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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of China Shenhua Energy Company Limited.

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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 CONNECTED TRANSACTION CONTINUING CONNECTED TRANSACTION

**ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE AGREEMENT  
RESCISSION OF THE EXISTING FINANCIAL SERVICES AGREEMENT AND  
ENTERING INTO NEW FINANCIAL SERVICES AGREEMENT  
INCREASE OF CASH DIVIDEND PERCENTAGE FOR 2019–2021  
AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AMENDMENTS TO RULES OF PROCEDURE OF GENERAL MEETING  
AMENDMENTS TO RULES OF PROCEDURES OF THE BOARD  
AND  
AMENDMENTS TO RULES OF PROCEDURE OF THE SUPERVISORY COMMITTEE**

*Financial Adviser to the Company*



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



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A letter from the Board is set out on pages 1 to 50 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 51 to 52 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 53 to 78 of this circular.

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

9 April 2020

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## DEFINITIONS

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

“Abstained Directors”	Mr. Wang Xiangxi, Mr. Li Dong, Mr. Gao Song, Mr. Mi Shuhua and Mr. Zhao Jibin, who had abstained from voting as Directors on the relevant board resolution(s);
“AGM”	the 2019 annual general meeting of the Company to be held on 29 May 2020;
“Articles of Association”	the articles of association of the Company;
“A Share(s)”	the domestic shares issued by the Company to domestic investors denominated in RMB and which are listed on the Shanghai Stock Exchange;
“A Shareholder(s)”	holders of A Share(s);
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the PRC on Friday, 29 May 2020 at 10:45 a.m.;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Baoshen Railway”	Shenhua Baoshen Railway Co., Ltd., a limited liability company incorporated in the PRC, operates as a subsidiary of the Company;
“Board”	the board of Directors;
“Capital Increase” or “the transaction”	China Energy will subscribe additional registered capital of RMB7.5 billion in Shenhua Finance by way of cash contribution at a consideration of RMB13,273.7160 million, and the remaining RMB5,773.7160 million will be recorded into the capital reserve of Shenhua Finance;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“CBIRC Beijing”	China Banking and Insurance Regulatory Commission Beijing Bureau
“CEA”	China Enterprise Appraisals Co., Ltd.;

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## DEFINITIONS

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“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;
“Completion Date”	the completion date of the Shenhua Finance Capital Increase Agreement;
“Director(s)”	the director(s) of the Company;
“Existing Financial Services Agreement”	the financial services agreement dated 22 March 2019 entered into between the Company and China Energy;
“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;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“H Shareholder(s)”	holders of H Share(s);
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the PRC on Friday, 29 May 2020 at 11:00 a.m.;

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee of the Board comprising all independent non-executive Directors;
“Independent Financial Adviser”	GF Capital (Hong Kong) Limited, a corporation licensed to carry on 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;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the AGM under the Hong Kong Listing Rules;
“Latest Practicable Date”	3 April 2020, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;
“Members of China Energy Group”	including China Energy, its subsidiaries in which China Energy holds over 51% equity interests (the “ <b>China Energy Subsidiaries</b> ”), 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 “ <b>Company Subsidiaries</b> ”), 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;
“New Financial Services Agreement”	the financial services agreement dated 27 March 2020 entered into between the Company and Shenhua Finance;
“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council;

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on the Shanghai Stock Exchange;
“Shareholder(s)”	the shareholder(s) of the Company;
“Shenhua Finance”	Shenhua Finance Co., Ltd. (神華財務有限責任公司), a limited liability company incorporated in the PRC, and will be renamed as China Energy Finance Co., Ltd. (國家能源集團財務有限公司) upon completion of the Capital Increase (subject to the industrial and commercial registration);
“Shenhua Finance Capital Increase Agreement”	the agreement on the capital increase of Shenhua Finance Co., Ltd. dated 27 March 2020 entered into among the Company, China Energy, Shuohuang Railway, Zhunge’er Energy, Baoshen Railway and Shenhua Finance;
“Shuohuang Railway”	Shuohuang Railway Development Co., Ltd., a limited liability company incorporated in the PRC, operates as a subsidiary of the Company;
“Supervisory Committee”	the supervisory committee of the Company;
“Termination Agreement of the Existing Financial Services Agreement”	the termination agreement of the Existing Financial Services Agreement entered into between the Company and China Energy on 27 March 2020;
“Valuation Reference Date”	31 May 2019;
“Zhunge’er Energy”	Shenhua Zhunge’er Energy Co., Ltd., a limited liability company incorporated in the PRC, operates as a subsidiary of the Company.

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Wang Xiangxi  
Gao Song  
Mi Shuhua

*Registered Office:*

22 Andingmen Xibinhe Road  
Dongcheng District  
Beijing, PRC

*Non-executive Director:*

Zhao Jibin

*Independent Non-executive Directors:*

Tam Wai Chu, Maria  
Peng Suping  
Jiang Bo  
Zhong Yingjie, Christina

9 April 2020

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION  
CONNECTED TRANSACTION  
CONTINUING CONNECTED TRANSACTION**

**ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE AGREEMENT  
RESCISSION OF THE EXISTING FINANCIAL SERVICES AGREEMENT AND  
ENTERING INTO NEW FINANCIAL SERVICES AGREEMENT  
INCREASE OF CASH DIVIDEND PERCENTAGE FOR 2019–2021  
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AND  
AMENDMENTS TO RULES OF PROCEDURE OF THE SUPERVISORY  
COMMITTEE**

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the announcement made by the Company on 27 March 2020 on entering into the Shenhua Finance Capital Increase Agreement.

Reference is made to the announcement made by the Company on 27 March 2020 on rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement.

Reference is made to the announcement made by the Company on 27 March 2020 on increase of cash dividend percentage for 2019-2021.

Reference is made to the announcements made by the Company on 23 August 2019 and 27 March 2020 on amendments to the Articles of Association.

Reference is made to the announcements made by the Company on 27 March 2020 on amendments to Rules of Procedure of General Meeting, amendments to Rules of Procedures of the Board and amendments to Rules of Procedure of the Supervisory Committee.

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 entering into the Shenhua Finance Capital Increase Agreement, and rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to entering into the Shenhua Finance Capital Increase Agreement and entering into New Financial Services Agreement.

### ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE AGREEMENT

#### Background

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

China Energy and its subsidiaries 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 circular, China Energy holds 69.45% interest in the Company.

Shuohuang Railway is principally engaged in railway transportation business. As at the date of this circular, the Company directly holds 52.72% interest in Shuohuang Railway.

Zhunge'er Energy is a comprehensive energy enterprise engaging in coal mining, pithead power plants and railway transportation services. As at the date of this circular, the Company directly holds 57.76% interest in Zhunge'er Energy.



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## LETTER FROM THE BOARD

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Baoshen Railway is principally engaged in railway transportation business. As at the date of this circular, the Company indirectly holds 88.16% interest in Baoshen Railway.

Shenhua Finance 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, the Company and subsidiaries controlled by the Company collectively hold 100% interest in Shenhua Finance.

On 27 March 2020, the Company, Shuohuang Railway, Zhunge'er Energy, Baoshen Railway, China Energy and Shenhua Finance entered into the Shenhua Finance Capital Increase Agreement, pursuant to which China Energy, the controlling shareholder of the Company, proposed to subscribe additional registered capital of RMB7.5 billion in Shenhua Finance, a subsidiary controlled by the Company, by way of cash contribution at a consideration of RMB13,273.7160 million. The Company, Shuohuang Railway, Zhunge'er Energy and Baoshen Railway (together, **"the original shareholders of Shenhua Finance"**), all being subsidiaries controlled by the Company, intend to waive the pre-emptive rights in respect of the Capital Increase. Upon completion of the Capital Increase, the registered capital of Shenhua Finance will increase from RMB5 billion to RMB12.5 billion, and China Energy will directly hold 60% of the equity interest in Shenhua Finance. As a result, Shenhua Finance will no longer be consolidated into the consolidated financial statements of the Company.

### **SHENHUA FINANCE CAPITAL INCREASE AGREEMENT**

On 27 March 2020, the Company, Shuohuang Railway, Zhunge'er Energy, Baoshen Railway, China Energy and Shenhua Finance entered into the Shenhua Finance Capital Increase Agreement.

The principal terms of the Shenhua Finance Capital Increase Agreement are set out below:

#### **Date**

27 March 2020

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## LETTER FROM THE BOARD

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### Parties

The Company  
Shuohuang Railway  
Zhunge'er Energy  
Baoshen Railway  
China Energy  
Shenhua Finance

### Capital increase proposal

The parties have confirmed that pursuant to the Valuation Report filed in accordance with the regulation on state-owned assets supervision and administration, as at the Valuation Reference Date, the value of the total equity interests of shareholders of Shenhua Finance is RMB8,849.1440 million.

Based on the above filed valuation results, after amicable negotiation, China Energy will subscribe additional registered capital of RMB7.5 billion in Shenhua Finance by way of cash contribution at a consideration of RMB13,273.7160 million, and the remaining RMB5,773.7160 million will be recorded into the capital reserve of Shenhua Finance.

Upon completion of the Capital Increase, the registered capital of Shenhua Finance will increase from RMB5 billion to RMB12.5 billion. The shareholding structure of Shenhua Finance is as set forth below.

Name of Shareholder	Before the Capital Increase		After the Capital Increase	
	Capital	Shareholding	Capital	Shareholding
	Contribution (RMB)	Percentage (%)	Contribution (RMB)	Percentage (%)
China Energy	–	–	7,500,000,000.00	60.00
The Company	4,071,428,571.43	81.43	4,071,428,571.43	32.57
Shuohuang Railway	357,142,857.14	7.14	357,142,857.14	2.86
Zhunge'er Energy	357,142,857.14	7.14	357,142,857.14	2.86
Baoshen Railway	214,285,714.29	4.29	214,285,714.29	1.71
<b>Total</b>	<b>5,000,000,000</b>	<b>100.00</b>	<b>12,500,000,000</b>	<b>100.00</b>

The above capital contribution and shareholding structure after the Capital Increase shall be subject to approval of CBIRC Beijing or CBIRC. If any discrepancies exist between the approved capital contribution and shareholding structure after the Capital Increase and the above contents, the parties shall adjust the above capital contribution and shareholding structure after the Capital Increase in accordance with the approval of CBIRC Beijing or CBIRC.

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## LETTER FROM THE BOARD

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### **Completion and business registration**

The Completion Date shall be the first day of the next month in which the Shenhua Finance Capital Increase Agreement takes effect.

Since the Completion Date, China Energy will be a shareholder of the Shenhua Finance, and will enjoy rights and assume obligations of a shareholder in proportion to its capital contribution.

The amount of RMB13,273.7160 million for the capital contribution shall be paid in full by China Energy to the account designated by Shenhua Finance within three (3) business days after the Completion Date. Shenhua Finance shall engage a qualified accounting firm to verify the additional registered capital and issue a capital verification report within three (3) business days upon receipt of the full payment of the capital contribution.

Shenhua Finance shall deliver an executed capital contribution certificate to China Energy and record China Energy as a shareholder in the shareholder register within three (3) business days upon receipt of full payment of the capital contribution.

Shenhua Finance shall promptly convene a general meeting to amend the articles of associations in accordance with the Shenhua Finance Capital Increase Agreement and re-elect directors, supervisors and senior management (if applicable), following the full payment of the capital contribution by China Energy. Shenhua Finance shall submit the amendments to the articles of association as well as qualifications of directors and senior management (if applicable) to CBIRC Beijing for approval in due course after the aforementioned general meeting. Upon approval, Shenhua Finance shall promptly complete the alternation (filing) of industrial and commercial registration. China Energy and the original shareholders of Shenhua Finance shall exercise all reasonable endeavours to provide assistance and cooperation in the relevant proceedings including signing necessary documentations and providing essential information.

### **Transition period**

During the transition period, from the Valuation Reference Date dated 31 May 2019 to the Completion Date, the gain or loss of Shenhua Finance shall be retained or borne by the original shareholders of Shenhua Finance. Parties agree that a special audit will be conducted with the Completion Date as the benchmark date for special auditing (“**Special Audit**”) and the original shareholders of Shenhua Finance will be entitled to or be liable for the gain or loss during the transition period based on the difference between the special audited net assets value and the audited net assets value as of the Valuation Reference Date of Shenhua Finance. If the difference of the special audited net assets value and the audited net assets value as of the Valuation Reference Date is positive, China Energy shall compensate the balance in cash to the original shareholders of Shenhua Finance in proportion to their shareholding percentages prior to the Capital Increase. If the balance is negative, the original shareholders of Shenhua Finance shall compensate

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## LETTER FROM THE BOARD

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the balance in cash to China Energy in proportion to their shareholding percentages prior to the Capital Increase. Any such balance shall be paid by the party liable for such compensation to the other party within thirty (30) business days after the completion of the Special Audit.

Parties agree that they undertake to jointly manage the business in good faith, and the business and financial position of Shenhua Finance shall remain stable without any one or more events of material adverse change.

### **Corporate governance after the Capital Increase**

Upon completion of the Capital Increase, corporate governance issues such as the composition of the board of directors, board of supervisors and senior management shall be, upon amicable negotiations, agreed in the articles of association of Shenhua Finance after the Capital Increase.

### **Condition precedent to the effectiveness of the Shenhua Finance Capital Increase Agreement**

The Shenhua Finance Capital Increase Agreement shall be lawfully formulated from the date on which the legal representative or authorized representative of the parties affix their signatures and common seals of their companies. The Shenhua Finance Capital Increase Agreement shall take effect upon satisfaction of all following condition precedents:

- (a) The Capital Increase and waiver of the pre-emptive right are approved by the general meeting of the Company;
- (b) The Capital Increase is considered and approved by the shareholders' meeting of Shenhua Finance, and the original shareholders of Shenhua Finance all agree to waive the pre-emptive right;
- (c) The approval of CBIRC Beijing or CBIRC in relation to the Capital Increase and the shareholding structure adjustment of Shenhua Finance are obtained.

From the date of signing the Shenhua Finance Capital Increase Agreement, parties shall use their best endeavour to procure the fulfilment of the above condition precedents and shall provide necessary cooperation and assistance to each other.

The fulfillment of condition precedent (a) is the prerequisite for condition precedents (b) and (c). As at the date of the Latest Practicable Date, none of the above condition precedents have been satisfied.

### **Liabilities for breach of contract**

If any party to the Shenhua Finance Capital Increase Agreement breaches any of its representations, warranties and undertakings, or makes any misstatements, or fails to perform any of its responsibilities or obligations under the Shenhua Finance Capital Increase Agreement, such party shall be deemed to be in breach of the Shenhua Finance Capital Increase Agreement. The breaching party shall, upon request of the other party, continue to perform its obligations or take measures to remedy the breach or provide the other party with full, prompt, adequate and effective remedy.

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## LETTER FROM THE BOARD

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If the Shenhua Finance Capital Increase Agreement fails to take effect or the Capital Increase fails to be completed for reasons not attributable to the parties, none of the parties shall be liable for breach of contract.

### INFORMATION OF SHENHUA FINANCE

#### Basic information of Shenhua Finance

Shenhua Finance was established on 27 November 2000 with a registered capital of RMB5,000 million. The address of Shenhua Finance is Room 201, 202, Unit 7, Second Floor, Building 18, Xizhimenwai Street, Xicheng District, Beijing, the PRC. Shenhua Finance 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 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 of the date of this circular, the Company and subsidiaries controlled by the Company collectively hold 100% of the equity interest in Shenhua Finance, among which, the Company directly holds 81.43% of the equity interest in Shenhua Finance, Shuohuang Railway, Zhunge'er Energy and Baoshen Railway, all being subsidiaries controlled by the Company, hold 7.14%, 7.14% and 4.29% of the equity interest in Shenhua Finance, respectively.

The equity interests held by the Company and subsidiaries controlled by the Company are with good and clear title, free from mortgage, pledge or other transfer restriction, and has not been involved in any litigation, arbitration or subject to seizure, freezing or any other judicial action. Shenhua Finance did not have any asset valuation, capital increase, capital reduction or restructuring in the past 12 months.

#### Valuation results of Shenhua Finance

CEA, engaged in and qualified for the securities and futures business, is the appraisal institution of this transaction.

According to the valuation report (File No. Zhong Qi Hua Ping Bao Zi(2019) No. 1242) issued by CEA (the "Valuation Report"), as of the Valuation Reference Date, the book value of total equity interests of shareholders of Shenhua Finance was RMB7,616.3612 million, the appraised value of total equity interests of shareholders of Shenhua Finance was RMB8,849.1440 million, amount of increase was RMB1,232.7829 million, the appreciation rate was 16.19%. The above-mentioned valuation results have been filed pursuant to requirements of state-owned asset supervision.

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## LETTER FROM THE BOARD

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In combination with the industry attributes and business characteristics, income approach and market approach are adopted for the valuation of Shenhua Finance. From the perspectives of data source and reliability, parameter adjustment and rationality, value dimension, and nature of the valuation methodology, the valuation results based on income approach are finally adopted as the valuation conclusion of this transaction. A company's value under income approach is calculated from estimates of future profitability. It is expected the future return on net assets will be higher than the cost of equity capital in Shenhua Finance, with its stable operating capacity, good risk controllability and relatively strong profitability. Therefore, the appraised value of total equity interests of shareholders is higher than the book value of net assets, thereby rationalizing the appreciation in valuation results.

