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

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

(Stock Code: 01088)

**CONTINUING CONNECTED TRANSACTION
ENTERING INTO FINANCIAL SERVICES AGREEMENT**

As disclosed in the announcement dated 27 March 2020 and the circular dated 9 April 2020, the Company entered into the Existing Financial Services Agreement with the Finance Company on 27 March 2020. Pursuant to the Existing Financial Services Agreement, the Finance Company agreed to provide financial services to the Members of the Group. The Existing Financial Services Agreement will expire on 31 December 2020.

The Company has entered into the Financial Services Agreement with the Finance Company on 29 December 2020. Pursuant to which, the Finance Company agreed to provide financial services to Members of the Group. The Financial Services Agreement will be effective from 1 January 2021 and will expire on 31 December 2021.

As at the date of this announcement, the Finance Company is held as to 60% by China Energy, and China Energy holds 69.45% interest of the Company and is the controlling shareholder of the Company. As such, the Finance Company is a connected person of the Company under the Hong Kong Listing Rules. In accordance with Chapter 14A of the Hong Kong Listing Rules, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

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

BACKGROUND

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

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

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 announcement, China Energy holds 60% of the equity interests of the Finance Company, and the Company and its controlled subsidiaries hold 40% equity interests in Finance Company in total (among which, the Company directly holds 32.57% of the equity interests of the Finance Company; Guoneng 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), 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 interests in Finance Company, respectively.)

As disclosed in the announcement dated 27 March 2020 and the circular dated 9 April 2020, the Company entered into the Existing Financial Services Agreement with the Finance Company on 27 March 2020. Pursuant to the Existing Financial Services Agreement, the Finance Company agreed to provide financial services to the Members of the Group. The Existing Financial Services Agreement will expire on 31 December 2020.

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ENTERING INTO FINANCIAL SERVICES AGREEMENT

Date

29 December 2020

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;
- (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.

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 will be effective from 1 January 2021 and will expire on 31 December 2021, after the legal representative or authorized representative of the parties affix their signatures and common seals or contract seals of their companies.

Price determination

- (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:
 - (i) 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 and shall be negotiated in normal commercial terms;
 - (ii) 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.

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:
 - (i) 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.
 - (ii) 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”.

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 conducts 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.

Capital Risk Control Measures

- (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 without limitation 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.
- (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 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.
- (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 exceeds 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 transaction with Finance Company, Members of the Group are entitled to review whether valid financial license and business license have been obtained by 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. In addition, within four months after the end of the year before the Financial Services Agreement takes effect, Finance Company shall provide its annual report for the most recent fiscal year audited by an accounting firm qualified for the securities and futures business, and the finance department of the Company will be in charge of careful assessment of the annual report and relevant documents. The Company may conduct business with Finance Company on condition that the risk is confirmed to be controllable.
- (9) The Group examines the operation status and financial position of Finance Company on a 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 will provide various regulatory indicators to the finance department of the Company within 20 business 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 and may lead to material risks, 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.
- (11) Finance Company shall assist in monitoring the maximum daily balance (including interests accrued thereon) of deposits placed by 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 reach the annual cap for the year, Members of the Group shall discontinue the relevant service with Finance Company for the rest of the year unless otherwise approved by the Board and the general meeting (if applicable) of the Company.
- (12) Finance Company guarantees that 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. On occurrence of the following circumstances, including but not limited to:
 - (i) The major regulatory indicators of Finance Company fail to comply with the relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises which may lead to material risks;

- (ii) Finance Company encounters the run of depositors, unpaid due debts, substantial overdue loans or guarantee advances, serious computer system failures, being robbed or scammed, directors or senior management involved in serious violations of disciplines, criminal cases and other material issues;
- (iii) Finance Company's securities investment business suffered massive losses, reaching 50% of Finance Company's registered capital;
- (iv) Major institutional adjustments, equity transactions or business risks that may affect the normal operation of Finance Company;
- (v) Finance Company is subject to administrative penalties by the CBIRC or other regulatory authorities for violations of laws and regulations;
- (vi) Other matters that, in the view of the Board, may raise safety concern to the deposits of Members of the Group,

Officers of the Company in charge of financial work shall urge the relevant departments of the Company and 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 Members of the Group placed with Finance Company. 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.

