the Group, respectively.

As disclosed in the letter from the Board of the Circular, the Company has been monitoring all of its transactions carried out pursuant to the Agreements and noted the transaction amount of the supply of coal by the Group to the China Energy for FY2021 exceeded the annual cap. The Company also noted that the existing annual caps in respect of the supply of coal by the Group to the China Energy for the years ending 31 December 2022 ("FY2022") and 31 December 2023 ("FY2023") and the supply of products and provision of services by the Group to the China Energy Group for FY2022 and FY2023 will not be sufficient for the Group's needs.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As such, in light of:

- (i) the long-established existing cooperation relationship between the Group and the China Energy Group;
- (ii) as discussed above, the Agreements are essential to maintaining business stability and ensuring operational efficiency for the Group and China Energy Group on a mutual basis, and the supply of coal and other products and services by the Group to China Energy Group under the Agreements, in particular, has been contributing to the revenue of the Group; and
- (iii) the fact that the annual cap under the New Mutual Coal Supply Agreement for FY2021 has already been exceeded,

we agree with the Directors and would consider the Transactions contemplated, which is to revise the annual caps for the Agreements to be fair and reasonable.

3. Exceeding of annual cap and proposed revised annual caps for supply of coal by the Group to the China Energy Group

As discussed above under the section headed “Background of and reasons for the Transactions”, the actual transaction amount for the supply of coal by the Group to the China Energy Group for the FY2021 under the New Mutual Coal Supply Agreement has exceeded the relevant annual cap set out in the 2021 Circular. Based on the actual transaction amount for FY2021, the Company is also of the view that the annual caps relevant to the supply of coal by the Group to the China Energy Group under the New Mutual Coal Supply Agreement for FY2022 and FY2023 would also be insufficient.

The table below sets out the historical transaction amount, existing annual caps based on the 2021 Circular and the proposed revised annual caps:

Supply of coal by the Group to the China Energy Group

Year ended 31 December 2021			Year ending 31 December 2022		Year ending 31 December 2023	
		Proposed		Proposed		Proposed
Annual cap	Transaction	revised	Annual cap	revised	Annual cap	revised
(RMB million)	amount	annual cap	(RMB million)	annual cap	(RMB million)	annual cap
	(RMB million)	(RMB million)		(RMB million)		(RMB million)
86,000	96,776	99,000	86,000	99,000	86,000	99,000

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As discussed in the letter from the Board of the Circular, the proposed transaction amount for the supply of coal by the Group to the China Energy Group for the FY2021 exceeded the annual cap due to the following summarised reasons:

- (a) sharp increase in sales price of coal in the second half of 2021 has resulted from post COVID-19 industrial recovery, extreme weather, the annual sharp uptick in demand for coal for winter. In particular, the average coal sales price of the Group was RMB742 per tonne (exclusive of tax) in the fourth quarter of 2021, representing an increase of 48.7% as compared to the first half of 2021 which resulted in consistently high sales prices for coal supplied to clients including China Energy Group; and
- (b) the surge in coal prices led to the worst energy shortage in China since 2011. China Energy has implemented requirements to conform with the State Council's six specified orders and the Central Committee's "Six Stabilities" and "Six Guarantees" economic policy and made every effort to ensure coal and power supply and increase production and supply. Accordingly, the Group increased its coal supply to the China Energy Group significantly from what was expected at the time of entering into the New Mutual Coal Supply Agreement, with actual supply to the China Energy Group increased by approximately 10 million tonnes more than expected in the second half of 2021. The Company expected the transaction amount for supply of coal by the Group to the China Energy Group in 2021 would reach approximately RMB77,900 million, but it ultimately surged to RMB96,776 million despite already factoring into fluctuations in coal price and buffer.

We have discussed and understand from the Management that in view of the increases in the sales volume and sales price as discussed above, and the fact the sales volume and price are crucial inputs to the estimation of expected annual caps in relation to the supply of coal to China Energy Group under the New Mutual Coal Supply Agreement, the Company have resolved to also revise the proposed annual caps for the supply of coal to China Energy Group under the Mutual Coal Supply Agreement for the FY2022 and FY2023 (the "**Coal Supply Revised Annual Cap(s)**").