The Board, based on analysis of the valuation, is of the view that the important valuation indicators such as valuation methodology, important valuation assumptions, the discount rate adopted in the calculation model and the valuation conclusions are reasonable. The Board also contemplates that the consideration of the Capital Increase, based on the filed valuation results, constitutes a fair consideration. In terms of the professional competence and independence of the appraisal institution, the independent non-executive Directors of the Company are of the view that CEA is an appraisal institution engaged in and qualified for the securities and futures business. Apart from business relations, CEA and the responsible appraiser have no existing or expected interests in relation to the Company, Shenhua Finance or China Energy, and are of professional competence and independence.

Since the valuation results of Shenhua Finance are prepared based on income approach, the relevant valuation results are therefore deemed as a profit forecast of Shenhua Finance under Rule 14.61 of the Hong Kong Listing Rules ("**Shenhua Finance Profit Forecast**"). The Company is in full compliance with Rule 14.62 of the Hong Kong Listing Rules. The principal assumption of Shenhua Finance Profit Forecast is set out in Appendix II. The auditor of the Company, KPMG, has reported on the calculation of the discounted future cash flows used in the asset valuation report of Shenhua Finance. The report from KPMG on profit forecast is set out in Appendix III. The financial adviser also confirms that the profit forecast has been made by the Directors after due and careful enquiry, and the letter from financial adviser on profit forecast is set out in Appendix IV.

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## LETTER FROM THE BOARD

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### Major Financial Indicators of Shenhua Finance

The major financial indicators of Shenhua Finance were prepared in accordance with the China Accounting Standards for Business Enterprises which were audited by KPMG Huazhen LLP, qualified for the securities and futures business, for the year of 2018 and Mazars Certified Public Accountants LLP, qualified for the securities and futures business, for the year of 2019, are set out below:

Reporting period	Total assets	Net assets	Revenue	RMB: million	
				Profit before tax	Net profit after tax
The year of 2018/as at 31 December 2018	95,823.10	9,031.56	2,706.03	1,264.07	947.45
The year of 2019/as at 31 December 2019	118,251.18	8,182.59	3,130.60	1,443.39	1,077.50

### REASONS FOR ENTERING INTO THE SHENHUA FINANCE CAPITAL INCREASE AGREEMENT AND ITS BENEFITS TO THE COMPANY

As approved by the Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited (Guo Zi Fa Gai Ge [2017] No. 146) issued by SASAC, Shenhua Group Corporation Limited and China Guodian Corporation were reorganized. Shenhua Group Corporation Limited has changed its company name to China Energy Investment Corporation Limited. China Energy was the parent company after the reorganization, and merged with China Guodian Corporation by way of merger by absorption of China Guodian Corporation (“**Group Reorganization**”). According to the requirements under the Implementation Measures of the China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Non-Banking Financial Institutions, upon Group Reorganization, only one finance company shall be retained. With a view to satisfying aforementioned regulatory requirements and bringing into full play of the four platform functions of finance company, namely fund settlement, pooling, monitoring and services, China Energy proposes to, after the Capital Increase and acquisition of control, rename Shenhua Finance as China Energy Finance Co., Ltd. (subject to the industrial and commercial registration) with the aim of providing services to China Energy Group (including the Group) as a whole.

Based on the foregoing, the Company proposes to waive and consent Shuohuang Railway, Zhunge’er Energy and Baoshen Railway, all being subsidiaries controlled by the Company, to waive the pre-emptive rights in respect of the Capital Increase.

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## LETTER FROM THE BOARD

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### IMPLICATION OF THE SHENHUA FINANCE CAPITAL INCREASE AGREEMENT

#### Implication on financial position and operating results

The revenue scale and profit level of Shenhua Finance accounts for a relatively small proportion to the corresponding consolidated indicators of the Company. Upon completion of the transaction, the Company will continue to enjoy investment rights and benefits as an important shareholder of Shenhua Finance.

Nevertheless, from a long-term perspective, the transaction is conducive to improving the long-term interests of the Company and shareholders as a whole:

- (a) Upon completion of the transaction, the capital adequacy ratio of Shenhua Finance will be substantially increased and Shenhua Finance will be able to provide financial services to the China Energy Group as a whole. The business scale and financial performance of Shenhua Finance will therefore witness a significant advancement. The Company, as one of Shenhua Finance's importance shareholders, is expected to record greater investment returns from Shenhua Finance.
- (b) The future strategic development of Shenhua Finance will principally focus on providing financial services to the China Energy Group, which is conducive to the sustainable development of the business (including coal-consuming industries) of the China Energy Group and will establish solid foundation for the principal business of the Company in the long run.
- (c) Upon completion of the transaction, China Energy, as the controlling shareholder of Shenhua Finance, has the responsibility as well as the capability to comprehensively monitor, resolve and bear potential financial risks. The Company will control, to the extent reasonable and necessary, the deposit limit at Shenhua Finance and focus on the coal-based integrated operation business, thereby reducing financial risks.

#### Implication on the scope of the consolidated financial statement

Shenhua Finance will not be consolidated into the consolidated financial statements of the Company. The Company has not provided any guarantee for Shenhua Finance, nor entrusted Shenhua Finance for any wealth management. Shenhua Finance is not in possession of any fund of the Company.



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## LETTER FROM THE BOARD

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### **Implication on the Existing Financial Services Agreement**

The Company entered into the Existing Financial Services Agreement with China Energy on 22 March 2019, pursuant to which the Company has agreed to provide, through Shenhua Finance, financial services to Members of China Energy Group.

Upon completion of the Capital Increase, Shenhua Finance will not be consolidated into the consolidated financial statements of the Company and will become a connected person of the Company. The Existing Financial Services Agreement will therefore no longer be applicable. The financial services provided by Shenhua Finance to the Company and subsidiaries controlled by the Company constitute connected transactions of the Company. Given the foregoing, the Company proposes to enter into the Termination Agreement of the Existing Financial Services Agreement and enter into New Financial Services Agreement with Shenhua Finance. Both of the Termination Agreement of the Existing Financial Services Agreement and New Financial Services Agreement will take effect from the Completion Date.

### **HONG KONG LISTING RULES IMPLICATIONS**

As of the date of this circular, China Energy holds 69.45% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company and the transaction contemplated thereunder constitutes connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transaction contemplated thereunder constitutes a deemed disposal as defined under Rule 14.29 of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios exceeding 5%, but all such percentage ratios are less than 25%, the Company is subject to reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. In addition, the transaction also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

### **RESCISSION OF THE EXISTING FINANCIAL SERVICES AGREEMENT AND ENTERING INTO NEW FINANCIAL SERVICES AGREEMENT**

#### **Entering into Termination Agreement of the Existing Financial Services Agreement**

##### ***Date***

27 March 2020

##### ***Parties***

The Company and China Energy

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## LETTER FROM THE BOARD

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### ***Transaction***

From and after the Completion Date, the rights and obligations of each party under the Existing Financial Services Agreement shall be terminated. The rights and obligations of each party will be agreed under the New Financial Services Agreement entered into between the Company and Shenhua Finance.

The Termination Agreement of the Existing Financial Services Agreement will be effective from the Completion Date, after the legal representative or authorized representative of the parties affix their signatures and common seals or contract seals of their companies, and the Company is in compliance with all announcement, approval of the Board/Independent Shareholders (if applicable) and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules.

### **Entering into New Financial Services Agreement**

### ***Date***

27 March 2020

### ***Parties***

The Company and Shenhua Finance

### ***Financial services***

Pursuant to the New Financial Services Agreement, Shenhua Finance 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;

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## LETTER FROM THE BOARD

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- (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 Shenhua Finance would obtain the approval of relevant regulatory authorities in the future, Shenhua Finance 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 New Financial Services Agreement will be effective from the Completion Date and will expire on 31 December 2020, after the legal representative or authorized representative of the parties affix their signatures and common seals or contract seals of their companies, and the Company is in compliance with all announcement, approval of the Board/Independent Shareholders (if applicable) and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules.

### ***Price determination***

- (1) In terms of deposits and loans or similar services provided by Shenhua Finance to Members of the Group, subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities:
  - (i) The interest rates for deposits placed by Members of the Group with Shenhua Finance 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 Shenhua Finance 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.

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## LETTER FROM THE BOARD

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With respect to the deposit interest rate offered by Shenhua Finance for deposits placed by Members of the Group, Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance to Members of the Group:
- (i) Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance for provision of financial services to Members of the Group, Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance 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”.

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## LETTER FROM THE BOARD

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***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 Shenhua Finance, 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 Shenhua Finance, 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 Shenhua Finance by Members of the Group, to keep abreast of the loans granted by Shenhua Finance 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.

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## LETTER FROM THE BOARD

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### Capital Risk Control Measures

- (1) China Energy undertakes in the Shenhua Finance Capital Increase Agreement that in case of an emergency where Shenhua Finance has difficulties making payments, China Energy shall, in accordance with the actual needs to address payment difficulties, satisfy the payment needs of Shenhua Finance through various channels including without limitation the increase of capital and the provision of liquidity support to Shenhua Finance in conformity with laws, regulations and internal regulations such as the articles of association.
- (2) Shenhua Finance is a major domestic non-banking financial institution under the supervision of the CBIRC. Competent authority delegated by CBIRC conducts daily supervision on Shenhua Finance and conducts on-site and off-site inspections. Shenhua Finance ensures that it is in strict compliance with the risk control indicators and risk monitoring indicators issued by the CBIRC.
- (3) Shenhua Finance 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 Shenhua Finance 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, Shenhua Finance 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) Shenhua Finance 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) Shenhua Finance shall not accept Members of the Group to provide entrusted loans and entrusted wealth management to other related members through Shenhua Finance, and shall not accept deposit of proceeds (if any) in Shenhua Finance.
- (7) The Company will divide the deposit limit to Members of the Group. Shenhua Finance shall monitor the deposit placed by Members of the Group with Shenhua Finance not exceed the designated deposit limit. In the event of the deposits placed by Members of the Group with Shenhua Finance exceeding the limit, Shenhua Finance 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.

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## LETTER FROM THE BOARD

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- (8) Prior to the commencement of connected transaction with Shenhua Finance, Members of the Group are entitled to review whether valid financial license and business license are obtained by Shenhua Finance. Members of the Group shall not engage in relevant business with Shenhua Finance 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 New Financial Services Agreement takes effect, Shenhua Finance 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 Shenhua Finance on condition that the risk is confirmed to be controllable.
- (9) The Group examines the operation status and financial position of Shenhua Finance on a regular basis, and pay close attention to whether Shenhua Finance is in violation of any relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises issued by CBIRC. Shenhua Finance 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 Shenhua Finance are found to be inconsistent with relevant regulatory requirements and may lead to material risks, Members of the Group shall discontinue depositing at Shenhua Finance.
- (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 Shenhua Finance in full or in part to test and ensure the security and liquidity of the relevant deposits.
- (11) Shenhua Finance shall assist in monitoring the maximum daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Shenhua Finance to ensure the relevant balance does not exceed the applicable annual caps of connected transactions. If the service fees charged by Shenhua Finance exceed the annual cap for the year, Members of the Group shall discontinue the relevant service with Shenhua Finance for the rest of the year unless otherwise approved by the Board or the general meeting of the Company.
- (12) Shenhua Finance 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 deposits safety of Members of the Group. On occurrence of the following circumstances, including but not limited to:
- (i) The major regulatory indicators of Shenhua Finance fail to comply with the relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises which may lead to material risks;

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## LETTER FROM THE BOARD

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- (ii) Shenhua Finance 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) Shenhua Finance's securities investment business suffered massive losses, reaching 50% of Shenhua Finance's registered capital;
- (iv) Major institutional adjustments, equity transactions or business risks that may affect the normal operation of Shenhua Finance;
- (v) Shenhua Finance 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 Shenhua Finance, suspending any deposits placement with Shenhua Finance and requesting Shenhua Finance to carry out rectification within a prescribed time limit, so as to ensure the safety of deposits of Members of the Group placed with Shenhua Finance. 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 Shenhua Finance.

- (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 Shenhua Finance. 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. Shenhua Finance shall provide necessary cooperation.
- (14) The Company and the Shenhua Finance 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 add and modify relevant risk control measure, which shall be agreed.



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## LETTER FROM THE BOARD

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### PROPOSED ANNUAL CAPS AND PAST TRANSACTIONS

For the purpose of regulating the financial service cooperative relationship between the Group and Shenhua Finance and satisfying the needs of continuous development of the Group, the Company proposes that the annual caps of the New Financial Services Agreement for the year ending 31 December 2020 be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

#### Maximum daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Shenhua Finance

**(1) Historical transaction amounts**

<b>Year ended</b> <b>31 December 2017</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2018</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2019</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>
60,423.9	81,875.1	104,902.7

**(2) Proposed annual caps**

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

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## LETTER FROM THE BOARD

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Annual total agency fee, handling fee, consultation fee and other services fee charged by Shenhua Finance 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**

<b>Year ended</b> <b>31 December 2017</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2018</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2019</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>
1.8	2.3	1.3

**(2) Proposed annual caps**

**Year ending**  
**31 December 2020**  
*Proposed annual cap*  
*(RMB million)*

200

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

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

- (a) Prior to the Capital Increase, Shenhua Finance did not constitute a connected party of the Company. The Members of the Group has formed a long-term and stable business cooperation relationship with Shenhua Finance in deposits, loans, bills, settlement, agency and other businesses. After the Capital Increase, Shenhua Finance would therefore 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.

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## LETTER FROM THE BOARD

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- (c) Pursuant to the comprehensive credit service under the New Financial Services Agreement, Shenhua Finance will grant credits to the Group, and the Group therefore, may have needs seeking to place deposits with Shenhua Finance in the future.
- (d) The monetary funds of the Group amounted to RMB51.481 billion as of 31 December 2019. The Group will continue to maintain reasonable demands for deposits provided by depository financial institutions such as Shenhua Finance. Undertaking sound risk control measures, performing standardized management and reducing potential risks, the Company proposes that the annual caps of daily balance (including accrued interest thereon) of deposits placed by Members of the Group with Shenhua Finance in 2020 be set as RMB20.5 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 Shenhua Finance will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. Members of the Group and Shenhua Finance 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 Shenhua Finance 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 years ended 31 December 2018 and 31 December 2017 which is primarily a result of Shenhua Finance 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. Upon completion of the Capital Increase, the enlarged registered capital of Shenhua Finance will considerably enhance its comprehensive strength especially in terms of scope and scale of financial services offerings. Shenhua Finance 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

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## LETTER FROM THE BOARD

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consultation, agency, investment, letter of credit and guarantee services. The aggregate service fees charged for financial services provided by Shenhua Finance to Members of the Group are expected to grow substantially. Therefore, it is proposed that the annual cap for service fees charged by Shenhua Finance for provision of financial services to Members of the Group for the year ending 31 December 2020 be set as RMB200 million. The proposed annual caps is 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 Shenhua Finance 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 and will be granted in respect of the loans. 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, letter of credit) (including interests accrued thereon) provided by Shenhua Finance to Members of the Group pursuant to the Shanghai Listing Rules. The Company proposes that the annual caps for the year ending 31 December 2020 be set as below:

**Maximum daily balance of loans (including interests accrued thereon) granted by Shenhua Finance to Members of the Group**

<b>Year ended</b> <b>31 December 2017</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2018</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>	<b>Year ended</b> <b>31 December 2019</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>
14,198.0	19,984.0	25,177.7

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## LETTER FROM THE BOARD

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**Proposed annual caps of maximum daily balance of comprehensive credit provided by Shenhua Finance to Members of the Group (including loans, credit loan, bill acceptance and discount, guarantee, letter of indemnity, letter of credit) (including relevant interest accrued thereon)**

**Year ending**

**31 December 2020**

*Proposed annual cap*

*(RMB million)*

100,000

### **IMPLEMENTATION AGREEMENTS**

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the New Financial Services Agreement with Shenhua Finance. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the financial services as contemplated by the New 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 New Financial Services and the annual caps.

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

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

Before the Capital Increase, Members of the Group have established long-term and stable cooperation with Shenhua Finance, as well as relatively stable business relations in terms of deposits, loans, bills, settlements and agents. The Company has entered into the New Financial Services Agreement with Shenhua Finance. Provision of financial services by Shenhua Finance to Members of the Group is conducive to maintaining the continuity of financial services received by Members of the Group and fully making use of the function of the internal financing platform and cash management platform within the Group, thereby lowering the financing cost. Further details are as follows:

- (1) Improving treasury management efficiency, realising centralised treasury management: Shenhua Finance 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

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## LETTER FROM THE BOARD

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efficient. Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance in full or in part. Members of the Group may, at its sole discretion, deposit its funds into Shenhua Finance or other independent commercial banks without any restrictions.

