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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)

DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTION SHAREHOLDER RETURN PLAN FOR 2022–2024 AND REVISION OF FINANCIAL SERVICES AGREEMENT

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



A letter from the Board is set out on pages 1 to 20 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 21 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 23 to 37 of this circular.

Notice convening the first extraordinary general meeting of the Company for 2022 to be held at 11:00 a.m. on Friday, 28 October 2022 at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People's Republic of China is set out on pages 42 to 45 of this circular.

Reply slip and form of proxy for use at the EGM are enclosed herewith. Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Tuesday, 25 October 2022.

Shareholders who intend to appoint a proxy to attend the EGM are requested to complete the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (i.e. 11:00 a.m. on 27 October 2022) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

September 30, 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;
“Abstained Directors”	Jia Jinzhong and Mr. Yang Rongming, who had abstained from voting as Directors on the relevant board resolution(s) relating to the revision of annual caps and certain clauses of Financial Services Agreement;
“EGM”	the first extraordinary general meeting of the Company for 2022 to be held on Friday, 28 October 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;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“CSRC”	China Securities Regulatory Commission;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“China Energy Group”	collectively, China Energy and its subsidiaries (excluding the Group);
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Director(s)”	the director(s) of the Company;

DEFINITIONS

“Finance Company”	China Energy Finance Co., Ltd. (國家能源集團財務有限公司), a limited company incorporated in the PRC, formerly known as Shenhua Finance Co., Ltd. (神華財務有限公司);
“Financial Services Agreement”	the financial services agreement dated 26 March 2021 entered into between the Company and Finance 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;
“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 “Sommerley”	Sommerley 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 revision of annual caps and certain clauses of Financial Services Agreement;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the EGM under the Hong Kong Listing Rules;
“Latest Practicable Date”	27 September 2022, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;

DEFINITIONS

“Member(s) of China Energy Group”	including China Energy, its subsidiaries in which China Energy holds over 51% equity interests (the “ China Energy Subsidiaries ”), companies in which China Energy and the China Energy Subsidiaries individually or jointly hold(s) over 30% equity interests, public institution(s) or social organisation(s) with legal person(s) status under China Energy and its subsidiaries, but excluding the Group;
“Member(s) of the Group”	including the Company and its subsidiaries that the Company controls;
“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shareholder(s)”	the shareholder(s) of the Company;
“Supplemental Agreement”	the supplemental agreement to the Financial Services Agreement dated 23 September 2022 entered into between the Company and Finance Company.

LETTER FROM THE BOARD



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

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

(Stock Code: 01088)

Executive Directors:

Lv Zhiren
Xu Mingjun

Non-executive Director:

Jia Jinzhong
Yang Rongming

Independent Non-executive Directors:

Yuen Kwok Keung
Bai Chong-En
Chen Hanwen

Employee Director:

Liu Xiaolei

Office of the Board of the Company:

Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, PRC

September 30, 2022

To the Shareholders

Dear Sir or Madam,

**SHAREHOLDER RETURN PLAN FOR 2022–2024
AND
REVISION OF FINANCIAL SERVICES AGREEMENT**

INTRODUCTION

Reference is made to the announcements made by the Company on 23 September 2022 on the shareholder return plan for 2022–2024 and the revision of the Financial Services Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information in relation to the above matters and the recommendation from the Independent Board Committee in relation to the revision of the Financial Services Agreement, and the recommendation from the Independent Financial Adviser to the Independent Board the Committee and the Independent Shareholders in relation to the revision of the Financial Services Agreement.

SHAREHOLDER RETURN PLAN FOR 2022–2024

In order to actively reward investors and share the development achievement of the Company with the Shareholders, pursuant to the relevant laws, regulations and normative documents including the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Notice on Further Implementation of Issues in relation to Cash Dividends Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) (Zheng Jian Fa [2012] No.37) and the Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution of Listed Companies (Revised in 2022) (《上市公司監管指引第3號 – 上市公司現金分紅(2022年修訂)》) by the China Securities Regulatory Commission and the requirements under the Articles of Association, the Company formulated a shareholder return plan for 2022–2024. The Shareholder Return Plan is subject to the approval of the general meeting of the Company by way of special resolution.

PROVISIONS REGARDING CASH DIVIDEND PERCENTAGE IN ARTICLES OF ASSOCIATION

Pursuant to Article 200 and Article 209 of the Article of Association, in the absence of any special circumstances that may have material adverse effect on the normal operation of the Company as determined by the board of directors, if the Company's profit for the year and accumulated undistributed profit are positive, distribution of dividends shall be made by way of cash. The profit distribution of the Company shall be made based on the net profit for the year attributable to the shareholders of the Company in the consolidated financial statements prepared under the China Accounting Standards for Business Enterprises or the International Financial Reporting Standards, whichever is lower. Profit distribution in the form of cash dividends per annum shall be no less than 35% of the net profit attributable to the shareholders of the Company.

SHAREHOLDER RETURN PLAN FOR 2022–2024

On 29 May 2020, the proposal regarding the increase of cash dividend percentage for 2019–2021 of the Company was considered and approved at the 2019 Annual General Meeting of the Company, approving that the profit distributed in the form of cash dividends per annum for 2019–2021 shall be no less than 50% of the net profit realized in the corresponding year attributable to the shareholders of the Company (For details, please refer to the announcement of the Company regarding increase of cash dividend percentage for 2019–2021 on 27 March 2020). During the past three years, the profit distribution of the Company is in accordance with the requirements of the Article of Association, and satisfies the aforesaid commitment of cash dividend.

LETTER FROM THE BOARD

For the long-term and sustainable development of the Company, taking into account the actual situation of the Company, the wishes and requirements of the shareholders, and fully considering the stage of development, future capital expenditure plan, profit scale and cash flow status of the Company, the Company formulated a shareholder return plan for 2022–2024 on the basis of balancing the short-term interests and long-term interests, and proposed to increase the cash dividend percentage for 2022–2024. Subject to the provisions of the Articles of Association, the profit to be distributed in cash annually for the year 2022–2024 shall be no less than 60% of the Company’s net profit attributable to the shareholders of the Company realized in the corresponding year.

The annual profit distribution plan for 2022–2024 will be formulated by the Board of the Company based on the actual situation of the year, and submitted to the general meeting for approval.

IMPACT ON THE COMPANY OF SHAREHOLDER RETURN PLAN FOR 2022–2024

The Company attaches great importance to shareholder returns and hopes to establish long-term stable and mutual trust investment relationship with the shareholders. The increase of cash dividend percentage for 2022–2024 under the Shareholder Return Plan will not affect the normal production and operation activities of the Company. In the future, the Company will continue to focus on production and operation, strive for improving operating performance, and strive to bring better and more lasting returns to the shareholders in combination with factors such as follow-up capital investment and capital balance, shareholders’ demands and the investment environment of the capital market.

REVIEW PROCEDURES FOR SHAREHOLDER RETURN PLAN FOR 2022–2024

On 23 September 2022, the Resolution on the Company’s Shareholder Return Plan for 2022–2024 was considered and approved at the 15th meeting of the fifth session of the Board of the Company with 8 assenting votes, 0 dissenting votes and 0 abstained votes.

The Shareholder Return Plan for 2022–2024 is subject to the approval of the general meeting of the Company by way of special resolution.

REVISION OF FINANCIAL SERVICES AGREEMENT

Background

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

LETTER FROM THE BOARD

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.

Finance Company is principally engaged in domestic and foreign currency services: the provision of financial consultation services, credit appraisal and other related consultation and agency services to members; assistance to members in the collection and payment of transaction amount; authorised insurance agency services; provision of guarantee between members; provision of entrusted loans and entrusted investments between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement planning to members; accepting deposits from members; provision of loans and finance leasing to members; provision of inter-bank lending; authorised issuance of finance company bonds; underwriting of corporate bonds of members; equity investments in financial institutions; investments in negotiable securities; provision of consumption credit, buyers' credit and finance leasing for products of members. As at the date of this circular, China Energy holds 60% of the equity interests of the Finance Company, and the Company and its controlled subsidiaries hold 40% of equity interest in Finance Company in total (among which, the Company directly holds 32.57% of the equity interest of the Finance Company; China Energy Shuohuang Railway Development Co., Ltd. (國能朔黃鐵路發展有限責任公司), Shenhua Zhunge'er Energy Co., Ltd. (神華準格爾能源有限責任公司), China Energy Baoshen Railway Co., Ltd. (國能包神鐵路有限責任公司) (formerly known as Shenhua Baoshen Railway Co., Ltd. (神華包神鐵路有限責任公司)), which are the controlled subsidiaries of the Company, hold 2.86%, 2.86% and 1.71% of equity interest in Finance Company, respectively.)