- (13) During the annual audit period of the Company, the external auditor will review and issue opinions on the connected transactions between the Company and Finance Company. The Company shall be subject to the information disclosure obligation under the requirements of Shanghai Listing Rules and Hong Kong Listing Rules in a timely manner. Finance Company shall provide necessary cooperation.
- (14) 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 non-executive 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.

ANNUAL CAPS AND PAST TRANSACTIONS

For the purpose of regulating the financial service cooperation between the Group and Finance Company and satisfying the needs of continuous development of the Group, the annual caps of the Financial Services Agreement for the year ending 31 December 2021 are set as follows. Meanwhile, the Company also sets out below the historical transaction amounts of each annual cap categories for the three years ended 31 December 2017, 31 December 2018 and 31 December 2019, and for the eleven months ended 30 November 2020.

The aggregated transaction amount under the Existing Financial Services Agreement is within the existing annual caps of the Existing Financial Services Agreement.

Daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company

(1) Historical transaction amounts

Year ended 31 December 2017 <i>Aggregated transaction amount (RMB million)</i>	Year ended 31 December 2018 <i>Aggregated transaction amount (RMB million)</i>	Year ended 31 December 2019 <i>Aggregated transaction amount (RMB million)</i>	Eight months ended 31 August 2020 <i>Aggregated transaction amount (RMB million)</i>	Three months ended 30 November 2020 <i>Aggregated transaction amount (RMB million)</i>
60,423.9	81,875.1	104,902.7	113,767.47 ^{note}	20,364.31 ^{note}

(2) Annual cap under the Existing Financial Services Agreement

Year ending 31 December 2020 <i>Annual cap (RMB million)</i>
20,500

(3) Annual cap under the Financial Services Agreement

**Year ending
31 December 2021**
*Annual cap
(RMB million)*

10,800

Note: Pursuant to the Existing Financial Services Agreement, the Existing Financial Services Agreement shall take effect since the completion date under the Finance Company Capital Increase Agreement, pursuant to which, the Existing Financial Services Agreement took effect on 1 September 2020.

Total agency fee, handling fee, consultation fee and other services fee charged by Finance Company for providing Members of the Group with financial services including but not limited to consultation, agency, settlement, transfer, investment, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services

(1) Historical transaction amounts

Year ended 31 December 2017 <i>Aggregated transaction amount (RMB million)</i>	Year ended 31 December 2018 <i>Aggregated transaction amount (RMB million)</i>	Year ended 31 December 2019 <i>Aggregated transaction amount (RMB million)</i>	Eight months ended 31 August 2020 <i>Aggregated transaction amount (RMB million)</i>	Three months ended 30 November 2020 <i>Aggregated transaction amount (RMB million)</i>
1.8	2.3	1.3	0.42 <i>note</i>	0.25 <i>note</i>

(2) Annual cap under the Existing Financial Services Agreement

**Year ending
31 December 2020**
*Annual cap
(RMB million)*

200

(3) Annual cap under the Financial Services Agreement

**Year ending
31 December 2021**
*Annual cap
(RMB million)*

200

Note: Pursuant to the Existing Financial Services Agreement, the Existing Financial Services Agreement shall take effect since the completion date under the Finance Company Capital Increase Agreement, pursuant to which, the Existing Financial Services Agreement took effect on 1 September 2020.