As disclosed in the letter from the Board of the Circular, the following factors were taken into consideration in determining the Coal Supply Revised Annual Caps:

- (a) the total transaction amount for the supply of coal by the Group to the China Energy Group for FY2021 was RMB96,776 million, representing approximately 97.8% of the revised annual cap for 2021;

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (b) the Group's coal sales volume in FY2021 was approximately 482 million tonnes, of which approximately 167 million tonnes, representing around 35%, were sold to China Energy Group. As disclosed in the 2021 Annual Report, the Group's projected total coal sales volume in 2022 is 403 million tonnes. Based on the actual proportion of coal sales to the China Energy Group to the total sales volume in 2021 (approximately 35%), it is estimated that 140 million tonnes will be sold to China Energy Group in 2022. Considering factors such as the increase of supply in coal market and the state has pushed for the coal price to return to reasonable price range, it is estimated that the coal market price will fall as compared to fourth quarter of 2021 but continue to be at the average level in the second half of 2021. Between January and March 2022, the Group's average coal sales price was RMB624 per tonne (exclusive of tax). Using the Group's average sales price of approximately RMB677 per tonne of coal (excluding tax) in the second half of 2021 as the projected sales price for a tonne of coal to the China Energy Group for the full year of 2022, the total transaction amount is expected to be approximately RMB94,600 million in 2022. Setting aside a 5% buffer, it is proposed that the annual cap be revised to RMB99,000 million;
- (c) it is expected that the transaction amount of the supply of coal by the Group to the China Energy Group in FY2023 will remain stable as compared to FY2022, and thus it is proposed that the annual cap for FY2023 remains the same as FY2022.

We have discussed with the Management and noted the Company has proposed a revised annual cap of RMB99,000 million for FY2021 retrospectively. We understand such revised annual cap was determined with reference to the actual transaction amount of RMB96,776 million.

We note that the Coal Supply Revised Annual Cap of RMB99,000 million for FY2022 represents an increase of approximately 2.3% from the actual transaction amount of approximately RMB96,776 million for the FY2021. In ascertaining the fairness and reasonableness of the Coal Supply Revised Annual Cap for FY2022, we have reviewed the following factors:

(i) Coal sales volume

We have reviewed the 2021 Annual Report which stated that the Group's business target for FY2022 in terms of coal sales volume is approximately 403 million tonnes. We have discussed and understand from the Management that such figure is based on the Group's internal projection.

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(ii) Portion of sales to China Energy Group

We note that the Company has used 35% as a benchmark in calculating the Coal Supply Revised Annual Cap for FY2022. We note that such input was derived from the actual portion achieved in FY2021. We have reviewed the 2020 Annual Report and 2021 Interim Report and noted that the portion of coal sales to the China Energy Group to the total sales volume is approximately 29.8% and approximately 33.0% respectively for FY2020 and for 1H2021. As such, we would consider the use of 35% for the purpose of estimating the Coal Supply Revised Annual Cap to be fair.

(iii) Average sales price

We have discussed and understand from the Management that coal sales price significantly increased in FY2021 and such increase was especially notable in the second half of FY2021. We have reviewed 2021 Annual Report and 2021 Interim Report, and we note that average coal sales price increased by approximately 43.4% to approximately RMB588/tonne (exclusive of tax) in FY2021 and approximately 25.4% to approximately RMB499/tonne (exclusive of tax) during 1H2021. We understand that the Company has adopted an average price of RMB677/tonne (exclusive of tax) in determining the Coal Supply Revised Annual Cap for FY2022, and such average price was derived from the average sales price of coal in the second half of FY2021. As discussed in the letter from the Board of the Circular, the average coal sales price was RMB624/tonne (exclusive of tax) between January and March 2022.