- (2) Familiar with the Company's business, providing more flexible and convenient services: Since Shenhua Finance 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. Shenhua Finance 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, Shenhua Finance 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, Shenhua Finance generally can offer Members of the Group with more favourable terms and interest rates as compared to other financial institutions. Pursuant to the New Financial Services Agreement, the deposit interest rate offered by Shenhua Finance 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

China Energy holds 69.45% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the New 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 addition, the transaction contemplated thereunder also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the New Financial Services Agreement, as one or more of the applicable percentage ratios exceeds 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 New Financial Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent shareholders' approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### **INCREASE OF CASH DIVIDEND PERCENTAGE FOR 2019–2021**

With a view to implementing the amended Securities Law of the People's Republic of China (“**Securities Law**”), proactively protecting the legitimate interest of investors and addressing demands raised by investors and in particular, minority shareholders, pursuant to the Company Law of the People's Republic of China, the Securities Law, Notice Regarding Further Implementing Cash Dividends Distribution of Listed Companies (Zheng Jian Fa [2012] No. 37) and Regulatory Guidelines No. 3 for Listed Companies – Distribution of Cash Dividends of Listed Companies (Zheng Jian Fa Gong Gao [2013] No. 43) issued by the China Securities Regulatory Commission, Guidelines of the Shanghai Stock Exchange on Distribution of Cash Dividends of Listed Companies, requirements of relevant laws, regulations, normative documents and provisions of Articles of Association, the Company proposes to submit the proposal regarding the increase of cash dividend percentage for 2019–2021 to the general meeting for consideration.

### **Provisions Regarding Cash Dividend Percentage in Articles of Association**

Pursuant to Article 197 and Article 206 of the Articles 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 equity holders 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 equity holders of the Company.

### **Increase of Cash Dividend Percentage for 2019–2020**

With a view to implementing the amended Securities Law, proactively protecting the legitimate interest of investors and addressing demands raised by investors and in particular, the minority shareholders, taking into comprehensive account of the profitability scale, cash flow, capital expenditure as well as long-term and sustainable development of the Company, striking a balance between short-term interest and long-term interest, the Company proposes to increase the cash dividend percentage for 2019–2020. In compliance with the Articles of Association, the profit distributed in the form of cash dividends per annum in accordance with the Articles of Association shall be no less than 50% of the net profit attributable to equity holders of the Company.

### **Implication of Increase of Cash Dividend Percentage for 2019–2021**

After taking into account the actual situation and capital expenditure plan of the Company, the increase of cash dividend percentage for 2019–2011 would not affect the daily operation of the Company.

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## LETTER FROM THE BOARD

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### Consideration Procedure for the Increase of Cash Dividend Percentage for 2019–2021

On 27 March 2020, the 25th meeting of fourth session of the board of directors considered and approved the proposal regarding the increase of cash dividend percentage for 2019–2021, with 9 assenting votes, 0 dissenting vote and 0 abstained vote.

It is confirmed by the independent non-executive directors of the Company the increase of cash dividend percentage for 2019–2021, after taking into full consideration of the sustainable development of the Company, the willingness of shareholders in achieving reasonable investment returns, establishing a sustainable, stable and scientific return mechanism, is conducive to protecting the interest of shareholders, especially the minority shareholders and is in compliance with relevant laws and regulations, normative documents and provisions of the Articles of Association.

The increase of cash dividend percentage for 2019–2021 is subject to the approval of the general meeting of the Company.

### AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to the resolutions of the 22nd meeting of the fourth session of the Board held on 23 August 2019, the Company proposes to make certain amendments to the Articles of Association (the “**Previous Proposed Amendments**”). For details, please refer to the announcement of the Company dated 23 August 2019 in relation to the amendments to the Articles of Association. Pursuant to the resolutions of the 25th meeting of the fourth session of the Board held on 27 March 2020, the Company proposes to make certain amendments to the Articles of Association (the “**Proposed Amendments**”), submit the Previous Proposed Amendments together with the Proposed Amendments to the General Meeting for consideration and approval, and submit the amendment to Article 115 of the Articles of Association at the A shareholders’ class meeting and the H shareholders’ class meeting for consideration and approval, which are in the best interests of the Company and the Shareholders as a whole.

### PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

#### 1. Amend Article 11 of the Articles of Association

“The other senior management mentioned in the Articles of Association refers to the senior vice president, vice president, chief financial officer and the secretary to the Board of the Company.”

**to:**

“The other senior management mentioned in the Articles of Association refers to the **executive vice president, chief financial officer** and the secretary to the Board of the Company.”



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## LETTER FROM THE BOARD

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**2. Amend Paragraph 2 of Article 13 of the Articles of Association**

“The aforementioned scope of business shall be subject to the approval of the Administration for Industry and Commerce.”

**to:**

“The aforementioned scope of business shall be subject to the approval of **the competent regulatory department of industry and commerce.**”

**3. Amend Paragraph 3 of Article 43 of the Articles of Association**

“As a result of transfer of shares, no change shall be made in the register of shareholders within thirty (30) days prior to the date of a general meeting of shareholders, or within five (5) days prior to the record date for the Company’s distribution of dividends.”

**to:**

**“Provisions provided by the laws, administrative regulations, departmental regulations, regulatory documents and the stock exchange or securities regulatory authorities where the shares of the Company are listed on the period of closure of register of shareholders before the general meeting of shareholders or the record date for the Company’s distribution of dividends shall prevail.”**

**4. Amend Clause 2 of Paragraph 1 of Article 63 of the Articles of Association**

“(2) to elect and replace directors and to decide on the matters relating to the remuneration of directors;”

**to:**

“to elect and replace **non-employee representative** directors and to decide on the matters relating to the remuneration of **non-employee representative** directors;”

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## LETTER FROM THE BOARD

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**5. Amend Paragraph 1 of Article 73 of the Articles of Association**

“When the Company convenes a general meeting of shareholders, written notices of the meeting shall be provided in no less than forty-five (45) days prior to the date of the meeting (excluding such date) to notify all of the registered shareholders with respect to the matters to be considered, and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning his attendance in no less than twenty (20) days prior to the date of the meeting.”

**to:**

**“A written notice of an annual general meeting convened by the Company shall be provided twenty (20) working days prior to the date of the meeting. A written notice of an extraordinary general meeting convened by the Company shall be provided ten (10) working days or fifteen (15) days prior to the date of the meeting, whichever is longer.”**

**6. Delete Paragraph 1 of Article 76 of the Articles of Association**

“The Company shall, based on the written replies received from shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting twenty (20) days prior to the date of the general meeting of shareholders. In the event that the number of voting shares represented by the shareholders who intend to attend the meeting represents one half or more of the Company’s total voting shares, the Company may hold the meeting. If otherwise, then the Company shall, within five (5) days, notify the shareholders again by public notice of the matters to be considered, and the place and the date for the meeting. The Company may hold the meeting following the publication of such notice.”

**7. Amend Paragraph 2 of Article 78 of the Articles of Association**

“The public announcement as referred to in the preceding paragraph shall be published in one (1) or more national newspapers designated by the securities regulatory authority of the State Council within forty-five (45) days to fifty (50) days prior to the date of the meeting. Upon publication of such announcements, the holders of domestic shares shall be deemed to have received the notice for the relevant general meeting of shareholders.”

**to:**

**“The public announcement as referred to in the preceding paragraph shall be published in one (1) or more national newspapers designated by the securities regulatory authority of the State Council. Upon publication of such announcements, the holders of domestic shares shall be deemed to have received the notice for the relevant general meeting of shareholders.”**

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## LETTER FROM THE BOARD

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### 8. Amend Paragraph 1 of Article 79 of the Articles of Association

“If the election of directors or supervisors is proposed to be discussed at a general meeting, the notice of meeting shall adequately disclose the detailed information of the director or supervisor candidates, whose information shall at least include:

- (1) personal particulars, including educational background, work experiences, and concurrent positions;
- (2) whether one has any connection with the Company, its controlling shareholders or effective controllers;
- (3) the number of shares of the Company one holds;
- (4) whether one has been punished by the securities regulatory authority under the State Council or any other relevant authorities or reprimanded by the stock exchange.”

**to:**

“If the election of **non-employee representative** directors or supervisors **on behalf of shareholders** is proposed to be discussed at a general meeting, the notice of meeting shall adequately disclose the detailed information of the **non-employee representative** director or supervisor **on behalf of shareholders** candidates, whose information shall at least include:

- (1) personal particulars, including educational background, work experiences, and concurrent positions;
- (2) whether one has any connection with the Company, its controlling shareholders or effective controllers;
- (3) the number of shares of the Company one holds;
- (4) whether one has been punished by the securities regulatory authority under the State Council or any other relevant authorities or reprimanded by the stock exchange.”

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## LETTER FROM THE BOARD

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### 9. Amend Article 80 of the Articles of Association

“After the notice of general meeting is issued, the same meeting shall not be postponed or cancelled and the motions set out in the notice shall not be cancelled without proper reasons. In the case of any postponement or cancellation of the meeting, the convener shall make an announcement and give the reasons therefore at least two (2) working days prior to the date on which the meeting is originally scheduled.”

**to:**

“After the notice of general meeting is issued, the same meeting shall not be postponed or cancelled; **the venue of meeting shall not be altered;** and the motions set out in the notice shall not be cancelled without proper reasons. **In special circumstance where either a change of the meeting venue, postponement or cancellation of the meeting is necessary,** the convener shall make an announcement and give the reasons therefore at least two (2) working days prior to the date on which the meeting is originally scheduled. **The convener shall also include the date of the postponed meeting in the notice of postponement.**”

### 10. Amend Clause 3 of Article 94 of the Articles of Association

“(3) appointment or removal of the members of the board of directors and supervisors on behalf of shareholders, and decision on their remuneration and methods of payment;”

**to:**

“(3) appointment or removal of **non-employee representative** directors and supervisors on behalf of shareholders, and decision on their remuneration and methods of payment;”

### 11. Amend the first sentence of Article 96 of the Articles of Association

“The list of candidates for directors or supervisors shall be submitted to the general meeting of shareholders for voting by way of proposals.”

**to:**

“The list of candidates for **non-employee representative** directors or supervisors **on behalf of shareholders** shall be submitted to the general meeting of shareholders for voting by way of proposals.”

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## LETTER FROM THE BOARD

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### 12. Amend Paragraph 2 of Article 108 of the Articles of Association

“Where the date on which an employee supervisor of the new board of supervisors is democratically elected is earlier than the date on which the new board of supervisors is established, he shall take office from the date on which the new board of supervisors is established; otherwise, he shall take office from the date on which he is democratically elected.”

**to:**

“Where the date on which **an employee representative director (hereinafter referred to as the “employee director”)** of the new board of directors and **an employee supervisor (hereinafter referred to as the “employee supervisor”)** of the new board of supervisors are democratically elected is earlier than the date on which **the new board of directors and the new board of supervisors** is established, **the employee director and employee supervisor** shall take office from the date on which **the new board of directors and the new board of supervisors** is established; otherwise, **the employee director and employee supervisor** shall take office from the date on which he is democratically elected.”

### 13. Amend Article 115 of the Articles of Association

“A written notice of a class meeting shall be given forty-five (45) days prior to the date of the class meeting to notify all of the registered shareholders of such class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply for the attendance at the meeting twenty (20) days prior to the date of the meeting.

In the event that the shareholders who intend to attend such a meeting represent more than half of the total number of voting shares of that class, the Company may hold the class meeting; otherwise, the Company shall within five (5) days notify the shareholders of the class, again by public notice, of the matters to be considered as well as the date and place for the class meeting. The Company may then hold the class meeting after the publication of such notice.”

**to:**

“**The period of issuing a written notice of a class meeting convened by the Company shall be the same as the period of issuing a written notice of a non-class meeting to be convened together with such class meeting. A written notice shall** notify all of the registered shareholders of such class of the matters to be considered, the date and the place of the class meeting.”

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## LETTER FROM THE BOARD

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### 14. Amend Article 118 of the Articles of Association

“The Company shall establish a Board which consists of nine directors. The Board shall comprise one Chairman, one vice Chairman and seven directors, in which four of them are executive directors, two are non-executive directors and three are independent non-executive directors (hereinafter referred to as the “independent directors”).

The executive directors mentioned in the previous clause refer to the directors who participate in the management of production and operation of the Company; the non-executive directors refer to the directors who do not participate in the management of production and operation of the Company.”

**to:**

**“The Company shall establish a board of directors which consists of nine directors. The board of directors shall comprise executive directors, non-executive directors, independent non-executive directors (hereinafter referred to as the “independent directors”) and employee director, in which, one of them is employee director and independent directors shall represent at least one-third of the Board.**

**The Board shall have a Chairman, and may have one vice Chairman if necessary.”**

### 15. Amend Paragraph 1 of Article 119 of the Articles of Association

“Directors shall be elected at a general meeting with a term of office of three years. Upon maturity of the current term of office, a Director shall be eligible to offer himself/herself for re-election and reappointment. Prior to the maturity of his/her term, a Director shall not be removed without reason from his/her office by a general meeting.”

**to:**

**“Non-employee representative directors shall be elected or changed at a general meeting of shareholders, and can be removed before maturity of the term of office at a general meeting of shareholders. Employee director shall be elected or changed through employees’ democratic election. The term of office of directors shall be three (3) years. Upon maturity of the current term of office, a director shall be eligible to offer himself/herself for re-election and reappointment.”**

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## LETTER FROM THE BOARD

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### 16. Amend Article 120 of the Articles of Association

“The candidates for directors shall generally be proposed by the board of directors of the Company at the general meeting of shareholders. The shareholders and the board of supervisors are entitled to nominate candidates for director pursuant to the provisions hereof.

A written notice of the intention of nominating the candidate for director and by that candidate indicating his acceptance of such nomination shall be given to the Company no earlier than the date of the notice of the general meeting of shareholders but no later than seven (7) days before the holding of the said general meeting of shareholders. The term of such nomination and acceptance shall not be less than seven (7) days.”

**to:**

“The candidates for **non-employee representative** directors shall generally be proposed by the board of directors of the Company at the general meeting of shareholders. The shareholders and the board of supervisors are entitled to nominate candidates for **non-employee representative** director pursuant to the provisions hereof.

A written notice of the intention of nominating the candidate for **non-employee representative** director and by that candidate indicating his acceptance of such nomination shall be given to the Company no earlier than the date of the notice of the general meeting of shareholders but no later than seven (7) days before the holding of the said general meeting of shareholders. The term of such nomination and acceptance shall not be less than seven (7) days.”

### 17. Amend Paragraph 2 of Article 123 of the Articles of Association

“Subject to compliance with all applicable laws and administrative regulations, the general meeting of shareholders may, by ordinary resolution, remove any director prior to the expiration of his term of office (However, the director’s right to claim damages suffered from his removal shall not be affected thereby.).”

**to:**

“Subject to compliance with all applicable laws and administrative regulations, the general meeting of shareholders may, by ordinary resolution, remove any **non-employee representative** director prior to the expiration of his term of office (However, the **non-employee representative** director’s right to claim damages suffered from his removal shall not be affected thereby.).”

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## LETTER FROM THE BOARD

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**18. Add a new paragraph under Article 130 of the Articles of Association**

**“Board committees shall be responsible for the board of directors and shall perform their duties as stipulated in the Articles of Association and as authorized by the board of directors. Proposals shall be submitted to the board of directors for consideration. All members of Board committees shall be directors. Independent non-executive directors shall account for the majority of members of the Audit Committee, the Nomination Committee and the Remuneration Committee, and shall serve as the convener. The convener of the Audit Committee shall be an accounting professional.”**

**19. Add two new Clauses under Paragraph 1 of Article 131 of the Articles of Association, as Clause 12 and Clause 16, respectively**

**“(12) to promote the construction of rule of law of the Company, and supervise the management on governing the Company according to the law;**

**(16) to decide the Company’s risk management system, including risk assessment, financial control, internal audit, legal risk control, and monitor the implementation;”**

**20. Amend Article 146 of the Articles of Association**

**“The Company shall establish the Party Committee, which shall comprise seven members, including one Secretary of the Party Committee and one Deputy Secretary of the Party Committee. Eligible members of the Party Committee may be appointed as directors, supervisors and senior management through legal procedures. Eligible directors, supervisors and senior management who are Party members may be appointed as members of the Party Committee in accordance with relevant regulations and procedures. In addition, the Company shall establish the Commission for Discipline Inspection according to regulations.”**

**to:**

**“The Company shall establish the Party Committee, which shall comprise ~~seven (7)~~ to ~~nine (9)~~ members, including ~~one (1)~~ Secretary of the Party Committee ~~and one (1) to two (2)~~ Deputy Secretary of the Party Committee. Eligible members of the Party Committee may be appointed as directors, supervisors and senior management through legal procedures. Eligible directors, supervisors and senior management who are Party members may be appointed as members of the Party Committee in accordance with relevant regulations and procedures. In addition, the Company shall establish the Commission for Discipline Inspection according to regulations, ~~and appoint one (1) Secretary of the Commission for Discipline Inspection.~~”**



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## LETTER FROM THE BOARD

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### 21. Amend Article 152 of the Articles of Association

“The Company shall have one president who shall be appointed or removed by the Board, several senior vice presidents and vice presidents to assist the president in his/her work and one chief financial officer. The senior vice presidents, vice presidents and chief financial officer shall be nominated by the president and appointed or removed by the Board.