As disclosed in the announcement dated 28 March 2021, the Company has entered into the Financial Services Agreement with the Finance Company on 26 March 2021, pursuant to which the Finance Company agreed to provide financial services to Members of the Group. The Financial Services Agreement has become effective from the date of the approval at the 2020 annual general meeting and 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 Financial Services Agreement. The existing annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company 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. In order to implement the latest regulatory requirements of the PRC further prevent capital risks, improve the efficiency of capital utilization, reduce financing costs, strengthen the review of the operating conditions and regulatory indicators of Finance Company, and bring investors higher return on investments, the Company has entered into the Supplement

LETTER FROM THE BOARD

Agreement with Finance Company on 23 September 2022 to amend annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company for the years ending 31 December 2022 and 31 December 2023, and price determination and capital risk control measures clauses. The Supplemental Agreement will take effect upon approval at the EGM, with a term from 1 January 2022 to 31 December 2023. The terms of the Financial Services Agreement and the Supplemental Agreement have been reached after arm's length negotiation between the Company and Finance Company.

MAJOR TERMS OF THE REVISED FINANCIAL SERVICES AGREEMENT

Date

26 March 2021

Parties

The Company and Finance Company

Transaction

Pursuant to the Financial Services Agreement, the Finance Company will provide the following financial services to Members of the Group:

- (1) provision of financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of the Group;
- (2) bill acceptance and discount services to Members of the Group;
- (3) taking deposits from Members of the Group;
- (4) granting loans, consumption credit and buyer's credit to Members of the Group;
- (5) financial consultation, credit appraisal and other relevant advice and agency services to Members of the Group;
- (6) provision of assistance to Members of the Group to receive and pay transaction proceeds;
- (7) entrustment investments between Members of the Group;
- (8) internal settlement and settlement planning services between Members of the Group;

LETTER FROM THE BOARD

- (9) underwriting or distribution of financial instruments such as debt financing instruments, corporate bonds and enterprise bonds of Members of the Group;
- (10) provision of comprehensive credit limits to Members of the Group, including loans, bill acceptance and discount services;
- (11) provision of financial training and consultation services;
- (12) provision of other financial services (letter of credit, online banking and entrusted loans) to Members of the Group and charge agency fee, handling fee, consulting fee or other service fee.

Both parties agree that, on the premise that Finance Company would obtain the approval of relevant regulatory authorities in the future, Finance Company may provide related services such as foreign exchange deposits, loans, settlement and foreign exchange settlement services to Members of the Group.

Term and termination

The Financial Services Agreement has become effective from the date of approval at the 2020 annual general meeting and will expire on 31 December 2023, after the legal representative or authorized representative of the parties affix their signatures and common seals or contract seals of their companies.

Price determination clause after revision

- (1) In terms of deposits and loans or similar services provided by Finance Company to Members of the Group, subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities and relevant requirements:
 - (a) The interest rates for deposits placed by Members of the Group with Finance Company shall be no less than the benchmark deposit rate for the corresponding period stipulated by the PBOC and no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group and shall be negotiated in normal commercial terms;
 - (b) The interest rates for loans granted by Finance Company to Members of the Group shall be no more than the benchmark loan interest rate for the corresponding period stipulated by the PBOC and no more than the interest rate charged by major commercial banks in the PRC for comparable loans services provided to Members of the Group and shall be negotiated in normal commercial terms.

LETTER FROM THE BOARD

With respect to the deposit interest rate offered by Finance Company for deposits placed by Members of the Group, Finance Company will pay close attention to the benchmark interest rate stipulated by the PBOC on monthly basis and, by way of inquiry, ascertain the deposit interest rates of major commercial banks in the PRC (i.e. Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications), to ensure the interest rates for deposits placed by Members of the Group with Finance Company shall be no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group. Furthermore, price determination of deposits interest rate offered by Finance Company will be under strict supervision and the Company will enforce relevant internal approval procedures. For further details, please refer to “The Group’s internal approval procedures for the price determination process”.

- (2) In terms of paid services provided by Finance Company to Members of the Group:
- (a) Finance Company can provide paid consultation, agency, settlement, transfer, investment, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other related services to Members of the Group.
 - (b) Subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities, the service fees charged by Finance Company for the provision of the above financial services to Members of the Group shall be no more than the service fees charged by major commercial banks in the PRC for comparable financial services provided to Members of the Group and shall be negotiated in normal commercial terms.

With respect to the service fees charged by Finance Company for provision of financial services to Members of the Group, Finance Company will, by way of inquiry, ascertain the service fees rate charged by major commercial banks on monthly basis and ensure the service fees charged by Finance Company for provision of financial services to Members of the Group shall be no more than the service fees charged by major commercial banks in the PRC for comparable financial services provided to Members of the Group. In addition, price determination of service fees charged by Finance Company will be under strict supervision and the Company will enforce relevant internal approval procedures. For further details, please refer to “The Group’s internal approval procedures for the price determination process”.

LETTER FROM THE BOARD

The Group's internal approval procedures for the price determination process

With a view to strengthening holistic control of deposits and loans and ensuring implementation of pricing policies in conformity with laws and regulations, measures pertaining to centralized fund management, centralized financing approval and centralized business decision-making are adopted by the Company during the ordinary course of business, which is principally reflected in the following aspects:

- (1) **Reinforcing centralized financing control.** Finance department of the Company is accountable for the centralized review of the annual financing needs of Members of the Group. Members of the Group shall, while submitting a loan application to Finance Company, provide relevant information such as the purpose, amount, term and interest rate of the loan. Upon review of the aforementioned matters, finance department of the Company shall report to the management of the Company to reach a decision.
- (2) **Real-time monitoring on market price level.** In light of the funding requirements, finance department of the Company will monitor the deposit rates of PBOC on a monthly basis, and conduct business inquiries periodically and publicly with major commercial banks in the PRC and Finance Company, primarily focusing on factors relating to interest rates for deposits, scale, term, service fee and preconditions. In view of ensuring prices are determined in conformity with the relevant rates, consolidated inquiry results shall be reported to the management of the Company.
- (3) **Establishing monthly review mechanism.** A fund balance meeting of the Company, chaired by the chief accountant of the Company with the attendance of audit, legal, finance and other related departments, will be convened on a monthly basis by the Company, to review the deposits placed with Finance Company by Members of the Group, to keep abreast of the loans granted by Finance Company in a timely manner and to reasonably formulate recommendations on deposit and financing arrangements of the Company for the next month, which shall also be reported to the management of the Company.
- (4) **Persisting in legal and compliance implementation.** Following the approval of the abovementioned deposit and financing arrangements, the implementation by the person in charge shall be strictly in compliance with relevant procedures and finance approval authority level-by-level of the Company. Upon completion, sustained supervision and post-evaluation shall be conducted by relevant review departments of the Company.

LETTER FROM THE BOARD

Capital risk control mechanism and measures established or improved in connection with the revision of the Financial Services Agreement

- (1) China Energy undertakes in the Finance Company Capital Increase Agreement that in case of an emergency where Finance Company has difficulties making payments, China Energy shall, in accordance with the actual needs to address payment difficulties, satisfy the payment needs of Finance Company through various channels including, among others, the increase of capital and the provision of liquidity support to Finance Company in conformity with laws, regulations and internal regulations such as the articles of association of Finance Company.
- (2) Finance Company is a major domestic non-banking financial institution under the supervision of the CBIRC. Competent authority delegated by CBIRC conducts daily supervision on Finance Company and conducts on-site and off-site inspections. Finance Company ensures that it is in strict compliance with the risk control indicators and risk monitoring indicators issued by the CBIRC.
- (3) Finance Company shall establish a sound internal control system on the basis of business operation, a risk management system covering the entire process and contingency plans devised for diverse risks to ensure security of the deposits placed by the Members of the Group and effectively guard against the risks.
- (4) The personnel assigned by Finance Company to undertake the duty of financial services shall possess experiences in financial services and a sense of responsibility and diligently perform their duties. To ensure the security of the payment and settlement of Members of the Group, Finance Company shall establish a mature and efficient online banking system, and strictly execute the operation procedure and control the risk arising out of the information technology.
- (5) Finance Company shall establish a model of fund pooling and usage suitable for Members of the Group, in order to ascertain the transaction caps for connected parties, fulfill the relevant regulatory requirements and prevent the compliance risk of the Company.
- (6) Finance Company shall not accept Members of the Group to provide entrusted loans and entrusted wealth management to other related members through Finance Company, and shall not accept deposit of proceeds (if any) in Finance Company.