We have also discussed and understand from the Management that the Bohai Bay Thermal Coal Index (“**Bohai Index**”) which provides indicative pricing for thermal coal transported from major ports located in Bohai Bay, and as quoted in the letter of the Board of the Circular, would serve as a meaningful indicator for the sales price of coal due to it being one of the key thermal coal indexes in the PRC. As such, to further ascertain the fairness and reasonableness of the average sales price of RMB677/tonne (exclusive of tax) adopted for the purpose of estimating the FY2022 Coal Supply Revised Annual Cap, we have also reviewed the Bohai Index movements over the recent six months prior to the date of announcement of the Transactions and noted that the Bohai Index averaged an approximate RMB745/tonne (inclusive of tax) over the review period. We consider the use of six months review period to be fair due to the fact that it reflects the indicative current market pricing of coal. We have enquired the Company and we understand the applicable tax is approximately 13%. Hence, the average price based on the Bohai Index would be approximately RMB659/tonne (exclusive of tax) for the relevant review period.

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In view of the above, we consider the assumed RMB677/tonne (exclusive of tax) unit price in the estimation of the Coal Supply Revised Annual Cap to be in line with the market and therefore is not unreasonable.

(iv) Buffer

We note that the Company has also applied a buffer of 5% when estimating the Coal Supply Revised Annual Cap for FY2022. We consider the 5% buffer to be prudent mainly in light of the recent extreme price fluctuation of coal as disclosed above.

Based on all the factors discussed above, we are of the view that the Coal Supply Revised Annual Cap for FY2022 to be fair and reasonable.

We further note that the Company has assumed the expected Coal Supply Revised Annual Cap for FY2023 to be equal to that of the Coal Supply Revised Annual Cap for FY2022. As discussed above, coal sales volume and coal sales price are the two key inputs when estimating the Coal Supply Revised Annual Caps. Based on the disclosures in the annual report for FY2019 (“**2019 Annual Report**”), 2020 Annual Report and 2021 Annual Report, we noted that the growth rates for coal sales volume for the last three financial years ranged between approximately -3.0% and approximately +8.0%. Together with the recent fluctuations in sales price of coal as mentioned above, we would consider not including a growth rate to the Coal Supply Annual Cap for FY2023 to be prudent.

4. Proposed revised annual caps for supply of products and services by the Group to China Energy Group

As stated in the letter from the board of the Circular, in view of the actual transaction amount relevant to the supply of products and provision of services by the Group to the China Energy Group for FY2021, the Company considers the annual caps for FY2022 and FY2023 to be insufficient to satisfy the expected future demands from the China Energy Group.

The table below sets out the historical transaction amount, annual cap based on the 2021 Circular and the proposed revised annual cap for FY2022 and FY2023:

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

Year ended 31 December 2021		Year ending 31 December 2022		Year ending 31 December 2023	
Annual cap	Transaction amount	Annual cap	Proposed revised annual cap	Annual cap	Proposed revised annual cap
(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
13,000	10,502	16,000	39,000	16,000	39,000

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As disclosed in the letter from the Board of the Circular, the following factors were taken into consideration in determining the proposed revised annual caps for FY2022 and FY2023 (“**Products and Services Revised Annual Caps**”):

- (a) The transaction amount of the supply of products and provision of services by the Group to the China Energy Group was RMB10,502 million in 2021. An additional 80 million tonnes of transportation is expected to be provided to the China Energy Group in 2022, which is expected to increase the revenue for transportation service (including rail freight costs, port handling fees, shipping fees, etc.) by approximately RMB16,000 million in 2022. Meanwhile, some power plants of the Group are expected to add the sale of electricity through regional power sales companies of the China Energy Group in 2022. The Group generated 166.45 billion kWh of electricity in 2021 and expects to generate 180.5 billion kWh of electricity in 2022, a year-on-year increase of approximately 8%. The revenue of the Group from electricity sales in 2021 was approximately RMB54,300 million. Electricity sales revenue is measured at the same proportional growth as electricity generation, and thus the Group’s electricity sales revenue is expected to be RMB58,900 million in 2022. Based on 10% of the electricity sales revenue in 2022 being sold through power sales companies of the China Energy Group, the increase in revenue from connected transactions is approximately RMB5,900 million. Additionally, it is expected that there will be a year-on-year increase for revenue from information technology services by approximately RMB820 million, mining engineering services by approximately RMB530 million, sales of materials, such as diesel and lubricants, by approximately RMB510 million and chemicals, by-products and training by approximately RMB840 million in 2022. As a result, the transaction amount of the supply of products and provision of services by the Group to the China Energy Group is expected to be approximately RMB35,100 million in 2022. Setting aside a 10% buffer with a measured cap of RMB38,610 million, it is proposed that the annual cap for the supply produces and provision of services by the Group to the China Energy Group be revised to RMB39,000 million.
- (b) It is expected that the transaction amount of the supply of products and provision of services by the Group to the China Energy Group in 2023 will remain stable as compared to 2022, and thus it is proposed that the annual cap for 2023 remains the same as 2022.