The Company shall have a chief legal counsel, who shall be responsible for the legal affairs of the Company and may be appointed by the board of directors.

The Board of the Company may determine that the president and other senior management are held concurrently by members of the Board provided that the number of Directors appointed as the president and other senior management shall not exceed one-half of the total number of directors of the Company.

President and other senior management shall be appointed for a term of three years, which is renewable upon re-election.”

**to:**

“The Company shall have one **chief executive officer** who shall be appointed or removed by the Board, several **executive vice presidents** to assist the **chief executive officer** in his/her work and one **chief financial officer**. The **executive vice presidents** and **chief financial officer** shall be nominated by the **chief executive officer** and appointed or removed by the Board.

The Company shall have a chief legal counsel, who shall be responsible for the legal affairs of the Company and may be appointed by the board of directors.

The Board of the Company may determine that the **chief executive officer** and other senior management are held concurrently by members of the Board provided that the number of Directors appointed as the **chief executive officer** and other senior management shall not exceed one-half of the total number of directors **and employee directors** of the Company.

**Chief executive officer** and other senior management shall be appointed for a term of three years, which is renewable upon re-election.”

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## LETTER FROM THE BOARD

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### **22. Amend Paragraph 1 of Article 153 of the Articles of Association**

“The President shall be held accountable to the board of directors and shall utilize the regular executive meetings to exercise the following functions and powers:

- (1) to communicate and implement crucial decisions, instructions and work arrangements of the State Council, the State-owned Assets Supervision and Administration Commission (SASAC) and the relevant authorities of the State Council, and to address relevant actions to be taken;
- (2) to address and implement the resolutions of the board of directors;
- (3) to address, formulate and amend the mid to long-term development strategy and plans of the Company that parallel market changes and report such strategy and plans to the board of directors for approval in accordance with these Articles of Association;
- (4) to analyze and decide on the Company’s production, operation and management, including cost management, financial management, quality control, safety management and up-to-date information and technology management;
- (5) to address and implement the Company’s annual business plan and investment proposals, to research and decide any crucial matters in the work as to annual production, safety, healthy and environment, selling, investment, finance, foreign cooperation, education and training and auditing and supervising;
- (6) to research and formulate any plans for the establishment of the Company’s internal management structure; to address, appoint or dismiss any management personnel of the Company and its units other than those required to be appointed or dismissed by the board of directors;
- (7) to analyze and formulate the Company’s basic management system;
- (8) to review and formulate detailed rules and regulations for the Company;
- (9) to review any information disclosed to the public;
- (10) to decide on the executing of any contracts, transactions and arrangements with amounts not exceeding five percent (5%) of the audited net asset value of the Company in the previous year save where the Company invests in any other enterprise or provides a security to any external party;
- (11) other powers conferred upon by the Company’s Articles of Association or the board of directors.”

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## LETTER FROM THE BOARD

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**to:**

“The **chief executive officer** shall be held accountable to the board of directors and shall utilize the **chief executive officer meetings** to exercise the following functions and powers:

- (1) to communicate and implement crucial decisions, instructions and work arrangements of the State Council, the State-owned Assets Supervision and Administration Commission (SASAC) and the relevant authorities of the State Council, and to address relevant actions to be taken;
- (2) to address and implement the resolutions of the board of directors;
- (3) to address, formulate and amend the mid to long-term development strategy and plans of the Company that parallel market changes and report such strategy and plans to the board of directors for approval in accordance with these Articles of Association;
- (4) to analyze and decide on the Company’s production, operation and management, including cost management, financial management, quality control, safety management and up-to-date information and technology management;
- (5) to address and implement the Company’s annual business plan and investment proposals, to research and decide any crucial matters in the work as to annual production, safety, healthy and environment, selling, investment, finance, foreign cooperation, education and training and auditing and supervising;
- (6) to research and formulate any plans for the establishment of the Company’s internal management structure; to address, appoint or dismiss any management personnel of the Company and its units other than those required to be appointed or dismissed by the board of directors;
- (7) to analyze and formulate the Company’s basic management system;
- (8) to review and formulate detailed rules and regulations for the Company;
- (9) to review any information disclosed to the public;
- (10) to decide on the executing of any contracts, transactions and arrangements with amounts not exceeding five percent (5%) of the audited net asset value of the Company in the previous year save where the Company invests in any other enterprise or provides a security to any external party;
- (11) other powers conferred upon by the Company’s Articles of Association or the board of directors.”

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## LETTER FROM THE BOARD

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**23. Amend Article 154 of the Articles of Association**

“The President shall decide on any matters at the regular executive meetings upon the attending persons expressing their opinions on such matters.”

**to:**

“The **chief executive officer** shall decide on any matters at the **chief executive officer meetings** upon the attending persons expressing their opinions on such matters.”

**24. Amend Paragraph 1 of Article 161 of the Articles of Association**

“Chief legal counsel shall attend major meetings, including Party Committee meetings, executive meeting of President and office meeting of President, and issue legal opinions on major operation decisions of the Company according to the law.”

**to:**

“Chief legal counsel shall attend major meetings, including Party Committee meetings, **chief executive officer meetings** and **special meeting of chief executive officer**, and issue legal opinions on major operation decisions of the Company according to the law.”

**25. Amend Clause 1 of Article 205 of the Articles of Association**

“(1) Any proposal for profit distribution of the Company shall be formulated at the regular executive meetings and submitted to the board of directors and the board of supervisors for consideration. The board of directors shall carry out a comprehensive discussion concerning the rationales of the proposal for profit distribution, and pass a special resolution for submission to the general meeting for consideration after receiving opinions from the independent directors. The proposal will become effective upon gaining approval at the general meeting by way of an ordinary resolution.”

**to:**

“(1) Any proposal for profit distribution of the Company shall be formulated at the **chief executive officer meetings** and submitted to the board of directors and the board of supervisors for consideration. The board of directors shall carry out a comprehensive discussion concerning the rationales of the proposal for profit distribution, and pass a special resolution for submission to the general meeting for consideration after receiving opinions from the independent directors. The proposal will become effective upon gaining approval at the general meeting by way of an ordinary resolution.”

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## LETTER FROM THE BOARD

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26. Pursuant to amendments of titles of certain senior management in Article 11 and Article 152 of the Articles of Association, amend the “president” in Article 9, Article 36, Article 49, Article 52, Article 55, Article 56, Article 65, Article 77, Article 131, Article 132, Article 138, Article 147, Article 149, Article 155 to 159, Article 165, Article 169, Article 173, Article 175 to 185, Article 187, Article 189, Article 192, Article 202, Article 213 and Article 242 of the Articles of Association

to:

“chief executive officer”.

If the serial numbering of the chapters and articles of the Articles of Association is changed due to the addition, deletion or re-arrangement of certain articles made in this amendment, the serial numbering of the chapters and articles of the Articles of Association as so amended shall be changed accordingly, including cross- references.

### GENERAL

The proposed amendments to the Articles of Associations must be approved by way of a special resolution of the Shareholders at the General Meeting and the proposed amendment to Article 115 of the Articles of Association must be approved by way of a special resolution by the A Shareholders at the A Shareholders’ class meeting and the H Shareholders at the H Shareholders’ class meeting to become effective.

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## LETTER FROM THE BOARD

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### AMENDMENTS TO RULES OF PROCEDURE OF GENERAL MEETING

Pursuant to the resolutions of 25th meeting of the fourth session of the Board of the Company held on 27 March 2020, the Company proposes to make certain amendments to the Rules of Procedure of General Meeting, which are in the best interests of the Company and the Shareholders as a whole.

### PROPOSED AMENDMENTS TO RULES OF PROCEDURE OF GENERAL MEETING

**1. Amend the titles of certain senior management in the Rules of Procedure of General Meeting**

Amend the “president”, “vice president” and “chief financial officer” in Article 2, Article 25, Article 35, Article 45 of the Rules of Procedure of General Meeting

**to:**

**“chief executive officer”, “executive vice president” and “chief financial officer”**

**2. Amend Clause 2 of Paragraph 11 of Article 11 of the Rules of Procedure of General Meeting**

“(2) to elect and replace directors and to determine the remuneration of the directors;”

**to:**

“(2) to elect and replace **non-employee representative** directors and to determine the remuneration of the directors;”

**3. Amend Paragraph 1 of Article 23 of the Rules of Procedure of General Meeting**

“Where the Company convenes a general meeting, a notice of meeting shall be given by the convener 45 days prior to the date of the meeting (excluding the day of the meeting) to notify the shareholders recorded in the register of members of the motions to be considered at the meeting, and the date and venue of the meeting.”

**to:**

**“A written notice of an annual general meeting convened by the Company shall be provided 20 working days prior to the date of the meeting. A written notice of an extraordinary general meeting convened by the Company shall be provided 10 working days or 15 days prior to the date of the meeting, whichever is longer.”**

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## LETTER FROM THE BOARD

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### 4. Amend Paragraph 3 of Article 23 of the Rules of Procedure of General Meeting

“Public notices referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities regulatory authority of the State Council during the period between 45 days to 50 days prior to the date of the meeting. Once the announcement is made, holders of domestic shares shall be deemed to have received the notice of the general meeting. If the Company is unable to issue the notice of meetings within the period as provided and, as a result, the AGM cannot be held within six months after the conclusion of the previous financial year, the Company shall report and explain to the stock exchange of its listing place as soon as possible and make an announcement thereof.”

**to:**

**“The public announcement as referred to in the preceding paragraph shall be published in one or more national newspapers designated by the securities regulatory authority of the State Council.** Once the announcement is made, holders of domestic shares shall be deemed to have received the notice of the general meeting. If the Company is unable to issue the notice of meetings within the period as provided and, as a result, the AGM cannot be held within six months after the conclusion of the previous financial year, the Company shall report and explain to the stock exchange of its listing place as soon as possible and make an announcement thereof.”

### 5. Delete Paragraph 1 of Article 27 of the Rules of Procedure of General Meeting

“Shareholders and their authorised proxies intending to attend a general meeting shall deliver to the Company their written replies concerning their attendance at such meeting 20 days prior to the date of the meeting. The Company shall, based on the written replies received from shareholders 20 days prior to the date of the general meeting, calculate the number of voting shares held by shareholders and their authorised proxies intending to attend the meeting. Where the number of voting shares represented by shareholders intending to attend the meeting amounts to more than one-half of the Company’s voting shares, the Company may convene the general meeting; if not, the Company shall, within 5 days, notify shareholders of the issues to be considered, the date and venue of the meeting again in the form of a public notice. The Company may then convene the general meeting after the publication of such notice.”

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## LETTER FROM THE BOARD

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### 6. Amend Article 35 of the Rules of Procedure of General Meeting

“A shareholder may attend and vote at a general meeting in person or by proxy. The directors, supervisors, president and other senior management members of the Company and Chinese lawyers engaged shall attend the meeting. In order to ensure the solemnity and proper order of the general meeting, people other than those mentioned above, the Company shall have the right to refuse venue entry to the meeting venue.”

**to:**

“A shareholder may attend and vote at a general meeting in person or by proxy. The directors, supervisors, **and secretary to the Board shall be present at the meeting.** The **chief executive officer** and other senior management members of the Company **shall be in attendance at the meeting.** Chinese lawyers **engaged by the Company** and persons invited by the Board could be in attendance at the meeting. In order to ensure the solemnity and proper order of the general meeting, people other than those mentioned above, the Company shall have the right to refuse venue entry to the meeting venue.”

### 7. Amend Article 57 of the Rules of Procedure of General Meeting

“If the director and supervisor election matters are discussed at the general meeting, the notice of general meeting shall fully disclose the detailed information of the candidate director and supervisor, at least including:

- (1) such personal data as education background, work experience and concurrent positions;
- (2) whether he is affiliated with the Company or the controlling shareholder and the ultimate beneficial owner of the Company;
- (3) disclosure of the number of shares the Company the candidate holds;
- (4) whether the candidate has been punished by the CSRC, other relevant authorities and the Stock Exchange.

Except for the director and supervisor elected via cumulative voting in accordance with Article 58 of the Rules of Procedure of General Meeting, each director or supervisor candidate shall be proposed via a single proposal.”

**to:**



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## LETTER FROM THE BOARD

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“If the **non-employee representative** director and supervisor **on behalf of shareholders** election matters are discussed at the general meeting, the notice of general meeting shall fully disclose the detailed information of the candidate **non-employee representative** director and supervisor **on behalf of shareholders**, at least including:

- (1) such personal data as education background, work experience and concurrent positions;
- (2) whether he is affiliated with the Company or the controlling shareholder and the ultimate beneficial owner of the Company;
- (3) disclosure of the number of shares the Company the candidate holds;
- (4) whether the candidate has been punished by the CSRC, other relevant authorities and the Stock Exchange.

Except for the **non-employee representative** director and supervisor **on behalf of shareholders** elected via cumulative voting in accordance with Article 58 of the Rules of Procedure of General Meeting, each director or supervisor candidate shall be proposed via a single proposal.”

### 8. Amend the first sentence of Article 58 of the Rules of Procedure of General Meeting

“When a voting is made on the election of directors or supervisors at the general meeting, the cumulative voting system would be adopted in accordance with the provisions of the Articles of Association or the resolutions of the general meeting; that is to say, each share has the voting right for the number of directors or supervisors to be elected, and the voting right owned by shareholders may be cumulatively used. The main content of cumulative voting system is as follow:”

**to:**

“When a voting is made on the election of **non-employee representative** directors or supervisors **on behalf of shareholders** at the general meeting, the cumulative voting system would be adopted in accordance with the provisions of the Articles of Association or the resolutions of the general meeting; that is to say, each share has the voting right for the number of directors or supervisors to be elected, and the voting right owned by shareholders may be cumulatively used. The main content of cumulative voting system is as follow:”

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## LETTER FROM THE BOARD

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**9. Amend Clause 3 of Article 59 of the Rules of Procedure of General Meeting**

“(3) appointment and removal of the directors and supervisors acting as shareholders’ representatives, and determination of their remuneration and the method of payment thereof;”

**to:**

“(3) appointment and removal of the directors **non-employee representative** and supervisors **on behalf of shareholders**, and determination of their remuneration and the method of payment thereof;”

**10. Amend Paragraph 2 of Article 76 of the Rules of Procedure of General Meeting**

“Where the date on which an employee representative supervisor of the new board of supervisors is democratically elected is earlier than the date on which the new board of supervisors is established, he shall take office from the date on which the new board of supervisors is established; otherwise, he shall take office from the date on which he is democratically elected.”

**to:**

“Where the date on which **an employee representative director of the new board of directors and an employee representative supervisor of the new board of supervisors** is democratically elected is earlier than the date on which **the new board of directors and the new board of supervisors** is established, **the employee representative director and employee representative supervisor** shall take office from the date on which **the new board of directors and the new board of supervisors** is established; otherwise, **the employee representative director and employee representative supervisor** shall take office from the date on which he is democratically elected.”

### GENERAL

The proposed amendments to the Rules of Procedure of General Meeting must be approved by way of a special resolution of the Shareholders at the general meeting to become effective.

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## LETTER FROM THE BOARD

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### AMENDMENTS TO RULES OF PROCEDURES OF THE BOARD

Pursuant to the resolutions of the 25th meeting of the fourth session of the Board held on 27 March 2020, the Company proposes to make certain amendments to the Rules of Procedure of the Board, which are in the best interests of the Company and the Shareholders as a whole.

### PROPOSED AMENDMENTS TO RULES OF PROCEDURES OF THE BOARD

#### 1. Amend the titles of certain senior management in the Rules of Procedure of the Board

Amend the “president”, “vice president” and “chief financial officer” in Article 4, Article 6, Article 8, Article 11, Article 18, Article 19, Article 20, Article 24, Article 26, Article 27, Article 29, Article 44, Article 46

to:

“chief executive officer”, “executive vice president” and “chief financial officer”

#### 2. Amend Clause 1 of Article 6 of the Rules of Procedure of the Board

*“(1) Duties and functions subject to approvals of the general meeting*

1. determining the basis of the directors’ remunerations;
2. electing directors;
3. removing directors;”

to:

*“(1) Duties and functions subject to approvals of the general meeting*

1. determining the basis of the directors’ remunerations;
2. electing **non-employee representative** directors;
3. removing **non-employee representative** directors;”

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## LETTER FROM THE BOARD

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### 3. Amend Paragraph 1 of Article 9 of the Rules of Procedure of the Board

“The Board shall comprise nine directors, including one chairman, one vice chairman and seven directors, among which four shall be executive directors, two shall be non-executive directors and three shall be independent non-executive directors (hereinafter referred to as “Independent Directors”).”

to:

“The Company shall establish a Board which consists of nine directors. **The Board shall comprise executive directors, non-executive directors, independent non-executive directors (hereinafter referred to as the “Independent Directors”) and employee director, in which, one of them is employee director and independent directors shall represent at least one-third of the Board. The Board shall have a Chairman, and may have one vice Chairman if necessary.**”

### 4. Amend Article 12 of the Rules of Procedure of the Board

“Non-executive directors shall be appointed for a specific term, subject to re-election. All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting following their appointments.”

to:

“Non-executive directors shall be appointed for a specific term, subject to re-election. All **non-employee representative** directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting following their appointments.”