LETTER FROM THE BOARD

- (7) The Company will divide the deposit limit to Members of the Group. Finance Company shall monitor the deposit placed by Members of the Group with Finance Company to ensure the designated deposit limit will not be exceeded. In the event of the deposits placed by any Member of the Group with Finance Company exceeding the limit, Finance Company shall promptly notify the Company and cooperate with the Company to transfer the over-limit deposits to the designated bank account of the Company. Approval of finance department of the Company shall be obtained in the event of the deposit to be placed exceeding the designated deposit limit. Under this circumstance, the deposit limit of other Members of the Group shall be deducted accordingly so as to ensure the overall deposit limit is not exceeded.
- (8) Prior to the commencement of connected transactions with Finance Company, Members of the Group are entitled to review Finance Company's audited annual financial report for the latest financial year, risk indicators and other necessary information, as well as the latest and valid financial license and business license. The financial department of the Company shall seriously evaluate such information and confirm that the risks are controllable before commencing business with Finance Company. Members of the Group shall not engage in relevant business with Finance Company in the event that the foregoing licenses concerned are absent or expired.
- (9) The Company has the right to examine the operation status and financial position of Finance Company on a regular or non-regular basis, and pay close attention to whether Finance Company is in violation of any relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises issued by CBIRC. Finance Company shall fully cooperate and provide accurate and comprehensive information. Finance Company will provide its financial reports, risk indicators and other necessary information and the latest valid financial license and business license to the Company's finance department by 15 February of the year after the end of each year and within 20 calendar days after the end of each half year, and will provide various regulatory indicators to the Company's finance department within 20 calendar days after the end of each quarter. In the event that major regulatory indicators of Finance Company are found to be inconsistent with relevant regulatory requirements or there are other material risks, Finance Company shall timely inform the Company and shall not continue to take deposit of the Members of the Group, and the Members of the Group shall discontinue depositing at Finance Company.
- (10) Members of the Group will be able to withdraw cash to satisfy the flexible requirements of treasury timely at any time without limitation, and may, from time to time, transfer its deposit placed with Finance Company in full or in part to test and ensure the security and liquidity of the relevant deposits.

LETTER FROM THE BOARD

- (11) Finance Company shall not exceed the transaction limit stipulated in the Finance Services Agreement to collect funds from Members of the Group, and based on the list of the Members of the Group and deposit limit designated by the Company for each Member of the Group (if any), shall assist in monitoring the maximum daily balance (including interests accrued thereon) of deposits placed by each of and all the Members of the Group with Finance Company to ensure the relevant balance does not exceed the applicable annual caps of connected transactions. If the service fees charged by Finance Company reached the annual cap for the year, Finance Company shall timely inform the Company and notify the Members of the Group, and shall not provide the relevant service to the Members of the Group for the rest of the year unless otherwise approved by the Board or the general meeting (if applicable) of the Company.
- (12) The Company shall dynamically evaluate and supervise the risk status of the funds deposited with Finance Company, and Finance Company shall cooperate; Finance Company guarantees that it shall inform the Company in the first instance, cooperate with the Company to actively dispose of the risks, and protect the safety of funds of Members of the Group in the event of the occurrence of the following circumstances: (1) Finance Company has non-group (contingent) liability business such as interbank lending and bill acceptance is overdue for more than 5 working days; (2) the occurrence of material credit risk events (including but not limited to overdue of open market bonds for more than seven working days, payment of guarantee of large value etc.) on China Energy Group or other related parties; (3) Finance Company continues to fail to meet the regulatory requirements in accordance with the regulatory indicators such as capital adequacy ratio and liquidity ratio stipulated in the Administrative Measures on Finance Companies of Corporate Groups (《企業集團財務公司管理辦法》), and the major shareholders are unable to fulfill their obligations for capital replenishment and risk relief; (4) other circumstances as stipulated in the risk disposal plan for the financial business with Finance Company such as connected deposits and loans that have been reviewed and approved by the Board of the Company.
- (13) When the situation mentioned in the preceding paragraph occurs, officers of the Company in charge of financial work shall urge the relevant departments of the Company and the Members of the Group to take risk response measures in due course, such as withdrawing full or partial deposits placed with Finance Company, suspending any deposits placement with Finance Company and requesting Finance Company to carry out rectification within a prescribed time limit, so as to ensure the safety of deposits of the members of Shenhua placed with Finance Company. Finance Company shall fully assist and cooperate. In the event of default where the deposits become unable to be withdrawn, the Company is entitled to set off the amount of unrecovered deposits with the loan provided by Finance Company to any Members of the Group, in which case Finance Company shall, after obtaining the written consent documents from the relevant depository units and lending units, cooperate with the relevant Members of the Group to carry out such offsetting by performing the corresponding procedures and signing relevant legal documents as required by the Company.

LETTER FROM THE BOARD

- (14) During the annual audit period of the Company, the external auditor will review and issue opinions on the connected transactions of both parties. The Company shall be subject to the information disclosure obligation under the requirements of the Listing Rules of the place where it is listed in a timely manner. Finance Company shall provide necessary cooperation, including but not limited to the provision of information on the amount and balance of relevant financial services.
- (15) The Company and the Finance Company agree to, under the requests and recommendations of securities regulatory authorities where the shares of the Company are listed, independent nonexecutive directors of the Company, and independent financial adviser (if any), adjust risk control measures mentioned above, including, but not limited to adding and modifying relevant risk control measure, which shall be agreed.

The Company will divide the deposit limit to Members of the Group, the aggregation of which shall not exceed annual cap. The Company requires the Members of the Group to control deposit below deposit limit. In the event of the deposits placed exceeding the limit, the relevant Member of the Group shall be accountable. Finance Company has developed a deposit information reporting system as required by the Company. The aggregate deposit amounts of the Members of the Group will be automatically sent to the Company daily so that the Company can be informed of the deposit information in a timely manner and take intervention measures when necessary. Members of the Group can also monitor balance of deposit in the account of Finance Company by receiving information sent by Finance Company daily or accessing customer operating system (model) in the core business system of Finance Company.

A fund balance meeting of the Company, chaired by the chief financial officer of the Company will be convened on a monthly basis by the Company, to track and monitor the changes in the deposits of each Member of the Group in Finance Company and make timely fund allocation arrangements to strictly control the overall deposits limit of the Group in Finance Company. In addition, the Company has established regulations on the deposit of funds, which clearly stipulate that the Group's deposits in Finance Company shall not exceed the annual caps of connected transactions.

Finance Company guarantees to strengthen the management of its own connected transactions, not to assist third parties in any way to obtain funds from the Company through connected transactions, not to conceal illegal connected transactions or hide the true whereabouts of the Company's funds through connected transactions, or not to engage in illegal activities.

LETTER FROM THE BOARD

Proposed revision to annual cap of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company

Historical transaction amounts

Year ended 31 December 2021 Transaction amount (RMB million)	Six months ended 30 June 2022 Transaction amount (RMB million)
27,439	27,793

Original annual cap

Year ended 31 December 2022 Annual cap (RMB million)	Year ended 31 December 2023 Annual cap (RMB million)
27,900	27,900

Proposed revised annual caps

Year ended 31 December 2022 Annual cap (RMB million)	Year ended 31 December 2023 Annual cap (RMB million)
75,000	75,000

The Company confirms that the highest daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company from 1 January 2022 to the Latest Practicable Date is below the original annual cap. The Company also undertakes that the original annual caps will not be exceeded until the proposal revised annual caps are approved at the EGM.

LETTER FROM THE BOARD

The following factors were taken into consideration in revising the annual caps for the two years ending 31 December 2022 and 31 December 2023 for the daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company:

- (1) Industries such as coal, electricity and renewable resources will remain as the most important fundamental industries for China in the long run. Each business sector of the Company achieved sustainable and robust development, with steady growth in monetary capital year-by-year. In terms of revenue, the operating scale of the Company has increased rapidly. In 2020, 2021 and the six months ended 30 June 2022, the Company's revenue amounted to RMB233,263 million, RMB335,216 million and RMB165,579 million respectively. The revenue for 2021 has increased by approximately 43.7% as compared with 2020. In terms of monetary capital, as at 31 December 2020, 31 December 2021 and 30 June 2022, the Company's monetary capital was approximately RMB127.5 billion, RMB162.9 billion and RMB207.9 billion, respectively. As at the end of June 2022, the balance of monetary capital increased by approximately 27.7% as compared with the beginning of the year and increased by approximately 28.9% as compared with the same period last year. Taking into account the implementation of capital investment and the expectation of stable returns for investors, the annual cap utilization rate of deposits in 2020 and 2021 was close to 100%, at 99.34% and 98.35%, respectively, and with the continued increase of the operating scale of the Company and monetary capital held by the Company, the demand of the Members of the Group for business services such as deposits, settlement, credit and bills provided by Finance Company also increased significantly.

- (2) The Financial Services Agreement stipulates that the cap of daily balance (including interests accrued thereon) of deposits placed by the Members of the Group with Finance Company is RMB27.9 billion, representing approximately 17.13% of the balance of the Company's consolidated monetary capital at the end of 2021 which is below 107.68%, the average percentage of deposit cap placed in finance company of each enterprise group for 2022 against the balance of the monetary capital at the end of 2021 of other A+H dual listed energy companies, and is also below 35%, the percentage of deposit cap stipulated in the Financial Services Agreement against the Company's monthly average deposit balance at the time of the entering into of the Financial Services Agreement. The advantages of the Company's integrated operation model continued to be consolidated, and its coal, electricity and renewable resources achieved sustainable and robust development, with long-term positive operating conditions. As at 30 June 2022, the Company's consolidated monetary capital has exceeded RMB200 billion, and the scale of capital is still growing at a steady pace. In order to meet the needs of the Company's business development, improve the convenience and safety of the use of funds, further enhance the efficiency of capital utilization, and reduce financing costs, increasing the deposit cap of Members of the Group with Finance Company to RMB75 billion is reasonable, which accounts for 36% of the consolidated money capital of the Company as at end of June 2022 and is equivalent to the percentage of deposit cap against the monthly average deposit balance when the Financial Services Agreement was entered into.