We have also discussed and understand from the Management that in determining the Products and Services Revised Annual Caps, the Company has also considered the fact that in FY2021, the total transaction value of the Group’s supply of products and provision of services to China Energy Group was RMB10,502 million, representing approximately 80.8% of the annual cap for FY2021. We consider the Products and Services Revised Annual Cap for FY2022 to be fair and reasonable after considering the following factors:

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(i) Demand for transportation

We note that one of the key factors leading to the Products and Services Revised Annual Cap is due to the additional expected transportation services to be provided to China Energy Group. We have discussed and understand from the Company that such demand is primarily based on the business development trend of China Energy Group and taking into consideration of the long-term cooperative relationship between the Group and China Energy Group.

(ii) Expected increase in revenue from electricity sales

We have reviewed the 2021 Annual Report which stated that the Group's business target for FY2022 in terms of power generation is 180.5 billion kWh. We have discussed and understand from the Management that such figure is based on the Group's internal projection.

We understand from the Management that electricity sales revenue is usually measured at the same proportional growth as electricity generation. In this respect, we have reviewed the growth in power generation and the growth in segment revenue for power reported in the 2019 Annual Report, the 2020 Annual Report and the 2021 Annual Report, and noted that the movements in revenue reported for the segment is largely in line with the changes in power (kWh) generated for the respective reporting period. As such, in light of the expected increase in power generation for FY2022, the expected revenue estimated by the Group in relation to electricity sales is also not unreasonable.

(iii) Sales to the China Energy Group

We note that the Company assumed a 10% rate to be attributable to electricity sales revenue generated from China Energy Group. We have discussed and understand from the Company that sales of electricity to clients, including China Energy Group is predominately recognised as a sale of product, whilst a smaller portion of sales are conducted in the form of services. As such, we have reviewed and noted from disclosures in the 2020 Annual Report and the 2021 Annual Report, (i) sales generated from products provided by the Group to the China Energy Group accounted for approximately 16.1% and 11.8% of the same type of transactions entered into by the Group in FY2020 and FY2021 respectively; and (ii) sales generated from services provided by the Group to the China Energy Group accounted for approximately 9.4% and 13.4% of the same type of transactions entered into by the Group in FY2020 and FY2021 respectively. In this respect, we would consider the assumed 10% in this case for the purpose of estimating the sales attributable to electricity sales revenue generated from China Energy Group to be not unreasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(iv) Estimation for revenue attributable to information technology services, mining engineering services, sales of materials and chemicals, by-products and training

We note that the Company has provided an expected increase for provisions of other services and products expected to be provided by the Group for FY2022. We have discussed and understand that such estimations are internally projected by the Group based on demand estimation provided by clients including that of China Energy Group.

(v) Buffer

We have discussed and understand from the Company that the 10% buffer in this case is to accommodate for possible changes in cost of providing such products/services. The Management has also advised that the products/services supplied to China Energy Group under the New Mutual Supplies and Services Agreement were mainly relevant to the Company's power, railway, port, shipping, coal chemical segments (together, the **"Products and Services Segments"**). In this respect we have reviewed 2019 Annual Report, the 2020 Annual Report and the 2021 Annual Report and we note that operating costs associated with the Products and Services Segments can significantly fluctuate year-on-year. Based on our review, respective operating costs amongst the Products and Services Segments fluctuated in the ranges of: (i) -44.0% to +3.6% during FY2019; (ii) -5.4% and +8.2% during FY2020; and (iii) +0.8% to 82.1% during FY2021. In light of the above, we would consider a buffer of 10% to be not unreasonable.