### 5. Amend Clause 7 of Article 43 of the Rules of Procedure of the Board

“(7) electing and replacing directors and deciding on the matters relating to the remunerations of the directors and supervisors; and”

to:

“(7) electing and replacing **non-employee representative** directors and deciding on the matters relating to the remunerations of the **non-employee representative** directors and supervisors **on behalf of shareholders**; and”

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## LETTER FROM THE BOARD

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### GENERAL

The proposed amendments to the Rules of Procedure of the Board must be approved by way of a special resolution of the Shareholders at the General Meeting to become effective.

### AMENDMENTS TO RULES OF PROCEDURE OF THE SUPERVISORY COMMITTEE

Pursuant to the resolutions of the 16th meeting of the fourth session of the Supervisory Committee held on 27 March 2020, the Company proposes to make certain amendments to the Rules of Procedure of the Supervisory Committee, which are in the best interests of the Company and the Shareholders as a whole.

### PROPOSED AMENDMENTS TO RULES OF PROCEDURE OF THE SUPERVISORY COMMITTEE

Amend the “president” in Article 2, Article 3, Article 4, Article 9, Article 15, Article 19

to:

“chief executive officer”

### GENERAL

The proposed amendments to the Rules of Procedure of the Supervisory Committee must be approved by way of a special resolution of the Shareholders at the general meeting to become effective.

### THE AGM AND THE CLASS MEETINGS

The AGM will be convened and held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People’s Republic of China at 9:30 a.m.. on Friday, 29 May 2020 for the purpose of, inter alia, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), entering into the Shenhua Finance Capital Increase Agreement and the transactions contemplated thereunder;
- (2) by the Independent Shareholders, and by way of ordinary resolution(s), rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (3) by the Shareholders, and by way of special resolution(s), increase of cash dividend percentage for 2019-2021;

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## LETTER FROM THE BOARD

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- (4) by the Shareholders, and by way of special resolution(s), the amendments to the Articles of Association;
- (5) by the Shareholders, and by way of special resolution(s), the amendments to the Rules of Procedure of General Meeting;
- (6) by the Shareholders, and by way of special resolution(s), the amendments to the Rules and Procedure of Board;
- (7) by the Shareholders, and by way of special resolution(s), the amendments to the Rules and Procedure of the Supervisory Committee.

The A Shareholders' Class Meeting will be convened and held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People's Republic of China at 10:45 a.m. on Friday, 29 May 2020 for the purpose of considering and approving by the A Shareholders, and by way of special resolution(s), the amendments to Article 115 of the Articles of Association.

The H Shareholders' Class Meeting will be convened and held at Conference Room, 1st Floor, Block B, Shenhua Tower, 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, the People's Republic of China at 11:00 a.m. on Friday, 29 May 2020 for the purpose of considering and approving by the H Shareholders, and by way of special resolution(s), the amendments to Article 115 of the Articles of Association.

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

Pursuant to the Hong Kong Listing Rules, China Energy and its associates will abstain from voting on all resolutions relating to entering into Shenhua Finance Capital Increase Agreement, and rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, to be proposed, considered and voted on at the AGM. As of the Latest Practicable Date, China Energy and its associates hold in aggregate 13,812,709,196 shares of the Company, which amounts to approximately 69.45% of total issued shares of the Company.

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

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

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that the terms and the transactions contemplated under the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder, amendments to the Articles of Association, amendments to Rules of Procedure of General Meeting, amendments to Rules of Procedures of the Board and amendments to Rules of Procedure of the Supervisory Committee set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

The Board has resolved and approved the resolutions in respect of the above matters. Of the Directors attending the board meetings, the Abstained Directors were considered to have material interests by virtue of being employed by China Energy, and had thus abstained from voting on the resolutions in relation to the entering into the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement.

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

GF Capital (Hong Kong) Limited 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 entering into the Shenhua Finance Capital Increase Agreement, and entering into New Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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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 terms and the transactions contemplated under the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder 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 entering into the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement to be proposed at the AGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 51 to 52, the letter from the Independent Financial Adviser set out on pages 53 to 78 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)**

*To the Independent Shareholders*

9 April 2020

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION**  
**CONNECTED TRANSACTION**  
**CONTINUING CONNECTED TRANSACTION**

**ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE AGREEMENT**  
**AND**  
**RESCISSION OF THE EXISTING FINANCIAL SERVICES AGREEMENT AND**  
**ENTERING INTO NEW 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 terms and the transactions contemplated under the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder 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 53 to 78 of this circular, we are of the opinion that the terms and the transactions contemplated under the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder 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.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the entering into the Shenhua Finance Capital Increase Agreement, rescission of the Existing Financial Services Agreement and entering into New Financial Services Agreement to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Dr. Tam Wai Chu, Maria**

**Dr. Peng Suping**

**Dr. Jiang Bo**

**Ms. Zhong Yingjie,  
Christina**

*Independent*

*Independent*

*Independent*

*Independent*

*Non-executive Director*

*Non-executive Director*

*Non-executive Director*

*Non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in connection with the Shenhua Finance Capital Increase Agreement and New Financial Services Agreement (including the annual caps thereunder), which have been prepared for the purpose of inclusion in this circular.*



29–30/F, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

9 April 2020

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE  
AGREEMENT**

**AND**

**(2) CONTINUING CONNECTED TRANSACTIONS  
ENTERING INTO NEW FINANCIAL SERVICES AGREEMENT AND  
TRANSACTIONS THEREUNDER**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the entering into of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement, and the transactions contemplated thereunder (including the terms and, where applicable and the proposed annual caps (“**Proposed Annual Caps**”) for the year ending 31 December 2020, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 9 April 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Shenhua Finance Capital Increase Agreement

On 27 March 2020, the Company, China Energy, Shuohuang Railway, Zhunge'er Energy, Baoshen Railway and Shenhua Finance entered into the Shenhua Finance Capital Increase Agreement, details of which are set out in the section headed "ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE AGREEMENT" in the Letter from the Board contained in the Circular.

As at the Latest Practicable Date, China Energy, who directly holds 13,812,709,196 shares (representing approximately 69.45% of the issued share capital of the Company), is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company within the meaning of the Hong Kong Listing Rules. As the Capital Increase constitutes a deemed disposal as defined under Rule 14.29 of the Hong Kong Listing Rules and as one or more of the applicable percentage ratios stipulated under Rule 14A.06 of the Hong Kong Listing Rules in respect of the Capital Increase exceed 5% but all such percentage ratios are less than 25%, the Capital Increase would constitute a discloseable and connected transaction of the Company under the Hong Kong Listing Rules and is therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

### New Financial Services Agreement

On 27 March 2020, the Company and Shenhua Finance entered into the New Financial Services Agreement, details of which are set out in the section headed "RESCISSION OF THE EXISTING FINANCIAL SERVICES AGREEMENT AND ENTERING INTO NEW FINANCIAL SERVICES AGREEMENT" in the Letter from the Board contained in the Circular.

Upon completion of the Capital Increase, Shenhua Finance will be directly held as to 60% by China Energy, becoming a non-wholly-owned subsidiary of China Energy, and will no longer be the subsidiary of the Company. China Energy holds 69.45% interest in the Company and is a controlling shareholder of the Company. In addition, one or more of the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the Proposed Annual Caps of the services under the New Financial Services Agreement for the year ending 31 December 2020 exceed 5% but all applicable percentage ratios are less than 25%. Accordingly, the transactions (excluding provision of financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) by Shenhua Finance 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 and the provision of comprehensive credits) contemplated under the New Financial Services Agreement would constitute non-exempt continuing connected transactions ("**Non-exempt Continuing Connected Transactions**") of the Company under Chapter 14A of the Hong Kong Listing Rules and are therefore subject to reporting, announcement and Independent Shareholders' approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of the interests of China Energy in the Company, China Energy and its associates will abstain from voting on the resolutions in relation to the entering into of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement to be proposed at the AGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Tam Wai Chu, Maria, Dr. Peng Suping, Dr. Jiang Bo and Ms. Zhong Yingjie, Christina, has been established to consider and advise the Independent Shareholders as to (i) whether the terms of the Shenhua Finance Capital Increase Agreement, the New Financial Services Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether entering into of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement and the Non-exempt Continuing Connected Transactions (including the Proposed Annual Caps thereof) contemplated thereunder are 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; and (iii) whether the Independent Shareholders should vote in respect of the resolution(s) to approve the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement to be proposed at the AGM. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### OUR INDEPENDENCE

In the last two years from the date of this appointment, we have not acted as the independent financial adviser on any other transaction for the Company. As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties to the captioned transactions that could reasonably be regarded as relevant to our independence. Therefore, we are considered to be eligible under Rule 13.84 of the Hong Kong Listing Rules to give independent advice on the Shenhua Finance Capital Increase Agreement, the New Financial Services Agreement and the transactions contemplated thereunder.

### BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and management of the Company. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects as at the date of the Circular. We have also relied on our discussion with the Directors and the representative of the Company, Shenhua Finance and China Energy regarding the Group, Shenhua Finance and China Energy Group, the respective terms of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement, including the information and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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representations contained in the announcement of the Company dated 27 March 2020 and the Circular (including the valuation report prepared by CEA, an independent valuer). We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, China Energy, Shenhua Finance or their respective associates nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Shenhua Finance Capital Increase Agreement, the New Financial Services Agreement and the transactions contemplated thereunder, we have taken the following principal factors and reasons into consideration:

#### 1. SHENHUA FINANCE CAPITAL INCREASE AGREEMENT

##### A. Background of and Reasons for entering into the Shenhua Finance Capital Increase Agreement

###### *Background*

###### *(i) Information on the Group*

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.

###### *(ii) Information on China Energy*

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(iii) Information on Shenhua Finance*

Shenhua Finance 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; providing 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 issue 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 the Circular, the Company and the subsidiaries controlled by the Company hold 100% interest in Shenhua Finance.

On 27 March 2020, the Company, Shuohuang Railway, Zhunge'er Energy, Baoshen Railway, China Energy and Shenhua Finance entered into the Shenhua Finance Capital Increase Agreement, pursuant to which China Energy proposed to subscribe for additional registered capital of RMB7.5 billion in Shenhua Finance, by way of cash contribution at a consideration of RMB13,273.7160 million and the remaining RMB5,773.7160 million will be recorded into the capital reserve of Shenhua Finance. The existing shareholders of Shenhua Finance, including the Company, Shuohuang Railway, Zhunge'er Energy and Baoshen Railway, all being subsidiaries controlled by the Company, intend to waive the pre-emptive rights in respect of the Capital Increase. Upon completion of the Capital Increase, the registered capital of Shenhua Finance will increase from RMB5 billion to RMB12.5 billion, and China Energy will become the controlling shareholder of Shenhua Finance, directly holding 60% of the equity interest in Shenhua Finance.

**Reasons for entering into the Shenhua Finance Capital Increase Agreement and its benefits to the Company**

As set out in the Letter from the Board, as approved by the Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited (Guo Zi Fa Gai Ge [2017] No. 146) (《關於中國國電集團公司和神華集團有限責任公司重組的通知》(國資發改革[2017]146號)) issued by SASAC, Shenhua Group Corporation Limited and Guodian Group Corporation were reorganized. Shenhua Group Corporation Limited has changed its company name to China Energy Investment Corporation Limited. China Energy was the parent company after the reorganization, and merged with China Guodian Corporation by way of merger by absorption of China Guodian Corporation (“Group

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Reorganization**”). According to the requirements under the Implementation Measures of the China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Non-Banking Financial Institutions (No. 6 [2015]) (《中國銀保監會非銀行金融機構行政許可事項實施辦法》(2015年6號令)) (“the **Implementation Measures**”), upon Group Reorganization, only one finance company shall be retained. With a view to satisfying the aforementioned regulatory requirements and bringing into full play of the four platform functions of finance company, namely fund settlement, pooling, monitoring and services, China Energy proposes to, after the Capital Increase and acquisition of control, rename Shenhua Finance as China Energy Finance Co., Ltd. (“**China Energy Finance**”, subject to the industrial and commercial registration) with the aim of providing services to China Energy Group (including the Group) as a whole.

Based on the foregoing, the Company proposes to waive and consent Shuohuang Railway, Zhunge’er Energy and Baoshen Railway, all being subsidiaries controlled by the Company, to waive the pre-emptive rights in respect of the Capital Increase.

We have reviewed the Implementation Measures and noted that 1) one enterprise group shall set up only one finance company; and 2) when a parent company applies for the set-up of a finance company, the board of directors of the parent company should undertake in writing that the parent company will increase the capital of the finance company as necessary when the finance company faces difficulties in meeting payment obligations and such undertaking should be included in the articles and associations of the finance company. We understand that the Capital Increase is to comply with the regulatory requirements under the Implementation Measures. We also note that China Energy undertakes in the Shenhua Finance Capital Increase Agreement that in case of an emergency where Shenhua Finance has difficulties making payments, China Energy shall, in accordance with the actual need to address payment difficulties, satisfy the payment needs of Shenhua Finance through various channels, including without limitation the increasing of capital and the provision of liquidity support to Shenhua Finance in conformity with laws, regulations and internal regulations such as the articles of association.

We have discussed with management of the Company and China Energy and understood that China Energy intends to improve the utilisation rate of the funds of Shenhua Finance, measured by deposit-to-loan ratio. As at 31 December 2019, Shenhua Finance had loans (including accrued interests and provision for loan impairment (貸款減值準備)) of RMB41.77 billion, deposits (including accrued interests) of RMB109.92 billion, and a deposit-to-loan ratio of 38.00%. After China Energy becomes the controlling shareholder of Shenhua Finance, the management of China Energy intends to maintain the deposit-to-loan ratio of Shenhua Finance to above 65% in the long term. Accordingly, we expect that the profitability of Shenhua Finance will be improved after the completion of the Capital Increase and the increased utilisation of the idle funds of Shenhua Finance.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As advised by the management of Shenhua Finance, as at 31 December 2019, Shenhua Finance had a capital adequacy ratio of 13.76%. The management of Shenhua Finance expects that the capital adequacy ratio will exceed 20% at the end of 2020 following the Capital Increase. The improvement in capital adequacy will strengthen the capacity of Shenhua Finance to extend loans. After entering into the Shenhua Finance Capital Increase Agreement, the Company is still a shareholder of Shenhua Finance directly and indirectly through its controlling subsidiaries holding 40% of equity interest, and will be able to benefit from the improvement in business capacity and the profitability of Shenhua Finance.

Based on the analysis above, we concur with the Directors that entering into the Shenhua Finance Capital Increase Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

### **B. Principal Terms of the Shenhua Finance Capital Increase Agreement**

The principal terms of the Shenhua Finance Capital Increase Agreement are summarised in the section headed “ENTERING INTO SHENHUA FINANCE CAPITAL INCREASE AGREEMENT – Shenhua Finance Capital Increase Agreement” in the Letter from the Board contained in the Circular.

### **C. Valuation**

The consideration for the Capital Increase (“**Subscription Consideration**”) has been determined with reference to the appraised value of total equity interests of Shenhua Finance as at 31 May 2019 (“**Target Interest**”) of RMB8,849.1440 million by CEA, an independent appraisal institution, and the shareholding proportion of the additional registered capital to be subscribed for by China Energy. We have reviewed the valuation report (the “**Valuation Report**”) of Shenhua Finance, details of which are set out in Appendix I to the Circular, and have discussed with CEA regarding the methodology, basis and assumptions adopted in the Valuation Report with details set out below.

#### ***Scope of work and qualifications of CEA***

We have complied with all the requirements under Note (1)(d) of Rule 13.80(2)(b) of the Hong Kong Listing Rules and performed relevant steps with respect to the Valuation Report. In particular, we have discussed with CEA regarding its expertise and the experience of the responsible appraisers for the valuation. We have checked the certificate of CEA and understood that it is a qualified PRC appraisal institution (designated by the relevant governmental authorities to conduct asset valuation including state-owned assets) which is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC. Save for certain valuation engagements

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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provided by it in its ordinary course of business in the past and the engagement for the Valuation Report, CEA has confirmed that it has no other current or prior relationships with Company, China Energy and Shenhua Finance and their respective core connected persons. We also understood that Yu Ning, the key responsible appraiser signing the Valuation Report has over 20 years of experience in conducting valuation. We also reviewed the scope of services provided under the engagement letter of CEA and we note that the scope of work is appropriate to the opinion given and there were no limitations on the scope of work. Thus, we consider that CEA is qualified and possesses sufficient relevant experience in performing the valuation of Shenhua Finance.

### ***Valuation approach***

We understood from CEA that in performing the valuation of the Target Interest, they had considered three valuation approaches, namely the income approach, market approach and asset-based approach. After discussion with CEA, we note that CEA considers that it is inappropriate to adopt the asset-based approach for the valuation since 1) the asset-based approach is more applicable to companies with substantial fixed assets such as property, plant and equipment and is less applicable to financial institutions of which assets are primarily financial assets as substantial complexities exist and assumptions are required in assessing the fair value of loans; and 2) the asset-based approach does not fully reflect the profitability of Shenhua Finance' future operation.