LETTER FROM THE BOARD

- (3) Finance Company strongly supports the development of the Members of the Group, and has provided comprehensive credit facilities of RMB100 billion to the Members of the Group. Finance Company, formerly known as Shenhua Finance Company Limited, is also one of the subsidiaries of the Company. It has been operating in an integrated manner with the Company until it received the capital increase from China Energy and changed its name in 2020. Members of the Group have formed long-term and stable business cooperation with Finance Company in the fields of deposit and loan, settlement and bills. Finance Company is familiar with the Members of the Group, and understands their financial needs and market development. Members of the Group enjoy preferential treatment such as exemption of handling fees when dealing with Finance Company. Finance Company has comparable advantages in providing relevant financial services to the Members of the Group, which helps the Members of the Group achieve good cash flow management and improve capital efficiency, thus meeting the needs of business development of the Members of the Company.
- (4) Pursuant to the Financial Services Agreement and the Supplementary members of the Company Agreement the interest rate for deposits of the Members of the Group in Finance Company shall not be lower than the benchmark interest rate for the same period prescribed by the People's Bank of China and shall not be lower than the interest rate determined by major commercial banks for the same type of deposit services provided to the members of the Company. The increase in deposits of the Members of the Group in Finance Company shall be beneficial to the members in obtaining interest income from the deposits which are not lower than major commercial banks. In addition, the Company, as a substantial shareholder of Finance Company, directly and indirectly holds 40% equity interests in Finance Company in aggregate, which is entitled to share the investment return brought by the increase in the business scale of Finance Company. Based on the operating conditions and net interest margin of Finance Company's loan business, the Company will receive additional investment income while obtaining the deposit interest, which is 1.5 times of the total income from deposits in major commercial banks.
- (5) Finance Company has good risk control and compliance management system, and ranks among the top finance companies in China. It has consistently provided convenient and efficient financial services such as deposits and loans to the Members of the Group. The Company and Finance Company have agreed on a series of strict risk control measures in the Financial Services Agreement and the Supplementary Agreement to ensure the safety of the funds deposited by the Members of the Group in Finance Company. At the same time, the Company, as a substantial shareholder of Finance Company, supervises the operation and management and the effective operation of the internal control system of Finance Company by dispatching directors thereto. In addition, China Energy has undertaken in the Shenhua Finance Capital Increase Agreement to provide financial support to Finance Company through various channels to ensure meeting the normal demand for funds of Members of the Group. During the historical periods, the Company's deposit business in Finance Company was normal, and no risk event has ever occurred.

LETTER FROM THE BOARD

- (6) The Company is of the view that when proposing caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the members of the Company and Finance Company will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The members of the Company and Finance Company will conduct the continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction with Finance Company to receive supervision of the Independent Shareholders.

Implementation Agreements

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

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

Background and Reasons for Entering into the Financial Services Agreement and the Supplementary Agreement and the Benefits to the Company

In order to implement the regulatory requirements of the Notice on the Regulation of Business Transactions between Listed Companies and Finance Companies of Corporate Groups (Zheng Jian Fa [2022] No. 48) (《關於規範上市公司與企業集團財務公司業務往來的通知》(證監發[2022]48號) issued by CSRC and the Guidelines of the Shanghai Stock Exchange for Self-governance of Listed Companies No.5 – Transaction and Connected Transaction (《上海證券交易所上市公司自律監管指引第5號—交易與關聯交易》) issued by the Shanghai Stock Exchange, further prevent capital risks, improve the efficiency of capital utilization, reduce financing costs, strengthen the review of the operating conditions and regulatory indicators of Finance Company, and bring investors higher return on investments, the Company has entered into the Supplement Agreement with Finance Company on 23 September 2022 to amend annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company for the years ending 31 December 2022 and 31 December 2023, and price determination and capital risk control measures clauses.

LETTER FROM THE BOARD

The Members of the Group have established long-term and stable cooperation with Finance Company, as well as relatively stable business relations in terms of deposits, loans, bills, settlements and agents. The Company has entered into the Financial Services Agreement and the Supplementary Agreement with Finance Company. Provision of financial services by Finance Company to Members of the Group is conducive to maintaining the continuity of financial services received by Members of the Group, improving the efficiency of capital utilization, reducing financing costs, and strengthening risk control of the Company, which will not harm the interests of the Company or minority shareholders. Further details are as follows:

- (1) Improving treasury management efficiency, realising centralised treasury management: Finance Company provides deposits and other financial services to Members of the Group to facilitate settlement within Members of the Group and between Members of the Group and Members of China Energy Group and shorten the time required for transfer and turnover of funds. Compared with opening bank accounts by Members of China Energy Group and Members of the Group separately in independent commercial banks, direct clearing and settlement between both sides would be more efficient. Finance Company will enable the Company to lower the cost by improving the efficiency of the internal settlement and help to realise optimisation of cost and operational efficiency. In addition, deposits placed by Members of the Group with Finance Company would be conducive to realising centralised treasury management as Members of the Group will be able to withdraw cash to satisfy their flexible requirements of treasury timely at any time without limitation. Meanwhile, Members of the Group will also be entitled to withdraw its deposit placed with Finance Company in full or in part. Members of the Group may, at its sole discretion, deposit its funds into Finance Company or other independent commercial banks without any restrictions.
- (2) Familiar with the Company's business, providing more flexible and convenient services: Since Finance Company mainly provides financial services to China Energy and its subsidiaries, it has accumulated in-depth knowledge over the years in respect of the industry in which Members of the Group operate. Finance Company is familiar with the capital structure, business operation, capital requirements and cash flow pattern of Members of the Group, enabling it to better forecast the capital requirements of Members of the Group. Therefore, Finance Company can provide flexible, convenient and low-cost service to Members of the Group at any time, while it will be difficult for independent commercial banks to provide equivalent services.

LETTER FROM THE BOARD

- (3) Offering fair commercial terms and investment incomes: Pursuant to the Financial Services Agreement and the Supplementary Agreement to be entered into, the interest rate for deposits of the Company's members in Finance Company shall not be lower than the benchmark interest rate for the same period prescribed by the People's Bank of China and shall not be lower than the interest rate determined by major commercial banks for the same type of deposit services provided to the members of the Company. The increase in deposits of the members of the Company in Finance Company shall be beneficial to the members in obtaining more interest income from the deposits which are not lower than major commercial banks. In addition, the Company, as a substantial shareholder of Finance Company, directly and indirectly holds 40% equity interests in Finance Company in aggregate, which is entitled to share the investment return brought by the increase in the business scale of Finance Company. Based on the operating conditions and net interest margin of Finance Company's loan business, the Company will receive additional investment income while obtaining the deposit interest, which is 1.5 times of the total income from deposits in major commercial banks.

Hong Kong Listing Rules Implications

As of the date of this circular, Finance Company is held as to 60% of equity interest by China Energy, and China Energy holds 69.52% of equity interest of the Company and is the controlling shareholder of the Company. As such, Finance Company is a connected person of the Company under the Hong Kong Listing Rules, and the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the revised annual caps under the Financial Services Agreement, as one or more of the applicable percentage ratios exceed 5% but all such percentage ratios are less than 25% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the revision of the Financial Services Agreement is subject to reporting, announcement, the approval of independent shareholders and annual review requirements under Chapter 14A of the Hong Kong Listing Rules. This transaction also constitutes a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

General Information

The Board has resolved and approved the revision of the Financial Services Agreement thereto on 23 September 2022. Of the Directors attending the board meeting, connected Directors Mr. Jia Jinzhong and Mr. Yang Rongming were considered to have material interests by virtue of being employed by China Energy and had thus abstained from voting on the relevant resolution(s). The Directors (including independent non-executive Directors) consider that the revision of the Financial Services Agreement (including terms, annual cap and pricing) 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 BOARD

THE EGM

The EGM 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 11:00 a.m. on Friday, 28 October 2022 for the purpose of, inter alia, considering and approving by all Shareholders, and by way of special resolution(s), the shareholder return plan for 2022–2024, and by the Independent Shareholders, and by way of ordinary resolution(s), the revision of the Financial Services Agreement.

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

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

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 EGM required to be abstain from voting at the EGM.

Notice convening the first extraordinary general meeting of the Company for 2022 to be held at 11:00 a.m. on Friday, 28 October 2022 at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People's Republic of China is set out on pages 42 to 45 of this circular.

Reply slip and form of proxy for use at the EGM are enclosed herewith. Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Tuesday, 25 October 2022.