We further note that the Company has assumed the expected Products and Services Revised Annual Cap for FY2023 to be equal to that of FY2022. We consider not factoring a growth rate to the estimation of the Products and Services Revised Annual Cap to be prudent.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons set out above and given the Agreements are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders and the terms of the Agreements are on normal commercial terms, we are of the view that that the proposed revisions of annual caps for FY2022 and FY2023 under the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders to vote in favour of the resolution to be proposed at the general meeting to approve the Transaction.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 18 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS IN SHARES

As at the Latest Practicable Date:

- 2.1 none of the Directors, chief executive, supervisors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2021 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, and so far as is known to the Directors and chief executive of the Company, the following persons had the following interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the

provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in ten per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Interests in the Shares of the Company

No.	Name of shareholders	Capacity	H shares/ A shares	Nature of interest	Number of H shares/ A shares held	Percentage of	Percentage
						H shares/A shares over total issued H shares/A shares respectively	of total 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 shareholder	H shares	Long position	198,239,424	5.87	1.00
				Short Position	59,500	0.00	0.00

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

4. EXPERTS

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
Somerley	A licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

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

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

4.4 As at the Latest Practicable Date, the abovementioned professional 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 2021, the date to which the latest published audited financial statements of the Company were made up.

5. SERVICE CONTRACTS

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

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there have been no material adverse changes in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

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

- (i) the chairman of the meeting;
- (ii) at least two shareholders entitled to vote present in person or by proxy; or
- (iii) one or more shareholders present in person or by proxy and representing ten per cent or more of all shares carrying the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed upon a show of hands, 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 favor of or against such resolution.

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

8. DIRECTORS' INTERESTS

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

Name	Name of company	Positions	Commencement of term of office
Wang Xiangxi	China Energy	Secretary of the Leading Party Members' Group, Chairman	March 2019
Jia Jinzhong	China Energy	Senior business officer	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 ON DISPLAY

The following documents will be posted on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.shenhuachina.com>) for at least 14 days from the date of this circular.

- 9.1 the New Mutual Coal Supply Agreement;
- 9.2 the New Mutual Supplies and Services Agreement;
- 9.3 the letter from the Independent Financial Adviser, the text of which is set out in this circular; and
- 9.4 the written consent of the expert referred to in 4.1 of this Appendix.

In accordance with the Hong Kong Listing Rules, this appendix serves as the explanatory statement to provide you with requisite information reasonably necessary to enable you to make an informed decision on whether to vote for or against the special resolution(s) to be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting for the grant of the H Share Repurchase Mandate to the Directors.

SECURITIES REPURCHASE MANDATE

Reasons for Repurchasing H Shares

To implement the Securities Law of the PRC, protect the interest of minority shareholders of the Company and respond to requests of investors of the Company. The Directors believe that the flexibility afforded by the H Share Repurchase Mandate would be beneficial to and in the best interest of the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at such time, lead to an enhancement of the net asset value per share and/or earnings per share of the Company. Such repurchases will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders.

Registered Capital

As at the Latest Practicable Date, the registered capital of the Company was RMB19,868,519,955 comprising 3,377,482,000 H Shares with a nominal value of RMB1.00 each and 16,491,037,955 A Shares with a nominal value of RMB1.00 each. In 2021, the Group did not repurchase, sell or redeem any securities of the Company under the Hong Kong Listing Rules.

Exercise of the H Share Repurchase Mandate

Subject to the passing of the relevant special resolution(s) set out in the notice of AGM, the special resolution(s) approving the grant to the Board of the H Share Repurchase Mandate in the A Shareholders' Class Meeting and H Shareholders' Class Meeting respectively, the Board will be granted the H Share Repurchase Mandate until the earlier of (a) the conclusion of the annual general meeting for 2022; or (b) the date on which the authority conferred by this special resolution is revoked or varied by a special resolution of shareholders at a general meeting, or a special resolution of shareholders at a class meeting of holders of domestic shares (A shares) or a class meeting of holders of overseas-listed foreign invested shares (H shares) (the "Relevant Period"). The exercise of the H Share Repurchase Mandate is subject to relevant approval(s) of and/or filings with SAFE and/or any other regulatory authorities as required by the laws, rules and regulations of the PRC being obtained and/or carried out.