We noted that CEA considers that the market approach is not as appropriate as income approach. As the policies of parent company would exert influence over the finance company, a certain degree of inherent discrepancies may exist among the indicators of comparable financial companies, giving rise to certain limitations to the valuation results of the market approach.

Thus, CEA primarily adopted income approach for the valuation of the Target Interest. The income approach, which measures the income generating ability of the Target Interest by calculating the present value of future economic benefits, was considered by the CEA to be the most suitable approach for the valuation. As advised by management of Shenhua Finance, Shenhua Finance mainly serves for the Members of the Group. The development planning and operating budget of Shenhua Finance are determined by the relevant policies of the Group and/or China Energy. Therefore, CEA considered that the future returns of Shenhua Finance can be forecasted credibly and the income approach could be adopted.

We noted from the Valuation Report that the appraised value of total equity interests of Shenhua Finance as at 31 May 2019 based on the market approach was approximately RMB7,616.3612 million while the appraised value of total equity interests of Shenhua Finance as at 31 May 2019 based on the income approach was approximately RMB8,849.1440 million. We have enquired with the Valuer and given to understand that, for market approach, the value of appraisal target is evaluated with reference to the object of reference in real market, while for income approach, estimated income of assets is considered as the standard of value, to present the level of earning capacity profitability of assets. Shenhua Finance, as a group finance company, serves Members of the Group and heavily relies on Group members. Its development plans and operation budget are determined by related policies of the Group and future incomes can be relatively reliably predicted. Further,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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as Shenhua Finance is subject to the policies of its superior Group company, there may be certain inherent differences among indicators, such as return on equity and net profits growth rate, of comparative finance companies, which imposes a certain limitation on the application of market approach. Therefore, we concur the income approach is appropriate to be adopted in the valuation.

Under the income approach, the discounted cash flow method was adopted to derive the market value of the Target Interest whereby future free cash flows to shareholders of Shenhua Finance (“**Flows to Equity**”), are discounted at a risk-adjusted discount return to arrive at its present value. Flows to Equity of Shenhua Finance were projected for a period starting from 1 June 2019 to 31 December 2023 (“**Forecasting Period**”). Thereafter, CEA assumed that the Flows to Equity will increase at a perpetual growth rate. Based on our discussion with CEA, we understand that the income approach is a commonly adopted approach for valuation of equity interests and we consider that the methodology used to value the total equity interest of Shenhua Finance is generally in line with the market practice.

### ***Valuation assumptions of the income approach***

The estimates of the Flows to Equity and risk-adjusted discount rates are critical bases that form the foundation of the income approach. We understood from CEA that during the planning stage of the valuation it has reviewed the business performance of Shenhua Finance as provided by the management of the Company and management of Shenhua Finance respectively as well as the future earnings potential of the Target Interest. CEA then conducted discussions with the management of the Company and management of the Shenhua Finance respectively to validate the future economic benefits as estimated by the management of the Company.

### ***Financial Projection***

We have obtained the financial projection for the valuation of Shenhua Finance, and noted that the valuation was performed on the value of the total equity interests of Shenhua Finance as of 31 May 2019 without taking into account the effect of capital injection by China Energy or the future benefit China Energy will bring to Shenhua Finance as a direct controlling shareholder. The projected Flows to Equity are primarily affected by projected revenue and projected cost of revenue (Flows to Equity = net profit after tax + depreciation and amortisation expense – capital expenditure – changes in net working capital + increase/ (decrease) in interest-bearing debts). Key areas to be considered in projection of Flows to Equity are the projections for revenue and cost of revenue.

Projected revenue primarily consists of interest income from mid-to-long-term loans, which is calculated by multiplying the estimated average loan balance in each period/year of the Forecasting Period by projected loan interest rates. We assessed the level of estimated average loan balance of the Forecasting Period and noted that they were determined with reference to historical average loan balance and the development planning of Shenhua Finance by the Group and/or China Energy Group. We also assessed the level of projected loan interest rates of the Forecasting Period and noted that they were determined with reference to historical loan interest rate and taking consideration of the credit easing environment in China where the deposit reserve ratio were adjusted downward by four times since April 2018.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Projected cost of revenue primarily consists of interest expense on deposits, which is calculated by multiplying the estimated average deposit balance by projected deposit interest rates. We assessed the level of estimated average deposit balance of the Forecasting Period and noted that they were determined with reference to historical average deposit balance and the development planning of Shenhua Finance by the Group and/or China Energy Group. We also assessed the level of projected deposit interest rates of the Forecasting Period and noted that they were determined with reference to historical deposit interest rates and taking consideration of the trend of interest spread narrowing under the intense competition of the banking industry. We note that the commercial banks in China (including the state-owned commercial banks, the joint-stock commercial banks, city commercial banks and rural commercial banks) disclose the interest spread between deposits and loans on a quarterly basis. The average interest spread of these commercial banks, obtained from Wind-Financial Terminal, fluctuated at around 2.64% from Q1 2011 to Q4 2015 and around 2.16% from Q1 2016 to Q4 2019, exhibiting the trend of interest spread narrowing of banking industry in China.

### *Risk-adjusted discount rate*

We note that a risk-adjusted discount rate of approximately 10.40% is adopted in the valuation. We have reviewed the calculation of the risk-adjusted discount rate, and discussed with CEA. We note that the discount rate is calculated using the Capital Asset Pricing Model and note that CEA had taken into account the followings: (i) the average yield of ten-year PRC government bonds is approximately 3.28% as at the Valuation Date obtained from Wind-Financial Terminal; (ii) the equity risk premium of 7.24%, which was derived by considering the country default spread of China and the risk premium spread between the US stocks and US treasury bonds obtained from CEA's internal database; (iii) beta of 0.847, which was used to multiply the equity risk premium and was derived by taking average of the betas of a group of commercial banks listed in the A-share market of China obtained from Wind-Financial Terminal; and (iv) the firm specific risk adjustment factor for Shenhua Finance of 1.00% considering its unlisted status as a private company. Based on our discussion with CEA, we concur with CEA that the assumptions and parameters used for determining the discount rate are fair and reasonable.

From Appendix III to the Circular, we noted that in the Company's reporting accountants' opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation Report. From Appendix IV to the Circular, we noted that the financial adviser to the Company is of the opinion that the Valuation Report prepared by CEA has been made after due and careful enquiry.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During our inquiry with CEA and based on our work done as set out above, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuation. Having considered the above factors, especially (i) our work on CEA in respect of the Valuation Report; and (ii) KPMG and CICC confirmed that the management of the Company has made the financial projections of the Target Interests after due and careful enquiry, we consider that principal bases and assumptions adopted for the valuation to be reasonable.

### ***D. Evaluation of the considerations***

#### *Comparison between valuation and consideration*

The Subscription Consideration was arrived at after arms' length negotiations between the parties with reference to the appraised valuation of the equity interest of Shenhua Finance. The consideration and the valuation are compared as follows:

	<b>Subscription by China Energy (RMB '000)</b>
Appraised value of Shenhua Finance before subscription as at 31 May 2019	8,849,144
Subscription by China Energy	<u>13,273,716</u>
 Theoretical valuation after taking into account of the Subscription	 <u><u>22,122,860</u></u>
 Interest owned by China Energy after subscription	 <u>60%</u>
 Implied total value of Shenhua Finance owned by China Energy	 <u><u>13,273,716</u></u>

In assessing the fairness of the Subscription Consideration, we compare the valuation of Shenhua Finance based on the Subscription Consideration with the theoretical value based on the appraised value of Shenhua Finance by CEA and after taking into account the Subscription Consideration. We note that the Subscription Consideration is the same as the value of the relevant proportion (calculated with reference to the proportion after the Capital Increase) of equity interests being subscribed.

Having considered the above and our independent work performed on the Valuation Report, we are of the view that the Subscription Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

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### *E. Other principal terms of the Shenhua Finance Capital Agreement*

We note that, pursuant to the Shenhua Finance Capital Agreement, the Subscription Contribution and shareholding structure after the Capital Increase shall be subject to approval of CBIRC Beijing or CBIRC. If any discrepancies exist between the approved capital contribution and shareholding structure after the Capital Increase and the above contents, the parties shall adjust the capital contribution and shareholding structure after the Capital Increase in accordance with the approval of CBIRC Beijing or CBIRC.

We also note from the Letter from the Board that Shenhua Finance would engage a qualified accounting firm to verify the additional registered capital and issue a capital verification report upon receipt of the full payment of the capital contribution.

In addition, during the transition period, from the Valuation Reference Date dated 31 May 2019 to the Completion Date, the gain or loss of Shenhua Finance shall be retained or borne by the original shareholders of Shenhua Finance. Parties agree that a special audit will be conducted with the Completion Date as the benchmark date for special auditing (“**Special Audit**”) and the original shareholders of Shenhua Finance will be entitled to or be liable for the gain or loss during the transition period based on the difference between the special audited net assets value and the audited net assets value as of the Valuation Reference Date of Shenhua Finance. If the difference of the special audited net assets value and the audited net assets value as of the Valuation Reference Date is positive, China Energy shall compensate the balance in cash to the original shareholders of Shenhua Finance in proportion to their shareholding percentages prior to the Capital Increase. If the balance is negative, the original shareholders of Shenhua Finance shall compensate the balance in cash to China Energy in proportion to their shareholding percentages prior to the Capital Increase. Any such balance shall be paid by the party liable for such compensation to the other party within thirty (30) business days after the completion of the Special Audit.

We consider the above-mentioned terms would safeguard the interests of Shenhua Finance and can protect the Company’s investment in Shenhua Finance to a certain extent.

Taking into account the principal terms of the Shenhua Finance Capital Increase Agreement, we consider the terms of the Shenhua Finance Capital Increase Agreement are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

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### ***F. Financial effects on the Group***

As set out in the section headed “IMPLICATION OF THE SHENHUA FINANCE CAPITAL INCREASE AGREEMENT” of the Letter from the Board, the revenue scale and profit level of Shenhua Finance accounts for a relatively small proportion to the corresponding consolidated indicators of the Company. Upon completion of the Capital Increase, the Company will continue to enjoy investment rights and benefits as an important shareholder of Shenhua Finance. Nevertheless, from a long-term perspective, the transaction is conducive to improving the long-term interests of the Company and shareholders as a whole. Upon completion of the Capital Increase, the capital adequacy ratio of China Energy Finance will be substantially increased and Shenhua Finance will be able to provide financial services to the China Energy Group as a whole. The business scale and financial performance of Shenhua Finance will therefore witness a significant advancement. The Company, as one of Shenhua Finance’s important shareholders, is expected to record greater investment returns from Shenhua Finance. As advised by the management of Shenhua Finance, as at 31 December 2019, Shenhua Finance had a capital adequacy ratio of 13.76%. The management of Shenhua Finance expects that the capital adequacy ratio will exceed 20% at the end of 2020 following the Capital Increase. Further, the future strategic development of Shenhua Finance will principally focus on providing financial services to the China Energy Group, which is conducive to the sustainable development of the business (including coal-consuming industries) of the China Energy Group and will establish solid foundation for the principal business of the Company in the long run. In addition, upon completion of the Capital Increase, China Energy, as the controlling shareholder of Shenhua Finance, has the responsibility as well as the capability to comprehensively monitor, resolve and bear potential financial risks. The Company will control, to the extent reasonable and necessary, the deposit limit at Shenhua Finance and focus on the coal-based integrated operation business, thereby reducing financial risks. As a result, the Capital Increase, while maximizing the role of China Energy Finance, is of vital importance in maintaining the vested investment interests of the Company, dispersing financial risks and ensuring sustainable development of upstream and downstream industry chain, thereby protecting the shareholders’ interests of the Company.

Upon completion of the Capital Increase, the Company’s direct and indirect (held through its controlling subsidiaries) interests in Shenhua Finance would decrease from 100% to 40% and China Energy will become the controlling shareholder of Shenhua Finance, directly holding 60% of the equity interest in Shenhua Finance. Shenhua Finance will cease to be a subsidiary of the Company and become an associate of the Company. The assets, liabilities, and financial results of Shenhua Finance will not be consolidated into the consolidated financial statements of the Group.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the completion of the Capital Increase.



**2. CONTINUING CONNECTED TRANSACTIONS****A. Background of and Reasons for the Transactions*****Background***

On 22 March 2019, the Company entered into the Existing Financial Services Agreement with China Energy, pursuant to which the Company has agreed to provide, through Shenhua Finance, financial services to Members of China Energy Group (not including the Company and its subsidiaries). Details of the Existing Financial Services Agreement and the continuing connected transactions contemplated thereunder are set out in the announcement of the Company dated 22 March 2019 and the circular of the Company dated 10 May 2019.

Upon completion of the Capital Increase, Shenhua Finance will not be consolidated into the consolidated financial statements of the Group and will become a connected person of the Company. The Existing Financial Services Agreement will therefore no longer be applicable. The financial services provided by Shenhua Finance to the Company and subsidiaries controlled by the Company constitute connected transactions of the Company. Given the foregoing, the Company proposes to enter into Termination Agreement of the Existing Financial Services Agreement and enter into the New Financial Services Agreement with Shenhua Finance. Both of the Termination Agreement of the Existing Financial Services Agreement and the New Financial Services Agreement will take effect from the Completion Date.

***Reasons for entering into the New Financial Services Agreement and its benefits to the Company***

As set out in the Letter from the Board, the reasons and benefits of financial services under the New Financial Services Agreement include: (1) improving treasury management efficiency and realising centralised treasury management; (2) familiar with the Company's business, providing more flexible and convenient services; and (3) offering better commercial terms. Please refer to the section headed "REASONS FOR ENTERING INTO THE NEW FINANCIAL SERVICES AGREEMENT AND THEIR BENEFITS TO THE COMPANY" in the Letter from the Board.

Prior to the completion of the Capital Increase, Shenhua Finance is a subsidiary of the Company and has formed a long-term stable cooperative relationship with the Members of the Group. Shenhua Finance has provided financial services including but not limited to deposit services, loan services, entrusted loan services, and settlement services to Members of the Group and is advantageous in continuing to provide such services given their stable cooperative relationship. Therefore, entering into the New Financial Services Agreement will



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enable Members of the Group to fully utilise the function of the internal financing platform and cash management platform of Shenhua Finance, thereby lowering the financing cost of the Company.

We have reviewed the 2018 annual report of the Company and noted that the balance of deposits placed with Shenhua Finance by Members of the Group amounted to RMB55,986 million. The management of Shenhua Finance advised that the deposit services offered by Shenhua Finance allow the Group to settle the intra-group transactions through the free-of-charge settlement services to be offered by Shenhua Finance. Such arrangement could save relevant service charges which may be incurred by the Group when using other major commercial banks for the settlement services. We also obtained a list of outstanding loans provided by Shenhua Finance to Members of the Group as of 31 December 2019 and noted that the terms of the outstanding loans started as early as 2011 and matures as late as 2030. As advised by the management of the Company, substantial amount of time and efforts will be needed to enter into new loan agreements with major commercial banks to replace the outstanding loans provided by Shenhua Finance.

We have also reviewed the annual reports of the Company for the years ended 31 December 2018 and 2019 and noted that the current borrowings decreased from RMB5,772 million as at 31 December 2018 to RMB4,172 million as at 31 December 2019 by 27.72%, non-current borrowings decreased from RMB46,765 million as at 31 December 2018 to RMB36,943 million as at 31 December 2019 by 21.00%, and non-current bonds decreased from RMB6,823 million as at 31 December 2018 to RMB3,460 million as at 31 December 2019 by 49.29%. Total borrowings, including current borrowings, non-current borrowings and non-current bonds, decreased from RMB59,360 million as at 31 December 2018 to RMB44,575 million as at 31 December 2019 by 24.91%. We have discussed with management of the Company and understand that the Company targets to continue reducing its external debts by utilising Shenhua Finance's function as the internal financing platform.

We reviewed the New Financial Services Agreement and noted that there are risk control measures to safeguard the safety of deposits placed by the Company and its subsidiaries and branches with Shenhua Finance, in particular, Members of the Group's entitlement to set off the amount of unrecovered deposits with the loan provided by Shenhua Finance in the event of default where the deposits become unable to be withdrawn. We also note that Shenhua Finance, as a non-banking financial institution, is subject to supervision from CBIRC. As advised by the management of Shenhua Finance, Shenhua Finance will report the risk control indicators and risk monitoring indicators to CBIRC on a quarterly basis. We reviewed Interim Measures on Assessing Risk Control Indicators for Enterprise Group Finance Companies issued by the CBIRC on 29 December 2006 (《企業集團財務公司風險監管指標考核暫行辦法》銀監發[2006]96號) and noted that CBIRC collected the risk control indicators and risk monitoring indicators to assess and give warnings to the risk level and risk tolerance (風險抵補能力) of finance companies.