Shareholders who intend to appoint a proxy to attend the EGM are requested to complete the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (i.e. 11:00 a.m. on 27 October 2022) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that the shareholder return plan for 2022–2024 set out herein are in compliance with the relevant laws, regulations, normative documents, the requirements of the Articles of Association and the actual situations of the Company, fully take into account the needs of the Company for sustainable development and the wishes of the shareholders for obtaining reasonable investment return, establish continuous, stable and scientific return system and are favourable to protect interests of shareholders especially minority shareholders. The Directors, including all the independent non-executive Directors, believe that the revision of the Financial Services Agreement (including terms, annual cap and pricing) set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

Accordingly, the Board recommends that all Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

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 revision of the Financial Services Agreement.

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 revision of the Financial Services Agreement (including terms, annual cap and pricing) set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions in relation to the revision of Financial Services Agreement to be proposed at the EGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on page 21, the letter from the Independent Financial Adviser set out on pages 23 to 37 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)

September 30, 2022

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION
CONTINUING CONNECTED TRANSACTION**

REVISION OF FINANCIAL SERVICES AGREEMENT

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the revision of the Financial Services Agreement (including terms, annual cap and pricing) 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 23 to 37 of this circular, we are of the opinion that the revision of the Financial Services Agreement (including terms, annual cap and pricing) 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 revision of the Financial Services Agreement to be proposed at the EGM.

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 Deposit Services.



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

30 September 2022

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs or Madam,

DISCLOSEABLE TRANSACTION CONTINUING CONNECTED TRANSACTION REVISION OF FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with the proposed revision of the annual caps and certain clauses relating to the deposits placed by Members of the Group with the Finance Company (“**Deposit Services**”) contemplated under Financial Services Agreement (the “**Transactions**”). Details of the Transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its shareholders dated 30 September 2022, of which this letter form 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, Finance Company is held as to 60% of equity interest by China Energy, and China Energy holds 69.52% interest in the Company and is the controlling shareholder of the Company. As such, Finance Company is a connected person of the Company under the Hong Kong Listing Rules, and the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the revised annual caps under the Financial Services Agreement, as one or more of the applicable percentage ratios exceed 5% but all such percentage ratios are less than 25% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the revision of annual caps and certain clauses of Financial Services Agreement are subject to reporting, announcement, the approval of independent shareholders and annual review requirements under Chapter 14A of the Hong Kong Listing Rules. This transaction also constitutes a discloseable transaction under Chapter 14 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. In the two years prior to this appointment, we did not have other engagement with the Company or its associates except for having been the independent financial adviser to the Company relating to the proposed revision of annual caps for (i) supply of coal by the Group to the China Energy Group; and (ii) supply of products and provision of services by the Group to the China Energy Group, details of which were set out in the Company's circular dated 20 May 2022. We do not consider the past engagement as independent financial adviser gives rise to any conflict for Somerley Capital Limited to act as the independent financial adviser of 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, details of the Deposit Services under the Financial Services Agreement and the Supplemental Agreement, annual reports of the Company for the year ended 31 December 2021 (“**FY2021**”) (“**2021 Annual Report**”), interim report of the Company for the six months ended 30 June 2022 (“**1H2022**”) (“**2022 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 general meeting. We have also sought and received confirmation from the Company 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 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 2022 Interim Report, revenue of the Group for 1H2022 was approximately RMB165,579 million, representing a year-on-year increase of approximately 15.0% as compared with approximately RMB143,979 million for the same period in FY2021. The main reasons for the revenue increase were: (i) the average coal sales price recorded a year-on-year increase of 26.9%, due to strong coal demand in the coal market and rise in coal price; and (ii) the Group's electricity sales and average price of electricity sales increased by around 10.5% and 23.7% year on year, respectively, due to the successive commencement of operation of several units of the Group since the second half of 2021 and the adjustment to the electricity price policy.

In 1H2022, profit before tax of the Group was approximately RMB55,729 million, representing a year-on-year increase of approximately 46.2% as compared with approximately RMB38,114 million for the same period in FY2021. In 1H2022, profit for the period attributable to equity holders of the Company was approximately RMB42,475 million, representing a year-on-year increase of approximately 60.3%, compared to approximately RMB26,500 million for the same period in FY2021.

Resulting from the Group's robust operating performance, cash and cash equivalents was approximately RMB195,870 million as at 30 June 2022, representing an increase of approximately 25.0% as compared with approximately RMB156,706 million as at 31 December 2021.

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 for the year ended 31 December 2020 ("FY2020"). The main reasons for the revenue increase were that: (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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In FY2021, total segment 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. Segment 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%. Main reasons for the increase in the coal segment's profit margin were the net effect from: (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.

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.

2. Background of and reasons for the Transactions

As disclosed in the letter from the Board of the Circular, pursuant to the Financial Services Agreement entered into between the Company and the Finance Company on 26 March 2021, the Finance Company agreed to provide financial services, including but not limited to, the Deposit Services to Members of the Group. The Financial Services Agreement has become effective from the date of the approval at the 2020 annual general meeting and 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 Financial Services Agreement and based on the information provided, the existing annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company 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.

As also provided in the letter from the Board of the Circular, in order to implement the latest regulatory requirements of the Notice on the Regulation of Business Transactions between Listed Companies and Finance Companies of Corporate Groups (Zheng Jian Fa [2022] No. 48) (《關於規範上市公司與企業集團財務公司業務往來的通知》(證監發[2022]48號) issued by CSRC and the Guidelines of the Shanghai Stock Exchange for Self-governance of Listed Companies No.5—Transaction and Connected Transaction (《上海證券交易所上市公司自律監管指引第5號—交易與關聯交易》) issued by the Shanghai Stock Exchange (the “**Regulatory Updates**”), to further prevent capital risks, improve the efficiency of capital utilisation, reduce financing costs, strengthen the review of the operating conditions and regulatory indicators of Finance Company, and bring investors higher return on investments, the Company has entered into the Supplementary Agreement with Finance Company on 23 September 2022 to amend annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company (i.e. the Deposit Services) for the years ending 31 December 2022 and 31 December 2023, and price determination and capital risk control measures clauses (the “**Revision Clauses**”). Details of the proposed Revision Clauses are set out under the heading “Price determination clause after revision” in the letter from the Board of the Circular.

We have reviewed, discussed with and understand from the Management that the Revision Clauses were made in accordance with the Regulatory Updates.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As discussed in the letter from the Board of the Circular, Members of the Group has maintained a stable business cooperation with Finance Company in the fields of deposit and loan, settlement and bills. Finance Company is familiar with the Members of the Group and understands their financial needs and market development. The provision of financial services, including that of Deposit Services is essential for ensuring the continuity of financial services required by the Group.

Based on our discussions with the management of the Group, as part of the ordinary and usual course of business, Members of the Group has conducted a number of transactions with China Energy Group. Transactions such as intercompany transactions and balances between Members of the Group and Members of China Energy Group could be settled through their respective accounts maintained with the Finance Company. The Finance Company provides deposits and other financial services to Members of the Group to facilitate settlement within Members of the Group and between Members of the Group and Members of China Energy Group and shorten the time required for transfer and turnover of funds. Compared with opening bank accounts by Members of China Energy Group and Members of the Group separately in independent commercial banks, direct clearing and settlement between both sides would be more efficient. The Finance Company also enables Members of the Group to lower the cost by improving the efficiency of the internal settlement and help to realise optimisation of cost and operational efficiency. In addition, deposits placed by Members of the Group with Finance Company would be conducive to realising centralised treasury management as Members of the Group will be able to withdraw cash to satisfy their flexible requirements of treasury timely at any time without limitation. Meanwhile, Members of the Group will also be entitled to withdraw its deposit placed with Finance Company in full or in part. Members of the Group may, at its sole discretion, deposit funds with the Finance Company or other independent commercial banks without any restrictions.

According to the letter from the Board of the Circular, the Finance Company is a major non-banking financial institution under the supervision of CBIRC and its services are provided subject to compliance with the relevant rules and operational requirements promulgated by the CBIRC and PBOC. Further details of the Finance Company's background and regulatory requirements are set out in the sections headed "3. Information on the Finance Company" below.

In view of the above, given Members of the Group can utilize the services of the Finance Company on a voluntary, non-exclusive basis and is not obliged to engage the Finance Company for any particular service and, the Finance Company represents an additional, reliable and stable source of financial services for Members of the Group to choose from, which in turn serves to enhance flexibility for Members of the Group's capital management, we consider the Deposit Services contemplated under the Financial Services Agreement to be in the interests of the Company and the Shareholders.

3. Information on the Finance Company

The Finance Company is principally engaged in domestic and foreign currency services; the provision of financial consultation services, credit appraisal and other related consultation and agency services to members; assist to members in the collection and payment of transaction amounts; authorised insurance agency services; provision of guarantee between members; provision of entrusted loans and entrusted investments between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement planning to members; accepting deposits from members; provision of loans and finance leasing to members; provision of inter-bank lending; authorised issuance of finance company bonds; underwriting of corporate bonds of members; equity investments in financial institutions; investments in negotiable securities; provision of consumption credit, buyers' credit and finance leasing to for products of members.