In accordance with the Hong Kong Listing Rules, the Company will not repurchase H Shares if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which H Shares were traded on the Hong Kong Stock Exchange.

The exercise in full of the H Share Repurchase Mandate (on the basis of 3,377,482,000 H Shares in issue as at the Latest Practicable Date and no H Shares will be allotted and issued or repurchased by the Company on or prior to the date of the AGM, the A Shareholders' Class Meeting and H Shareholders' Class Meeting) would result in a maximum of 337,748,200 H Shares that may be repurchased by the Company during the Relevant Period, being the maximum of 10% of the total H Shares in issue as at the date of passing the relevant resolution(s).

Funding of Repurchases

In repurchasing its H Shares, the Company intends to apply funds from the Company's internal resources (which may include surplus funds and retained profits) legally available for such purpose in accordance with the Articles of Association and the applicable laws, rules and regulations of the PRC.

The Company is empowered by its Articles of Association to purchase its H Shares. Any repurchases by the Company may only be made out of either the funds of the Company that would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for such purpose. The Company's registered capital will be reduced by an amount equivalent to the aggregate nominal value of the H Shares so cancelled. The Company may not repurchase securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

GENERAL INFORMATION

The Directors consider that there would not be a material adverse impact on the working capital or on the gearing position of the Company in the event that the H Share Repurchase Mandate is to be exercised in full at any time during the proposed repurchase period (as compared with the position disclosed in the latest published audited accounts contained in the annual report of the Company for the year ended 31 December 2021). However, the Directors do not propose to exercise the H Share Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital needs of the Company or the gearing level of the Company. The number of H Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regarded to the circumstances then prevailing, in the best interests of the Company.

The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases under the H Share Repurchase Mandate in accordance with the Hong Kong Listing Rules, the Articles of Association and the applicable laws, rules and regulations of the PRC.

H SHARES PRICES

The highest and lowest prices at which the H Shares have been traded on the Hong Kong Stock Exchange during each of the twelve months preceding the Latest Practicable Date were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2021		
May	18.16	16.20
June	17.88	15.22
July	15.42	14.54
August	17.22	14.82
September	18.58	16.76
October	19.08	16.62
November	16.96	16.06
December	19.40	16.98
2022		
January	21.15	18.42
February	22.45	20.00
March	25.55	18.54
April	26.30	23.50
May (up to the Latest Practicable Date)	25.55	23.45

H SHARES REPURCHASED BY THE COMPANY

In 2021, the Group did not repurchase, sell or redeem any securities of the Company under the Hong Kong Listing Rules.

DISCLOSURE OF INTERESTS

If as a result of share repurchase by the Company, a substantial shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or group of shareholders acting in concert, could obtain or consolidate control of the Company or become obligated to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, China Energy, whose interest in the Company is notifiable under Part XV (Disclosure of Interests) of the SFO, held directly or indirectly approximately 69.52% of the Company's total registered capital. In the event that the Directors exercised in full the power to repurchase

H Shares in accordance with the terms of the H Share Repurchase Mandate proposed at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting, the total interests of China Energy in the total registered capital of the Company would increase to approximately 70.72%. The Directors are not aware of any consequences which will arise under the Takeovers Code and/or any similar applicable law, as a result of any repurchases to be made under the H Share Repurchase Mandate. Moreover, the Directors will not make share repurchase on the Hong Kong Stock Exchange if such repurchase would result in the requirements under Rule 8.08 of the Hong Kong Listing Rules not being complied with.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the Hong Kong Listing Rules) presently intends to sell H Shares to the Company under the H Share Repurchase Mandate in the event that the H Share Repurchase Mandate is approved by the Shareholders and the conditions (if any) to which the H Share Repurchase Mandate is subject are fulfilled.

The Company has not been notified by any core connected persons (as defined in the Hong Kong Listing Rules) of the Company that they have a present intention to sell any H Shares to the Company, or that they have undertaken not to sell any H Shares held by them to the Company in the event that the H Share Repurchase Mandate is approved by its Shareholders and the conditions (if any) to which the H Share Repurchase Mandate is subject are fulfilled.