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

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

- (a) The Members of the Group has formed a long-term and stable business cooperation relationship with Finance Company in deposits, loans, bills, settlement, agency and other businesses. Finance Company would have a comparable advantage in continuing to provide relevant services to the Company and Members of the Group.
- (b) Looking into the future, China's economy will continue to retain its upward trend in the long run, and industries such as coal, electricity and new energy will remain as the important fundamental industries. The efforts made at the state level to improve orderly competition and reduce excessive production capacity will provide favourable conditions for industries such as coal, electricity and new energy to achieve sustainable and robust development and improve operation environment of enterprises. Finance Company's continuing provision of relevant services to the Members of the Group is conducive to improving the convenience of the Members of the Group in using funds, reducing the cost of capital, and helping the Members of the Group to develop their business in line with economic and policy trends.
- (c) Pursuant to the comprehensive credit service under the Financial Services Agreement, Finance Company will grant credits to the Group, and the Group therefore, may have needs seeking to place deposits with Finance Company in the future.

- (d) The monetary funds of the Group amounted to RMB133.220 billion as of 30 November 2020. The Members of the Group will continue to maintain reasonable demands for deposit service provided by depository financial institutions such as Finance Company. To facilitate sound risk control and standardized management and to reduce potential risks, the Company proposes that the annual cap of daily balance (including accrued interest thereon) of deposits placed by Members of the Group with Finance Company in 2021 be set as RMB10.8 billion.
- (e) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. The Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that Members of the Group and Finance Company will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. Members of the Group and Finance Company will conduct 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 to receive supervision of the independent shareholders.
- (f) The proposed annual caps in relation to the total agency fee, handling fee, consultation fee and other services fee charged by Finance Company for providing financial services to Members of the Group, including but not limited to consultation, agency, settlement, transfer, investment, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services, shall be calculated by adding together the estimated annual transaction amount of all financial services. The Group recorded a relatively low level of historical transaction amount for the three years ended 31 December 2019 and the eleven months ended 30 November 2020, which is primarily a result of Finance Company solely provides entrusted loans, bill acceptance and financial advisory services to Members of the Group, and the scale of financial services provided is also quite small. The enlarged registered capital of Finance Company will considerably enhance its comprehensive strength especially in terms of scope and scale of financial services offerings. Finance Company will, taking into consideration of the needs of Members of the Group, expand the scope of existing business (entrusted loans, bill acceptance and financial advisory services) and intend to provide consultation, agency, investment, letter of credit and guarantee services. The aggregate service fees charged for financial services provided by Finance Company to Members of the Group are expected to grow substantially. The Finance Company will continue to provide financial services for Members of the Group and it is proposed that the annual cap for service fees charged by Finance Company for provision of financial services to Members of the Group

for the year of 2021 be set as RMB200 million. The proposed annual caps are not substantial to the Group as the highest applicable percentage ratio is lower than 0.1% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules.

In respect of the Finance Company providing 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, bill acceptance and discount services to Members of the Group; granting loans, consumption credit and buyer's credit to Members of the Group on normal commercial terms or better, it would amount to a provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.90 of the Hong Kong Listing Rules from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group have been or will be granted in respect of such financial assistance. Nevertheless, the Company is required to propose and set annual caps on maximum daily balance in respect of the comprehensive credit (including loans, credit loan, bill acceptance and discount, guarantee, letter of indemnity, overdraft, letter of credit) (including interests accrued thereon) provided by Finance Company to Members of the Group pursuant to the Shanghai Listing Rules. The annual cap for the year ending 31 December 2021 is set as below. The historical transaction amounts of the Company for the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the eleven months ended 30 November 2020 are listed here.

Historical maximum daily balance of loans (including interests accrued thereon) granted by Finance Company to Members of the Group

Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Eight months ended 31 August 2020
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
14,198.0	19,984.0	25,177.7	23,281.90 ^{note}

Note: Pursuant to the Existing Financial Services Agreement, the Existing Financial Services Agreement shall take effect since the completion date under the Finance Company Capital Increase Agreement, pursuant to which, the Existing Financial Services Agreement took effect on 1 September 2020.