As at the Latest Practicable Date, China Energy holds 60% of the equity interests of the Finance Company and the Company and its controlled subsidiaries hold 40% of equity interests in Finance Company in total (among which, the Company directly holds, 32.57% of the equity interest of the Finance Company; China Energy Shuohuang Railway Development Co., Ltd. (國能朔黃鐵路發展有限責任公司), Shenhua Zhunge'er Energy Co., Ltd (神華準格爾能源有限責任公司), China Energy Baoshen Railway Co., Ltd. (國能包神鐵路有限責任公司) (formerly known as Shenhua Baoshen Railway Co., Ltd. (神華包神鐵路有限責任公司)), which are the controlled subsidiaries of the Company, hold 2.86%, 2.86% and 1.71% of equity interest in Finance Company, respectively.)

As at 30 June 2022, the Finance Company had a registered capital of RMB12,500 million based on the information provided by the Finance Company and with reference to its latest unaudited management account, had and has a capital adequacy ratio of approximately 13.6%, which is higher than the requirement promulgated by the CBIRC of not lower than 10% for finance companies.

Regulatory environment of the Finance Company

The Finance Company is a major domestic non-banking financial institution providing financial services to Members of the Group and is subject to compliance with relevant rules and regulations as promulgated by the CBIRC including compliance with the 《企業集團財務公司管理辦法》(Administrative Measures for the Group Finance Companies) (the “**Administrative Measures**”) which is to regulate the operation of group finance companies and reduce the possible financial risk, and other regulations promulgated by the PBOC and CBIRC (e.g. 《企業集團財務公司風險監管指標考核暫行辦法》(Assessment Measures for Risk Control Indicators for the Group Finance Company) (the “**Assessment Measures**”).)

LETTER FROM INDEPENDENT FINANCIAL ADVISER

We have discussed with the Management and understand that the Administrative Measures and the Assessment Measures imposes certain requirements on finance companies such as the Finance Company, including but not limited to, maintaining certain capital adequacy, cash balance and liquidity ratios. Set out below are the major regulatory ratio requirements confirmed to be applicable by the Company and the relevant ratios of the Finance Company as at 31 December 2021 and 30 June 2022:

	Requirements	The Finance Company	
		As at 30 June 2022	As at 31 December 2021
Capital adequacy ratio	Not lower than 10%	13.56%	15.65%
Outstanding guarantee amounts not exceeding total capital	Not higher than 100%	30.01%	28.54%
Non-performing asset ratio	Not higher than 4%	0%	0%
Impaired loan ratio	Not higher than 5%	0%	0%
Current ratio	Not lower than 25%	56.1%	37.36%
Investment to total capital ratio	Not higher than 70%	63.46%	50.01%
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.06%	0.07%

As shown in the table above, we note that all applicable ratios of the Finance Company are in compliance with the regulatory requirements as promulgated by the CBIRC. In respect of the capital adequacy ratio, whilst the ratio has shown a minor drop to 13.56%, however, we note that according to the information published by the CBIRC, the quarterly capital adequacy ratio as reported by commercial banks in 2021 and 2022 has also depicted a similar downward trend, from approximately 15.13% as at the end of 2021, to 15.02% in the first quarter of 2022, to approximately 14.87% in the second quarter of 2022. As confirmed by the Finance Company, the CBIRC has not taken any disciplinary actions, or imposed penalties or fines on the Finance Company since its incorporation. We have further discussed and confirmed with the Company that, the Company is not aware of any record of non-compliance with the relevant rules and regulations by the Finance Company during the past three years.

We further noted from the Financial Services Agreement as amended by the Supplemental Agreement that there are relevant capital risk control measures in place which are targeted to safeguard Members of the Group's deposits, including but not limited to, (i) Members of the Group will be able to withdraw cash to satisfy the flexible requirements of treasury timely at any time without limitation, and may, from time to time, transfer its deposit placed with Finance Company in full or in part to test and ensure the security and liquidity of the relevant deposits; (ii) Finance Company guarantees that Members of the Company will be informed in a timely manner upon occurrence of any event that may imperil or bring potential risk to the deposit safety of Members of the Group; (iii) the Company has the right to examine operation status and financial position of Finance Company on a regular or non-regular basis and Finance Company will provide its financial reports, regulatory indicators and any other necessary information and the latest financial license and business license to the Company's finance department by 15 February of the year after the end of each year and within 20 calendar days after the end of each half year and will provide various regulatory indicators to the Company's finance department within 20 calendar days after the end of each quarter; and (iv) in the event of default where the deposits become unable to be withdrawn, Members of the Group are entitled to set off the amount of unrecovered deposits with the loan provided by Finance Company. Details of the capital risk control measures are set out in the section headed "Capital risk control mechanism and measures established or improved in connection with the revision of the Financial Services Agreement" in the letter from the Board of the Circular.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In addition, with reference to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) shall increase such group finance company's capital accordingly based on the actual need. We have also discussed with the Company and noted from the letter from the Board of the Circular that, China Energy has provided undertaking (the "**Undertaking**") in the Finance Company Capital Increase Agreement that, in case of an emergency where Finance Company has difficulties making payments, China Energy shall, in accordance with the actual needs to address payment difficulties, satisfy the payment needs of Finance Company through various channels including, among others, the increase of capital and the provision of liquidity support to Finance Company in conformity with laws, regulations and internal regulations such as the articles of association of Finance Company.

4. Information on 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. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

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. According to the corporate website of China Energy Group (www.ceic.com), China Energy Group ranked 85th among the Fortune Global 500 in 2022. Based on the latest available financial information published on its website, China Energy Group has RMB1.8 trillion in assets and 320,000 employees. China Energy Group, which operates substantial business operations with a scale that is much larger than the scale of the Finance Company and being the controlling shareholder of the Finance Company required to procure the Finance Company's obligations pursuant to the Undertaking, is considered to have strong financial capabilities to fulfil the undertaking requirement.

5. Terms of the Deposit Services under the Financial Services Agreement

Pursuant to the Financial Services Agreement, the Finance Company will provide the following financial services to Members of the Group:

- (i) provision of financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing);
- (ii) bill acceptance and discount services to Members of the Group;
- (iii) taking deposits from Members of the Group;
- (iv) granting loans, consumption credit and buyer's credit to Members of the Group;
- (v) financial consultation, credit appraisal and other relevant advice and agency services to Members of the Group;

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (vi) provision of assistance to Members of the Group to receive and pay transaction proceeds;
- (vii) entrustment investments between Members of the Group;
- (viii) internal settlement and settlement planning services between Members of the Group;
- (ix) underwriting or distribution of financial instruments such as debt financing instruments, corporate bonds and enterprise bonds of Members of the Group;
- (x) provision of comprehensive credit limits to Members of the Group, including loans, bill acceptance and discount services;
- (xi) provision of financial training and consultation services; and
- (xii) provision of other financial services (letter of credit, online banking and entrusted loans) to Members of the Group and charge agency fee, handling fee, consulting fee or other service fee.

The Finance Company may also provide related services such as foreign exchange deposits, loans, settlement and foreign exchange settlement services after obtaining the approval of relevant regulatory authorities. Please refer to the letter from the Board of the Circular for more details on the terms of the Financial Services Agreement.

The Financial Services Agreement has become effective from the date of approval at the 2020 annual general meeting and will expire on 31 December 2023.

Subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities and relevant requirements, amongst the services provided under the Financial Services Agreement as amended by the Supplemental Agreement, the price determination clause for the Deposit Services is that the interest rates for deposits placed by Members of the Group with Finance Company shall be no less than the benchmark deposit rate for the corresponding period stipulated by the PBOC and no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group and shall be negotiated in normal commercial terms;

As outlined in the letter from the Board of the Circular, with respect to the Deposit Services, the Finance Company will pay close attention to the benchmark interest rate stipulated by the PBOC on monthly basis and, by way of inquiry, ascertain the deposit interest rates of major commercial banks in the PRC (i.e. Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications), to ensure the interest rates for Deposit Services shall be no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group. Furthermore, price determination of interest rate offered by Finance Company will be under strict supervision and the Company will enforce relevant internal approval procedures.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In this regard, we have obtained and reviewed the Financial Services Agreement and have also requested and the Company has provided sample implementation agreements relating to the Deposit Services entered into between Members of the Group and the Finance Company in 2021 and 2022. Based on our discussion with the Management and the supporting documents provided by the Company illustrating the then market interest rates offered by independent third party financial institutions and noted that the interest rates offered by the Finance Company were higher than those offered by independent third party financial institutions.

We have also discussed with and understand from the Management that in practice, the deposit rate offered by the major commercial banks may be higher or lower than the benchmark rate stipulated by the PBOC. As such, we consider the price determination process outlined for the Deposit Services under the Revision Clauses to be fair and reasonable and in the interests of the Group as a whole in view of the fact that the additional requirement on the interest rates offered for the Deposit Services being no less than not only the interest rate paid by major commercial banks but also the corresponding benchmark rate stipulated by the PBOC would serve as an additional safeguard mechanism particularly when the rates offered by commercial banks are lower than the PBOC rate.