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Having considered that 1) maintaining long-term cooperative relationship between Shenhua Finance and Members of the Company benefits the management of the Company's financial resources, 2) the Company targets to continue reducing its external debts and utilise internal financial resources, and 3) Shenhua Finance is subject to the supervision from CBIRC, we are of the view that entering into the New Financial Services Agreement is beneficial to the Company and is in the ordinary and usual course of business of the Company and in the interests of the Company and its Shareholders as a whole.

### ***B. Principal terms of the New Financial Services Agreement***

Set out below are the principal terms of the New Financial Services Agreement. Further details are disclosed in the Letter from the Board:

#### *General*

The New Financial Services Agreement will be effective from the Completion Date and will expire on 31 December 2020. Pursuant to the New Financial Services Agreement, Shenhua Finance 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) to Members of the Group;
- (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;
- (vi) provision of assistance to Members of the Group to receive and pay transaction proceeds;

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- (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, 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;
- (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.

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

### *Pricing*

- (1) In terms of deposits and loans or similar services provided by Shenhua Finance to Members of the Group, subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities:
  - (i) The interest rates for deposits placed by Members of the Group with Shenhua Finance 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 Shenhua Finance 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.

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With respect to the deposit interest rate offered by Shenhua Finance for deposits placed by Members of the Group, Shenhua Finance 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 Shenhua Finance 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 offered by Shenhua Finance 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” in the Letter from the Board.

- (2) In terms of paid services provided by Shenhua Finance to Members of the Group:
- (i) Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance for provision of financial services to Members of the Group, Shenhua Finance 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 Shenhua Finance 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 Shenhua Finance 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” in the Letter from the Board.

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In assessing the fairness and reasonableness of the pricing terms of the financial services, we have performed the following works:

- (i) obtained and reviewed the New Financial Services Agreement and noted that the interest rates or fees provided to the Group by Shenhua Finance will not be less favourable than the benchmark loan interest rate for the corresponding period stipulated by the PBOC and the interest rates of fees offered by major commercial banks in the PRC for similar types of deposits or financial services, subject to compliance with the laws, regulations and relevant provisions of the relevant regulatory agencies such as the People's Bank of China and China Banking and Insurance Regulatory Commission. Therefore, we consider that entering into the New Financial Services Agreement can secure a source of financial services in the ordinary course of business at more favourable prices or terms to the Group, and will provide one more choice of financial service provider and encourage the financial service providers (including Shenhua Finance) to offer more competitive terms to the Group. As a result, the legitimate interests of the Group regarding financial services will not be impaired by such conditions and discretion;
- (ii) obtained and reviewed three sets of deposit receipts and three sets of entrusted loan agreements entered into between Members of the Group and Shenhua Finance during the three years of 2017, 2018 and 2019 for the purpose of reviewing the pricing mechanism in respect of the financial services provided by the Financial Company to Members of the Group. We have also obtained and reviewed three sets of deposit receipts and three sets of entrusted loan agreements entered into between Members of the Group and major commercial banks in the PRC during the three years of 2017, 2018 and 2019. After comparison, we note that 1) the deposit interest rates historically offered by Shenhua Finance to Members of the Group were higher than the base deposit rates prescribed by PBOC, but lower than the deposit interest rates offered by major commercial banks in the PRC. However, after Shenhua Finance becomes a subsidiary of China Energy and pursuant to the New Financial Services Agreement, the deposit interest rates offered by Shenhua Finance will be no less than the interest rate paid by major commercial banks for comparable deposits services of the same nature and the same maturity and the Company has the right to make independent selection of financial service providers according to its business need pursuant to the New Financial Services Agreement; and 2) the fee rates of entrusted loan service offered by Shenhua Finance were not less favourable than the fee rates offered by major commercial banks for a comparable transaction;

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- (iii) discussed with the management of Shenhua Finance in relation to the pricing mechanism for the deposit interest rates and the fee rates of entrusted loans and noted that the deposit interest rates and fee rates of entrusted loans were determined with reference to the then interest rate and fee rate prescribed by the PBOC or the CBIRC, and if such prescribed fee rates are not available, the service fees were and will be negotiated with reference to the market conditions and the fee rates charged by major commercial banks in the PRC for comparable financial services;

In view of the above, we are of the view that the entering into of the New Financial Services Agreement is on normal commercial terms or better and that the principal pricing terms of the New Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

As stated in the Letter from the Board, 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. Measures include (i) reinforcing centralized financing control; (ii) real-time monitoring on market price level; (iii) establishing monthly review mechanism; and (iv) persisting in legal and compliance implementation. For further details of each of the measures, please refer to “The Group’s internal approval procedures for the price determination process” in the Letter from the Board.

In assessing whether the approval procedures are sufficient and effective in ensuring all the transactions follow the pricing mechanism, we obtained and reviewed three sets of deposit receipts and three sets of entrusted loan agreements entered into between Members of the Group and Shenhua Finance during the three years of 2017, 2018 and 2019. We note that the deposit interest rates historically offered by Shenhua Finance to Members of the Group were higher than the base deposit rates prescribed by PBOC, which is consistent with the pricing mechanism set forth in the previous financial services agreement and the Existing Financial Services Agreement. In addition, we understand that the finance department of the Company is the only department accountable for the centralized review of the annual financing needs of Members of the Group and conducts business inquiries periodically and publicly with major state-owned or commercial banks and financial companies in the PRC, primarily focusing on factors relating to interest rates for deposits and loans, scale, term, service fee and preconditions and subsequently reported the consolidated inquiry results to the management of the Company. Upon the completion of the deposit and financing arrangements, relevant review departments of the Company will conduct sustained supervision and post-evaluation. As such, we are of the view that based on our findings, the approval procedures are sufficient and effective in ensuring all the transactions follow the pricing mechanism since the pricing mechanism has been effectively implemented and in addition to this, the Company will enforce additional internal approval procedures so that (1) the management of the Company

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would be able to make an informed decision based on the consolidated inquiry results in accordance with the pricing policy; (2) segregation of duties is maintained by different levels of approvals; and (3) sustained supervision and post-evaluation are in place for relevant person in charge to review the deposit and financing arrangements.

### ***C. The Proposed Annual Caps***

Set out below are the details of (i) the historical amounts for the financial services provided by Shenhua Finance to the Members of the Group for the three years ended 31 December 2019; (ii) the Proposed Annual Caps for the year ending 31 December 2020, under New Financial Services Agreement, in relation to the transactions that are subject to the annual review, reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules for the Company:

#### *Historical transaction amounts for the financial services*

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum daily balance of deposits placed by Members of the Group with Shenhua Finance (including interests accrued thereon)	60,423.9	81,875.1	104,902.7
Annual total agency fee, handling fee, consultation fee and other services fee charged by Shenhua Finance for providing Members of the Group with financial services including but not limited to consultation, agency, settlement, transfer, bill acceptance and discount and other services	1.8	2.3	1.3

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### *Proposed Annual Caps for the financial services*

**For the year  
ending  
31 December  
2020**  
*(RMB million)*

Maximum daily balance of deposit placed by Members of the Group with Shenhua Finance (including interests accrued thereon) <i>(Note)</i>	20,500
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Annual total agency fee, handling fee, consultation fee and other services fee charged by Shenhua Finance for providing Members of the Group with financial services including but not limited to consultation, agency, settlement, transfer, bill acceptance and other services	200
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As set out in the Letter from the Board, the relevant Proposed Annual Caps of the New Financial Services Agreement for the year ending 31 December 2020 have been set after taking into account the following factors: (1) the existing cooperative relationship between Shenhua Finance and the Company; (2) the improvement of orderly competition and reduction in excessive production capacity which provide favourable conditions for industries such as coal, electricity and new energy to achieve sustainable and robust development and improve operation environment of enterprises; (3) future needs to place deposits with Shenhua Finance given that Shenhua Finance will grant credits to the Group; (4) demands for deposits provided by depository financial institutions; (5) flexibility to accommodate the maximum limits under various possibilities; and (6) the service fees charged by Shenhua Finance for providing financial services to the Group. In addition, in order to assess whether the Proposed Annual Caps under the New Financial Services Agreement is fair and reasonable, we have considered the following aspects:



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- (i) The historical maximum daily balance of the deposit services (including interest accrued thereon) for each of the three years ended 31 December 2019 was approximately RMB60,423.9 million, RMB81,875.1 million, and RMB104,902.7 million respectively, which represents 294.75%, 399.39%, and 511.72% of the Proposed Annual Caps for deposit service, respectively. As advised by management of the Company, the amount of deposit placed at Shenhua Finance by the Group was historically the result of the Group's 1) fund centralisation management and 2) the intention to strengthen the capacity of Shenhua Finance of providing financial services and will be subject to the Proposed Annual Caps after the New Financial Services Agreement becomes effective.
- (ii) The Proposed Annual Caps for deposit service also represents 49.01% of the cash and cash equivalents balance of the Company on 31 December 2019. We selected comparable listed companies that received deposit services from their controlling shareholders in 2019 and compared the ratio of the annual caps for deposit service to the year-end balance of cash and cash equivalents ("**Deposit Cap Ratio**") of comparable companies with the proposed Deposit Cap Ratio of the Company in order to assess the level of the Proposed Annual Caps for deposit service. The comparable companies were selected if they meet all of the following five criteria: 1) they are listed on the Main Board of Hong Kong Stock Exchange at the Latest Practicable Date; 2) they are state-owned enterprises; 3) their cash and cash equivalent balance at the end of 2019 exceeded RMB30 billion; and 4) they received continuing deposit services from their respective controlling shareholders in 2019 and 5) they are not commercial banks or real estate development companies. Based on these criteria, four comparable companies, namely China Petroleum & Chemical Corporation (386.HK), Petrochina Company Limited (857.HK), COSCO SHIPPING Holdings Co., Ltd. (1919.HK) and CNOOC Limited (883.HK) were selected. The 2019 Deposit Cap Ratios (calculated as the annual cap of deposit service in 2019 divided by the cash and cash equivalent balance at the end of 2019) of the four comparable companies are 132.64%, 72.91%, 62.39% and 69.78%, respectively. The Company's proposed Deposit Cap Ratio (the Proposed Annual Caps for deposit service in 2020 divided by the Company's balance of cash and cash equivalents as of 31 December 2019, as the projected cash balance at the end of 2020 is not available) is 49.01%, which is below the 2019 Deposit Cap Ratios of all comparable companies.

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- (iii) The annual total fee charged for other financial services for each of the three years ended 31 December 2019 was RMB1.8 million, RMB2.3 million, and RMB1.3 million respectively. Considering that the transactions between the Group and Shenhua Finance will be conducted with wider range (e.g. consultation, agency, investment, letter of credit and guarantee services) in addition to the existing business (e.g. entrusted loans, bill acceptance and financial advisory services) and larger amount of funds involved in future, it is expected that there will be increasing trend in the use of other financial services. The Company set the Proposed Annual Caps to allow greater flexibility to accommodate the potential increase in other financial services;

Having taken into consideration of the above, we are of the view that the bases for determining the Proposed Annual Caps of the financial services under the New Financial Services Agreement are fair and reasonable.

### MEASURES TO ENSURE COMPLIANCE WITH THE HONG KONG LISTING RULES

In addition, pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Non-exempt Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Non-exempt Continuing Connected Transactions every year and confirm in the annual report whether the Non-exempt Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Non-exempt Continuing Connected Transactions every year. The auditors of the Company must provide a letter to the Board (with a copy to be provided to the Hong Kong Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions:
  - (i) have not been approved by the Board;
  - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Non-exempt Continuing Connected Transactions involve the provision of goods or services by the Group;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Non-exempt Continuing Connected Transactions; and
- (iv) have exceeded the annual caps;
- (c) the Company must allow, and ensure that the counterparties to the Non-exempt Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Non-exempt Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company must promptly notify the Hong Kong Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters as required.

In order to comply with the annual review and reporting requirements attached to the Non-exempt Continuing Connected Transactions, in particular, (i) the restriction of the value of the Non-exempt Continuing Connected Transactions by way of the Proposed Annual Caps; (ii) the ongoing annual review by the independent non-executive Directors and the auditors of the Company of the terms and the Proposed Annual Caps not being exceeded; we are of the view that there are appropriate measures to govern the Company in conducting the Non-exempt Continuing Transactions contemplated under the New Financial Services Agreement in a view to safeguarding the interests of the Shareholders.

### RECOMMENDATION

Having taken into account the above principal reasons and factors discussed above, we are of the view that the entering into of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement and the Non-exempt Continuing Connected Transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole and that the terms of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement and the Non-exempt Continuing Connected Transactions contemplated thereunder (including the Proposed Annual Caps thereof) are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, and also recommend the Independent Shareholders to, vote in favour of the relevant ordinary resolutions to be proposed at the AGM for approving the entering into of the Shenhua Finance Capital Increase Agreement and the New Financial Services Agreement.

Yours faithfully,  
For and on behalf of  
**GF Capital (Hong Kong) Limited**  
**Danny Wan**  
*Managing Director*

*Note:* Mr. Danny Wan is a licenced person and the responsible officer of GF Capital (Hong Kong) Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions or continuing connected transactions involving companies listed in Hong Kong.

**PROPOSED CAPITAL CONTRIBUTION PROJECT  
INVOLVING THE ENTIRE SHAREHOLDERS' EQUITY  
INTEREST IN SHENHUA FINANCE CO., LTD. BY CHINA  
ENERGY GROUP  
ASSET VALUATION REPORT  
Zhong Qi Hua Ping Bao Zi (2019) No. 1242  
Vol.1 of 1**

**China Enterprise Appraisals Co., Ltd.  
25 July 2019**

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**DISCLAIMER**

- I. This Asset Valuation Report was prepared in accordance with the Asset Valuation Standards – Basic Standards issued by the Ministry of Finance and practice guidelines and code of ethics for asset valuation issued by China Appraisal Society.
- II. The asset appraisal institute and its asset appraisers have complied with the laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, and are responsible, under the laws, for the asset valuation report issued by them.
- III. The client or other users of the asset valuation report shall use the Asset Valuation Report in accordance with laws, administrative rules and regulations and the scope of use set out in the Asset Valuation Report. The asset appraisal institute and its asset appraisers disclaim any liability arising from the use of this Asset Valuation Report by the client or other users of the report in violation of the aforesaid requirements.

This Asset Valuation Report shall only be used by the client, other users of the asset valuation report specified in the asset valuation entrustment contract, and users of asset valuation report stipulated in laws, administrative rules and regulations. Save for the above, any other entity or individual shall not be a user of the Asset Valuation Report.

The asset appraisal institute and the asset appraisers advise that users of this Asset Valuation Report should establish a proper understanding of the valuation conclusion. The valuation conclusion is not equal to, and should not be regarded as a guarantee for the realizable value of the valuation target.

- IV. The list of assets and liabilities and other relevant information of the valuation target have been reported by the client and the evaluated entity and confirmed with their signatures and chops or otherwise as permitted by laws; the truthfulness, legality and completeness of the information provided shall be the responsibility of the client and other relevant parties under the laws.
- V. The asset appraisers have carried out on-site inspection on the valuation target and its assets; we have given necessary attention to the legal ownership of the valuation target and the assets involved, verified the information on the legal ownership of the valuation target and the assets involved, made proper disclosure of issues identified, and requested the client and other relevant parties to perfect the title to meet the requirements for the issuance of an asset valuation report.
- VI. The asset appraisal institute and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Valuation Report or with the relevant parties, and have no prejudice against the relevant parties.
- VII. **The analyses, judgements and results in the Asset Valuation Report issued by the asset appraisal institute are subject to the assumptions and restrictions set out in the Asset Valuation Report. Users of the Asset Valuation Report shall take into full account of the assumptions, restrictions and special notes stipulated in the Asset Valuation Report and their impact on the conclusion of valuation.**

**SUMMARY OF ASSET VALUATION REPORT****IMPORTANT NOTICE**

This summary is extracted from the text of the Asset Valuation Report. For the purpose of understanding the details of this valuation and a reasonable comprehension of the conclusion of valuation, please read the text of the Asset Valuation Report.

Shenhua Finance Co., Ltd.:

Engaged by your company, China Enterprise Appraisals Co., Ltd. appraised, in accordance with relevant laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, as well as the necessary valuation procedures, the market value on the Benchmark Date of the entire shareholders' interest of Shenhua Finance Co., Ltd.. The summary of the Asset Valuation Report is as follows:

Valuation purpose:	China Energy Group intends to carry out proposed capital contribution in Shenhua Finance Co., Ltd.. In this regard, an asset valuation of the value of the entire shareholders' interest of Shenhua Finance Co., Ltd. on the Benchmark Date, and provide the reference value for the said economic activity
Valuation Target:	Value of the entire shareholders' interest of Shenhua Finance Co., Ltd.
Valuation scope:	Total assets and liabilities of Shenhua Finance Co., Ltd..
Benchmark Date:	31 May 2019
Type of value:	Market value
Valuation methods:	income approach, market approach
Valuation conclusions:	The results based on the income approach are adopted as the valuation conclusions in this Asset Valuation Report. The specific valuation conclusions are as follows:

As of the Benchmark Date, the book value of total assets of Shenhua Finance Co., Ltd. was RMB104,312.98 million, the book value of total liabilities was RMB96,696.6188 million and the book value of net assets was RMB7,616.3612 million.