Maximum daily balance of comprehensive credit provided by Finance Company to Members of the Group (including loans, credit loan, bill acceptance and discount, guarantee, letter of indemnity, overdraft, letter of credit) (including relevant interest accrued thereon)

(1) Historical transaction amount

**Three months ended
30 November 2020**
*Aggregated
transaction amount
(RMB million)*

23,590.68^{note}

(2) Annual cap under the Existing Financial Services Agreement

**Year ending
31 December 2020**
*Annual cap
(RMB million)*

100,000

(3) Annual cap under the Financial Services Agreement

**Year ending
31 December 2021**
*Annual cap
(RMB million)*

100,000

Note: Pursuant to the Existing Financial Services Agreement, the Existing Financial Services Agreement shall take effect since the completion date under the Finance Company Capital Increase Agreement, pursuant to which, the Existing Financial Services Agreement took effect on 1 September 2020.

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.

REASONS FOR ENTERING INTO THE NEW FINANCIAL SERVICES AGREEMENT AND THE BENEFITS TO THE COMPANY

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 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, thereby lowering the financing cost. 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.
- (3) Offering better commercial terms: As a professional centralised treasury management platform, Finance Company generally can offer Members of the Group with more favourable terms and interest rates as compared to other financial institutions. Pursuant to the Financial Services Agreement, the deposit interest rate offered by Finance Company will be no less than that offered by major commercial banks for the deposits of the same nature and the same maturity. And the loan interest rate will be no higher than that offered by major commercial banks for the loans of the same nature and the same maturity.

HONG KONG LISTING RULES IMPLICATIONS

As of the date of this announcement, Finance Company is held as to 60% by China Energy, and China Energy holds 69.45% 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 annual caps under the Financial Services Agreement, as one or more of the applicable percentage ratios exceeds 0.1% but all such percentage ratios are less than 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Financial Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules, but are exempted from the independent shareholders' approval requirement.

GENERAL INFORMATION

The Board has resolved and approved the Financial Services Agreement and the annual caps thereunder on 29 December 2020. Of the Directors attending the board meeting, connected Directors Mr. Wang Xiangxi and Mr. Jia Jinzhong 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 Financial Services Agreement and the annual caps thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, the terms thereof are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

DEFINITIONS

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

“Board”	the board of Directors;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“China Energy Group”	collectively, China Energy and its subsidiaries (excluding the Group);
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Existing Financial Services Agreement”	The financial services agreement dated 27 March 2020 entered into between the Company and Finance Company;
“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);

“Finance Company Capital Increase Agreement”	The capital increase agreement entered into by the Company, Shuohuang Railway Development Co., Ltd. (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), Shenhua Baoshen Railway Co., Ltd. (神華包神鐵路有限責任公司), China Energy and Finance Company on 27 March 2020;
“Financial Services Agreement”	the financial services agreement dated 29 December 2020 entered into between the Company and Finance Company;
“Group”	the Company and its subsidiaries;
“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;
“Members of China Energy Group”	including China Energy, its subsidiaries in which China Energy holds over 51% equity interests (the “ China Energy Subsidiaries ”), companies in which China Energy and the China Energy Subsidiaries individually or jointly hold(s) over 30% equity interests, public institution(s) or social organisation(s) with legal person(s) status under China Energy and its subsidiaries, but excluding the Group;
“Members of the Group”	including the Company, its subsidiaries in which the Company holds over 51% equity interests (the “ Company Subsidiaries ”), companies in which the Company and the Company Subsidiaries individually or jointly hold(s) over 30% equity interests, public institution(s) or social organisation(s) with legal person(s) status under the Company and its subsidiaries;
“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;

“RMB”	Renminbi, the lawful currency of the PRC;
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on the Shanghai Stock Exchange;
“Shareholder(s)”	the shareholder(s) of the Company.

By order of the Board
China Shenhua Energy Company Limited
Huang Qing
Secretary to the Board

Beijing, 29 December 2020

As at the date of this announcement, the Board comprises the following: Mr. Wang Xiangxi, Mr. Yang Jiping and Mr. Xu Mingjun as executive directors, Mr. Jia Jinzhong as non-executive director, Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen as independent non-executive directors, and Mr. Wang Xingzhong as employee director.