In addition, based on the Group's internal pricing policies as discussed under the section headed "7. Internal approval procedures for the price determination process" below, the Group has adopted certain internal approval procedures for price determination in respect of the transactions (including the Deposit Services) contemplated under the Financial Services Agreement as amended by the Supplemental Agreement, including, in particular, (i) finance department of the Company will monitor the deposit rates of PBOC on a monthly basis, and conduct business inquiries periodically and publicly with major commercial banks in the PRC and Finance Company, primarily focusing on factors relating to interest rates for deposits, scale, term, service fee and preconditions; and (ii) a fund balance meeting of the Company, chaired by the chief accountant of the Company with the attendance of audit, legal, finance and other related departments, will be convened on a monthly basis by the Company, to review the deposits placed with Finance Company by Members of the Group, to keep abreast of the loans granted by Finance Company in a timely manner and to reasonably formulate recommendations on deposit and financing arrangements of the Company for the next month, which shall also be reported to the management of the Company. In this regard, we also discussed with the Company's finance department and understood that relevant staffs of finance department are aware of the internal approval procedures for price determination in respect of the Deposit Services under the Financial Services Agreement (in particular the procedures in respect of monitoring on market price level) and have been complying with such procedures when handling Deposit Services under the Financial Services Agreement.

Having considered all the above factors, we are of the view that the terms of the Deposit Services under the Financial Services Agreement are on normal commercial terms and are fair and reasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

6. Historical amounts and proposed annual caps

The table below sets out the historical actual amount and existing annual caps of maximum daily balance (including accrued interest thereon) of deposit placed by Members of the Group with the Finance Company pursuant to the Deposit Services under the Financial Services Agreement:

	For the year ended 31 December 2021		For the year ending 31 December 2022		For the year ending 31 December 2023
	Existing annual cap (RMB million)	Actual amount	Existing annual cap (RMB million)	Actual amount ^(Note)	Existing annual Cap (RMB million)
Deposit Services	27,900	27,439	27,900	27,793	27,900

Note: Figures shown relating to year ending 31 December 2022 was as at 30 June 2022.

The table below sets out the proposed annual caps relating to the Deposit Services for the two years ending 31 December 2023:

	For the year ending 31 December 2022 (RMB million)	For the year ending 31 December 2023 (RMB million)
Deposit Services	75,000	75,000

As discussed in the letter from the Board of the Circular, in determining the proposed revised annual caps for the two years ending 31 December 2023, the Company has considered, among other things, utilisation rate of existing annual caps, growth in the level of monetary capital held by the Group and the historically stable cooperative business relationship with the Finance Company. Details of the factors considered by the Company are set out under the heading “Proposed revision to annual cap of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company” in the letter from the Board of the Circular.

We note that the utilisation rate of the annual cap for FY2021 was approximately 98.3% and as at 30 June 2022, the expected utilisation rate for the year ending 31 December 2022 (“**FY2022**”) was approximately 99.6%. We note that the proposed revised annual cap for FY2022 represents an increase of approximately 168.8% as compared to the existing annual cap for FY2022.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In assessing the fairness and reasonableness of the proposed revised annual cap for FY2022, we have carried out the following independent analyses:

- (i) As discussed in the paragraph above, we note that the utilisation rate of the annual caps was approximately 98.3% for FY2021 and amounted to approximately 99.6% for FY2022 and there is limited room to cater for further increase in demand due to possible changes in business needs.
- (ii) We note from the Company's annual report for FY2020, the 2021 Annual Report and the 2022 Interim Report that, during the past three years and for the six months ended 30 June 2022, the Group reported total balances of cash and cash equivalent, time deposits with original maturity over three months and restricted bank deposits ("**Total Cash Position**") of approximately RMB51,481 million, RMB127,457 million, RMB162,886 million and RMB207,924 million as at 31 December 2019, 2020, 2021 and 30 June 2022 respectively, representing percentage increases from prior year of approximately 147.6% in 2020 and 27.8% in 2021 and a further 27.7% for the six months ended 30 June 2022. Against such backdrop, we consider the continued increases in cash position of the Group results in the Group's growing demand for deposit services as part of its treasury activities, and that the around 168.8% increase in proposed revised annual cap as compared with the existing annual cap, being comparable to the aforesaid high-end of the range of historical percentage growth in the Group's cash and cash equivalent in the recent years, would allow better flexibility to cater for potential increase in demand for the Deposit Services along with the continuing business growth of the Group.
- (iii) We note that the proposed revised annual cap of RMB75,000 million represents only approximately 46.04% and 36.07% of Total Cash Position of the Group as at 31 December 2021 and 30 June 2022 respectively. Shareholders should also note that the proposed revised annual cap represents a flexibility, and not an obligation, for the Group to deposit funds with the Financed Company at market rates or better while enjoying services from a provider that is familiar with its business need.
- (iv) As disclosed in the letter from the Board of the Circular and based on our discussion with the Management, the existing annual cap for FY2022 of RMB27.9 billion represents approximately 17.13% of the Company's Total Cash Position as at the end of 2021 which is below 107.68% as represented by the average percentage reported by other A+H dual listed energy companies ("**Comparables**") at the end of 2021. We have obtained the list of the Comparables identified by the Company and discussed the selection criteria and result with the Management. Table below sets out the list of Comparables which we would consider as exhaustive, fair and representative based on the selection criteria which are A+H dual listed companies engaged in the energy related business.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Table

Company Name	Stock code (A share)	Stock code (H share)	Annual cap for	Cash Balance	Comparable	Cash Balance	Comparable
			year ending 31 December 2022 (deposit services) <i>(Note 1)</i> <i>RMB' millions</i>	as at 31 December 2021 <i>(Note 2)</i> <i>RMB' millions</i>	Ratio as at 31 December 2021 <i>(Note 3)</i> <i>RMB' millions</i>	as at 30 June 2022 <i>(Note 2)</i>	Ratio as at 30 June 2022 <i>(Note 3)</i>
CGN Power Co., Ltd.	003816.SZ	1816.HK	31,500.0	15,827.7	199.02%	18,837.5	167.22%
Sinopec Oilfield Service Corporation	600871.SH	1033.HK	3,500.0	2,508.2	139.54%	1,940.6	180.36%
China Petroleum & Chemical Corporation	600028.SH	0386.HK	80,000.0	221,989.0	36.04%	233,937.0	34.20%
PetroChina Company Limited	601857.SH	0857.HK	55,000.0	163,536.0	33.63%	246,243.0	22.34%
China Oilfield Services Limited	601808.SH	2883.HK	1,200.0	5,113.3	23.47%	4,556.9	26.33%
Datang International Power Generation Co., Ltd. (“Datang”)	601991.SH	0991.HK	18,000.0	11,273.7	159.66%	12,901.1	139.52%
Huadian Power International Corporation Limited (“Huadian”)	600027.SH	1071.HK	9,000.0	6,090.6	147.77%	5,828.6	154.41%
Huaneng Power International, Inc. (“Huaneng”)	600011.SH	0902.HK	20,000.0	16,350.3	122.32%	15,583.0	128.34%
<i>Average for all Comparables</i>					107.68%		
<i>Average for 3 Comparables engaged in power generation/coal trading</i>					143.25%		
The Company			75,000	162,886	46.04%	207,924	36.07%

Notes:

- The annual caps of the Comparables are based on the respective published continuing connected transaction announcement.
- Cash balance of the Comparables is extracted from the respective published interim report/interim results announcement for six months ended 30 June 2022 and consists of closing balances for cash and cash equivalent or bank balances and cash, time deposits classified as current assets (if any), restricted deposits or restricted cash (if any) (“**Cash Balance**”).
- The Comparable Ratios are calculated as a percentage of the annual cap over the Cash Balance for the respective year/period.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As shown in the table, the ratios for the Comparables, as represented by the Comparables' maximum daily deposit balance (the annual cap) over the Cash Balance as at 31 December 2021 and 30 June 2022 respectively (“**Comparable Ratio(s)**”) are both higher than those of the Company. We further note that if we further refine the list of Comparables generated by the Company to include only A+H dual listed companies specifically engaged in power generation/coal trading, including Datang, Huadian and Huaneng, their average Comparable Ratios are even higher. In this respect, we concur with the view of the Company as disclosed in the letter from the Board of the Circular.

- (v) We note that the Company reported a profit attributable to equity holders of the Company of approximately RMB42,475 million for 1H2022, representing an increase of approximately 60.3% from the corresponding period in FY2021. In light of the clear improvement in results and given the continued increase in Total Cash Position as discussed above, we consider revising the existing annual cap for FY2022 to be not without basis.

In view of the above, we consider the proposed revised annual cap for FY2022 to be fair and reasonable.

We note the proposed revised annual cap for year ending 31 December 2023 is the same as that of FY2022. Given the continued increases in the Group's cash position and recent improvement in the Group's financial performance in the past few years as described above, we consider the proposed revised annual cap for year ending 31 December 2023 to be prudent.

7. Internal approval procedures for the price determination process

As stated in the letter from the board of the Circular, the following sets out the Group's internal approval procedures for the price determination process:

- (1) **Reinforcing centralized financing control.** Finance department of the Company is accountable for the centralized review of the annual financing needs of Members of the Group. Members of the Group shall, while submitting a loan application to Finance Company, provide relevant information such as the purpose, amount, term and interest rate of the loan. Upon review of the aforementioned matters, finance department of the Company shall report to the management of the Company to reach a decision.
- (2) **Real-time monitoring on market price level.** In light of the funding requirements, finance department of the Company will monitor the deposit rates of PBOC on a monthly basis and conduct business inquiries periodically and publicly with major commercial banks in the PRC and Finance Company, primarily focusing on factors relating to interest rates for deposits, scale, term, service fee and preconditions. In view of ensuring prices are determined in conformity with the relevant rates, consolidated inquiry results shall be reported to the management of the Company.

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- (3) **Establishing monthly review mechanism.** A fund balance meeting of the Company, chaired by the chief accountant of the Company with the attendance of audit, legal, finance and other related departments, will be convened on a monthly basis by the Company, to review the deposits placed with Finance Company by Members of the Group, to keep abreast of the loans granted by Finance Company in a timely manner and to reasonably formulate recommendations on deposit and financing arrangements of the Company for the next month, which shall also be reported to the management of the Company.
- (4) **Persisting in legal and compliance implementation.** Following the approval of the abovementioned deposit and financing arrangements, the implementation by the person in charge shall be strictly in compliance with relevant procedures and finance approval authority level by-level of the Company. Upon completion, sustained supervision and post-evaluation shall be conducted by relevant review departments of the Company.

We consider the above measures to be reasonable for the Company to assess the then prevailing market terms of the required Deposit Services under the Financial Services Agreement. Together with the “Capital risk control mechanism and measures established or improved in connection with the revision of the Financial Services Agreement” set out in the letter from the Board of the Circular, we are of the view that the Company have demonstrated the Group’s practices of getting access to market information and having regular assessment on the terms of the Deposit Services under the Financial Services Agreement as amended by the Supplemental Agreement so as to make sure that its terms will be no less favourable to the Group than those prevailing in the market for similar transactions.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons set out above we are of the view that the terms of the Deposit Services under the Financial Services Agreement as amended by the Supplemental Agreement (including the proposed revised annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider the continuation of the Deposit Services under the Financial Services Agreement as amended by the Supplemental Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions.

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 19 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 of
						H shares/ A shares over total issued	
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	193,904,316	5.74	0.98
				Short Position	78,500	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
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 Financial Services Agreement;

9.2 the Supplemental 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中国神华能源股份有限公司

CHINA SHENHUA ENERGY COMPANY LIMITED

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

(Stock Code: 01088)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2022 first extraordinary general meeting (the “**Extraordinary General Meeting**”) of China Shenhua Energy Company Limited (the “**Company**”) will be held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People's Republic of China at 11:00 a.m. on Friday, 28 October 2022 for the purpose of considering and, if thought fit, passing the following resolutions:

AS SPECIAL RESOLUTION:

1. To consider and, if thought fit, to approve the shareholder return plan for 2022–2024.

AS ORDINARY RESOLUTION:

2. To consider and, if thought fit, to approve the Company entering into the Supplement Agreement with China Energy Finance Co., Ltd. (the “**Finance Company**”) to amend annual caps of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company for the years ending 31 December 2022 and 31 December 2023 under the Financial Services Agreement, and to revise certain clauses of the Financial Services Agreement.

By order of the Board

China Shenhua Energy Company Limited

Huang Qing

Secretary to the Board of Directors

Beijing, 30 September 2022

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. ELIGIBILITY FOR ATTENDING THE EXTRAORDINARY GENERAL MEETING

Holders of H shares of the Company whose names appear on the register of members of the Company kept by the share registrar of the Company, Computershare Hong Kong Investor Services Limited at the close of business of 24 October 2022 (Monday) are entitled to attend the Extraordinary General Meeting.

The register of members will be closed from 25 October 2022 (Tuesday) to 28 October 2022 (Friday) (both days inclusive) to determine the identity of the shareholders of H shares who are entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible for attending and voting at the Extraordinary General Meeting, transferees of H shares must lodge their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited, the Company's share registrar for H shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 24 October 2022 (Monday) to effect the transfer of shares.

2. PROXY

- (1) Each shareholder entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (2) The proxies shall be appointed in writing by shareholders. The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign or other documents of authorisation must be notarised.
- (3) To be valid, the notarially certified power of attorney or other documents of authorisation, and the form of proxy must be delivered to the Office of the Board of Directors of the Company (at Room 1805, Block A, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People's Republic of China, Postal Code: 100011) for holders of domestic shares and to the H share registrar of the Company for holders of H shares not less than 24 hours before the time fixed for convening the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so wishes. The H share registrar of the Company is Computershare Hong Kong Investor Services Limited.
- (4) A proxy may exercise the right to vote by showing his hand or by poll. However, if a shareholder appointed more than one proxy, such proxies shall only exercise the right to vote by poll.

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3. REGISTRATION PROCEDURES FOR ATTENDING THE EXTRAORDINARY GENERAL MEETING

- (1) A shareholder or his proxy should produce proof of identity when attending the Extraordinary General Meeting. If a corporate shareholder appoints its legal representative or other person authorised by the board of directors or other governing body to attend the meeting, such legal representative or the person shall produce proof of identity or a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Shareholders who intend to attend the Extraordinary General Meeting should return the reply slip of such meeting to the Company on or before 25 October 2022 (Tuesday).
- (3) Shareholders of the Company may return the reply slip personally, by post, email or facsimile to the Company.

4. CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 October 2022 (Tuesday) to 28 October 2022 (Friday) (both days inclusive) to determine the identity of the shareholders of H shares who are entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible for attending and voting at the Extraordinary General Meeting, transferees of H shares must lodge their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited, the Company's share registrar for H shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 24 October 2022 (Monday) to effect the transfer of shares.

5. PROCEDURES ON DEMANDING A POLL

Subject to the listing rules of the stock exchange on which the shares of the Company have been listed, a poll may be demanded in respect of any resolutions by the following persons before or after a vote is carried out by a show of hands:

- (1) the chairman of the meeting; and
- (2) at least two shareholders or their proxies entitled to vote thereat; or
- (3) one or more shareholders (including their authorised proxies) separately or jointly representing 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll is demanded, the chairman of the meeting shall declare the result of a proposal put to vote on a show of hands. A demand for a poll may be withdrawn by the person who made the demand.

6. In accordance with the Articles of Association of the Company, shareholder(s) individually or jointly holding more than 3% shares of the Company may submit provisional motions in a general meeting. The contents of the provisional motions shall meet the requirements of the Articles of Association of the Company and regulatory rules in the place where the shares are listed (including review on qualifications of serving as independent non-executive directors).

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7. MISCELLANEOUS

- (1) Shareholders and their proxies who wish to attend the on-site meetings in person shall pay attention to and comply with the pandemic prevention and control requirements in Beijing in advance, arrange their itinerary properly and deliver the reply slip as required to the Company. In case of changes in the requirements for pandemic prevention and control, the Company may adjust the convening method of the meeting. Shareholders and their proxies are advised to pay continuous attention to the subsequent announcements of the Company. Shareholders of the Company and their proxies are recommended to appoint the chairman of the Extraordinary General Meeting as proxy to vote as a priority.
- (2) The Extraordinary General Meeting is expected to be held for less than half a day. Shareholders who attend the meeting, personally or by proxy, shall bear their own travelling and accommodation expenses.
- (3) The share registrar of the Company for H shares is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (4) The registered address of the Company:

22 Andingmen Xibinhe Road, Dongcheng District, Beijing, China
Postal Code: 100011
Telephone: (+86) 10 5813 3355/(+86)10 5813 3399
Facsimile: (+86) 10 5813 1814

- (5) Contact methods for the meeting:

Department: Office of the Board of Directors
Room 1805, Block A
Shenhua Tower, 22 Andingmen Xibinhe Road
Dongcheng District, Beijing, the People's Republic of China
Postal Code: 100011
Contact Person: Ms. Cheng
Telephone: (+86) 10 5813 1088
Facsimile: (+86) 10 5813 1814
Email: ir@csec.com

- (6) In this notice, the following expressions shall have the following meanings unless the context otherwise requires:

“Member(s) of the Group” including the Company and its subsidiaries that the Company controls

“Financial Services Agreement” the financial services agreement dated 26 March 2021 entered into between the Company and Finance Company

“Supplemental Agreement” the supplemental agreement to the Financial Services Agreement dated 23 September 2022 entered into between the Company and Finance Company

As at the date of this notice, the Board comprises the following: Mr. Lv Zhiren and Mr. Xu Mingjun as executive directors, Mr. Jia Jinzhong and Mr. Yang Rongming as non-executive directors, Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen as independent non-executive directors, and Ms. Liu Xiaolei as employee director.