The value of the entire shareholders' interest by using the income approach was RMB8,849.1440 million, the amount of appreciation was RMB1,232.7829 million, representing an appreciation rate of 16.19%.

This Asset Valuation Report is solely designed to provide the reference value for the economic activity described in the Asset Valuation Report. The conclusion of valuation is valid for one year from the Benchmark Date.

Users of the Asset Valuation Report shall take into full account the assumptions, limitations, special notes stipulated in the Asset Valuation Report and their impact on the conclusion of valuation.

This summary is extracted from the text of the Asset Valuation Report. For the purpose of understanding the details of this valuation and a proper comprehension of the conclusion of valuation, please read the text of the Asset Valuation Report.

**TEXT OF ASSET VALUATION REPORT ON PROPOSED CAPITAL CONTRIBUTION  
PROJECT INVOLVING THE ENTIRE SHAREHOLDERS' EQUITY INTEREST IN SHENHUA  
FINANCE CO., LTD. BY CHINA ENERGY GROUP**

Shenhua Finance Co., Ltd.:

Engaged by the Company, China Enterprise Appraisals Co., Ltd. appraised, by using the income approach and the market approach and in accordance with relevant laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, as well as the necessary valuation procedures, the market value on 31 May 2019 of the entire shareholders' equity interest of Shenhua Finance Co., Ltd. in relation to the proposed capital contribution matters of by China Energy Group. Details of the asset valuation are reported as follows:

**I.      THE CLIENT, EVALUATED ENTITY AND OTHER USERS OF THE ASSET VALUATION  
REPORT AS AGREED IN THE ENTRUSTMENT CONTRACT**

Shenhua Finance Co., Ltd. is the client of this valuation and the entity to be evaluated. Other users of the asset valuation report as agreed in the engagement contract include other users of the asset valuation report specified in national laws and regulations.

**(I)      Profile of the client and evaluated entity**

**1.      *Profile of the company***

Name of company:	Shenhua Finance Co., Ltd.
Registered address:	Room 201, 202, Unit 7, Second Floor, Building 18, Xizhimenwai Street, Xicheng District, Beijing
Legal representative:	Han Weiping
Registered capital:	RMB5,000.00 million
Type of enterprise:	Other company with limited liability

Main scope of business: The operations in local and foreign currencies: financial and financing advisory to member units; credit verification and related advisory; agent services; assist member units to settle payments; approved insurance agent services; guarantee provision to member units; entrusted loans and investment among member units; bill acceptance and discount among member units; internal account settlement and clearing among member units; acceptance of deposits from member units; application for loans and finance leasing; inter-company borrowings; the issuance of financial corporation bonds upon approval; underwriting corporate bond of member units; equity investment in financial institutions; investment in securities; and providing consumption loans for products of member units, loans to purchasers and finance leasing. (Enterprises shall independently select operating projects and carry out business activities according to law; projects that are subject to approval according to law shall be subject to the approval of relevant departments to carry out business activities; they shall not engage in the operation activities of projects prohibited and restricted by the city's industrial policy.)

The shareholding structure of the evaluated entity as of the Benchmark Date is as follow:

*Unit: RMB0'000*

No.	Name	Proportion of capital contribution	Amount of capital contribution
1	China Shenhua Energy Company Limited	81.43%	407,142.85
2	Shuohuang Railway Development Co., Ltd.	7.14%	35,714.29
3	Shenhua Zhunge'er Energy Co., Ltd.	7.14%	35,714.29
4	Shenhua Baoshen Railway Co., Ltd.	4.29%	21,428.57
Total		100.00%	500,000.00

**2. Assets, financial and operating status as of the Benchmark Date and during the most recent year**

**Balance Sheet**

*Unit: RMB0'000*

<b>Item</b>	<b>31 December 2016</b>	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>31 May 2019</b>
<b>Assets</b>				
Cash and balances with				
central bank	527,758.45	484,060.02	628,499.49	456,588.13
Deposits with banks and non-				
bank financial institutions	1,704,617.26	4,104,788.31	4,986,152.47	6,886,025.72
Placements with and loans to				
banks and non-bank financial				
institutions	–	150,000.00	295,633.17	–
Loans and advances to customers	2,988,111.27	2,947,781.72	3,396,873.53	2,915,352.24
Debt investments	–	10,000	109,703.63	10,163.78
Other debt investments	–	–	145,099.20	145,648.50
Fixed assets	498.59	427.31	356.98	323.13
Construction in progress	–	–	174.99	83.74
Intangible assets	82.41	259.38	1,770.40	1,612.20
Deferred income tax assets	12,685.96	15,753.89	17,395.34	15,104.27
Other assets	256,725.26	18,600.55	651.10	396.30
<b>Total assets</b>	<b>5,495,481.61</b>	<b>7,736,880.38</b>	<b>9,582,310.29</b>	<b>10,431,298.00</b>
<b>Liabilities</b>				
Deposits from customers	4,660,269.93	6,890,254.01	8,674,111.74	9,511,203.45
Accrued staff costs	943.09	961.14	994.49	985.81
Taxes payable	4,798.38	4,716.46	2,242.05	1,694.95
Dividends payable	28,662.88	31,228.74	–	153,359.72
Deferred income tax liabilities	0.60	169.80	25.43	25.43
Other liabilities	44,636.16	862.43	1,780.14	2,392.52
<b>Total liabilities</b>	<b>4,739,311.05</b>	<b>6,928,192.58</b>	<b>8,679,153.85</b>	<b>9,669,661.88</b>

# APPENDIX I SUMMARY OF ASSET VALUATION REPORT OF SHENHUA FINANCE

Item	31 December 2016	31 December 2017	31 December 2018	31 May 2019
<b>Owner's equity</b>				
Paid-in capital	500,000.00	500,000.00	500,000.00	500,000.00
Capital reserve	1,619.19	1,619.19	1,619.19	1,619.19
Other comprehensive income	–	352.50	76.28	625.58
Surplus reserve	55,045.47	63,759.06	73,233.55	73,233.55
General risk reserve	75,483.46	109,887.16	135,656.57	135,656.57
Retained profits	124,022.44	133,069.88	192,570.86	50,501.24
<b>Total owner's equity</b>	<b>756,170.56</b>	<b>808,687.80</b>	<b>903,156.44</b>	<b>761,636.12</b>
<b>Total liabilities and owner's equity</b>	<b>5,495,481.61</b>	<b>7,736,880.38</b>	<b>9,582,310.29</b>	<b>10,431,298.00</b>

## Income Statement

Unit: RMB0'000

Item	2016	2017	2018	January to May 2019
<b>Operating revenue</b>				
Interest income	199,907.12	216,992.64	266,796.51	92,441.86
Fee and commission income	993.96	906.76	860.40	200.60
Investment gains	–	2,140.42	1,181.84	–
Other operating income	5,065.12	3,026.85	1,776.85	444.21
Gain arising from fair value changes	2.41	206.78	-209.20	–
Other gains	–	42.00	210.84	–
Gains from disposal of assets	–	–	-13.92	0.12
<b>Total operating income</b>	<b>117,377.51</b>	<b>134,153.68</b>	<b>270,603.32</b>	<b>93,086.79</b>

## APPENDIX I SUMMARY OF ASSET VALUATION REPORT OF SHENHUA FINANCE

Item	2016	2017	2018	January to May 2019
<b>Operating expenses</b>				
Interest expenses	88,468.84	89,032.24	122,294.85	41,250.72
Fee and commission expenses	122.26	129.55	133.24	72.73
Tax and surcharges	2,652.55	1,206.04	956.48	308.57
General and administrative expenses	4,866.75	5,178.16	6,731.33	1,391.22
Credit impairment losses	4,549.39	11,978.35	14,080.60	17,288.75
<b>Total operating expenses</b>	<b>12,068.69</b>	<b>18,362.54</b>	<b>144,196.50</b>	<b>25,734.48</b>
<b>Total profit</b>	<b>104,093.99</b>	<b>115,793.56</b>	<b>126,406.82</b>	<b>67,352.31</b>
Less: income tax	26,380.36	28,657.69	31,661.96	16,851.07
<b>Net profit</b>	<b>77,713.63</b>	<b>87,135.87</b>	<b>94,744.87</b>	<b>50,501.24</b>

The information of the evaluated entity as of the Benchmark Date and year of 2018 were audited by KPMG Huazhen LLP, who issued an unqualified auditors' report.

### 3. *Relationship between the client and the evaluated entity*

Shenhua Finance Co., Ltd. is the client and the evaluated entity.

## (II) OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ENGAGEMENT CONTRACT

This Asset Valuation Report shall only be used by the client and the users of the Asset Valuation Report stipulated under the laws and regulations of the PRC, and shall not be used or relied upon by any other third party.

**II.      VALUATION PURPOSE**

China Energy Group intends to carry out capital contribution in Shenhua Finance Co., Ltd.. In this regard, an asset valuation of the value of the entire shareholders' interest of Shenhua Finance Co., Ltd. on the Benchmark Date, and provide the reference value for the said economic activity

**III.      VALUATION TARGET AND SCOPE****(I)      Valuation target**

The valuation target is the value of the entire shareholders' interest of Shenhua Finance Co., Ltd..

**(II)      Valuation scope**

The valuation scope covers all assets and liabilities of the evaluated entity. As of the Benchmark Date, the assets within the scope of valuation included current assets, debt investments, other debt investments, fixed assets, intangible assets, etc. The book value of total assets was RMB104,312.9800 million. The liabilities were included deposits from customers, accrued staff costs, taxes payable, dividends payable, deferred income tax liabilities and other liabilities. The book value of total liabilities was RMB96,696.6188 million. The book value of net assets was RMB7,616.3612 million.

The entrusted valuation target and the scope of valuation were consistent with the valuation target and the scope of valuation related to the economic activity. As of the Benchmark Date, the book values of the assets and liabilities within the scope of valuation were audited by KPMG Huazhen LLP, who issued auditors' reports with unqualified opinions.

Information of major assets within the scope of valuation are as follows:

**1. The physical assets reported by the company**

The physical assets reported by the company to be included in the scope of valuation include buildings (structures), equipment and vehicles. The types and features of physical assets are as follows:

**(1) Buildings (structures)**

Buildings (structures) include a total of three items, i.e. Shenfu office building and auxiliary facilities, Dongsheng office building and Dongsheng garage, which are mainly composite construction and brick-concrete structures, and were completed between 1998 and 2000. Shenfu office building and auxiliary facilities are located in Shendong Community, Daliuta Town, Shenmu County, Shaanxi Province, with a construction area of 1572.60 m<sup>2</sup>; Dongsheng office building is located in Dongsheng District, Ordos City, Inner Mongolia, with a construction area of 1612.00 m<sup>2</sup>; and the garage is located in Garage No. 3, First Floor, Building No. 2, Block No.1, South Jilaoqing Road, Ordos, with a construction area of 42.98 m<sup>2</sup>. The ownerships of such buildings as of the Benchmark Date are as follows:

No.	Name	Property owner	Property ownership certificate No.	Owner indicated in the land certificate	Land certificate No.
1	Shenfu office building and auxiliary facilities	Shenfu Business Department of Shenhua Finance Co., Ltd.	Shenmu County Property Ownership Certificate No. 00981 (神木縣房權證大柳塔字第00981號)	Shenhua Shendong Coal Company Limited (神華神東煤炭有限公司)	Shen Guo Yong (2000) 11206 (神國用(2000)11206)



No.	Name	Property owner	Property ownership certificate No.	Owner indicated in the land certificate	Land certificate No.
2	Dongsheng office building	Not yet processed	Not yet processed	Shenhua Group Shenfu Dongsheng Coal Company Limited (神華集團神府東勝煤炭有限責任公司)	E Guo Yong 2007 No. 1753 (鄂國用2007第1753號)
3	Dongsheng garage	Shenhua Finance Co., Ltd.	Dong Fang Quan Zheng Chan Zi No. 6751 (東房權證產字第6751號)	Not yet processed	Not yet processed

(2) *Equipment assets*

The equipment assets mainly include vehicles and general equipment.

- ① A total of nine vehicles mainly include Multivan small ordinary passenger car, Hongqi small sedan, Audi small sedan, Buick small ordinary passenger car, etc.. The owner indicated in the certificates of such vehicles is Shenhua Finance Co., Ltd.
- ② A total 468 pieces of equipment, mainly including computers of various specifications, switches, printers, scanners, etc., are mainly stored in various departments of the company.

2. *The intangible assets reported by the company*

A total of 16 items of intangible assets reported by the company and included in the scope of valuation are system software intangible assets purchased or under commissioned development, which mainly include purchased system software such as a smart capital platform for financial management of the group, the “Nine-star” system for cross-border RMB-denominated capital management and loan upgrading system, as well as a new isoftstone core business system.

**3.      *The off-balance sheet assets reported by the company***

The off-balance sheet assets reported by the company are the entrusted assets and liabilities occurred in the provision of entrusted loan services for members of China Energy Group. All the entrusted loans are issued according to the directives of the companies within Shenhua group, and the funds used to issue such loans are entrusted funds of such companies. As the entrusted assets are not self-owned assets of the company, they are not recognized in the balance sheet. Revenue from the provision of entrusted loan services is accounted for in the historical income statement, and is considered in future earnings forecast. As of the Benchmark Date, the book value of the entrusted loans of the evaluated entity amounted to RMB64,990.0496 million.

**4.      *The assets relating to appraisal results contained in reports issued by other institutions***

Nil.

**IV.    TYPE OF VALUE**

According to the valuation purpose, the type of value of the valuation target is determined to be the market value.

Market value refers to the estimated value of an arm's-length transaction made by the evaluated entity in the ordinary course of business on the Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

**V.     BENCHMARK DATE**

The Benchmark Date of this valuation is 31 May 2019.

The Benchmark Date has been determined by the client.

**VI.    BASIS OF VALUATION**

**(I)    Basis of economic activity**

1.    Minutes of meeting of general manager office of China Energy Group (17 May 2019).

**(II)    Legal bases**

1.    Asset Appraisal Law of the People's Republic of China (adopted at the 21st Meeting of the Standing Committee of the 12th National People's Congress on 2 July 2016);
2.    Company Law of the People's Republic of China (revised at the 6th Meeting of the Standing Committee of the 12th National People's Congress on 28 December 2013);
3.    Financial Supervision and Management Measures of Assets Evaluation Industry (Decree No. 86 of the Ministry of Finance of the People's Republic of China);
4.    Income Tax Law of the People's Republic of China (adopted at the 5th Meeting of the 10th National People's Congress on 16 March 2007);
5.    Law of the People's Republic of China on State-owned Assets of Enterprises (adopted at the 5th Meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);
6.    Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council, revised by Decree No. 588 of the State Council);
7.    Measures for the Administration of State-owned Assets Appraisal (Decree No. 91 of the State Council);
8.    Notice on Publication and Distribution of the Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (Guo Zi Ban Fa [1992] No. 36);
9.    Interim Measures on the Administration of State-owned Assets Appraisal of Enterprises (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
10.    Notice on Strengthening the Administration of State-owned Assets Appraisal (Guo Zi Wei Chan Quan [2006] No. 274);
11.    Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

12. Guidelines on the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
13. Measures for the Supervision and Administration over the Trading of State-owned Assets in Enterprises (Decree No. 32 of the SASAC of the State Council and the Ministry of Finance);
14. Notice on Transfer of State-owned Property Rights in Enterprises (SASAC Property [2006] No. 306);
15. Provisional Measures on Supervision and Management of State-owned Assets Valuation in Financial Enterprises (Decree No. 47 of the Ministry of Finance);
16. Accounting Standards for Business Enterprises – Basic Standards (Decree No. 33 of the Ministry of Finance), The Decision of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (Decree No. 76 of the Ministry of Finance);
17. Rules on the Implementation of the Provisional Regulations on Value-added Tax of the People’s Republic of China (Decree No. 65 of the Ministry of Finance and State Administration of Taxation);
18. Notice on Carrying out Pilot Operation of Change from Business Tax to Value-added Tax (Cai Shui [2016] No. 36);

**(III) Evaluation criteria**

1. Basic Standards on Assets Valuation (Cai Zi [2017] No. 43);
2. Code of Ethics for Assets Valuation (Zhong Ping Xie [2017] No. 30);
3. Practice Guidelines for Asset Valuation-Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
4. Practice Guidelines for Asset Valuation-Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
5. Practice Guidelines for Asset Valuation-Asset Valuation Entrustment Contract (Zhong Ping Xie [2017] No. 33);

6. Practice Guidelines for Asset Valuation-Asset Valuation File (Zhong Ping Xie [2018] No. 37);
7. Practice Guidelines for Asset Valuation – Utilization of Experts and Related Reports (Zhong Ping Xie [2017] No. 35);
8. Practice Guidelines for Asset Valuation-Enterprise Value (Zhong Ping Xie [2018] No. 38);
9. Practice Guidelines for Asset Valuation-Intangible Assets (Zhong Ping Xie [2017] No. 37);
10. Practice Guidelines for Asset Valuation-Real Estate (Zhong Ping Xie [2017] No. 38);
11. Practice Guidelines for Asset Valuation-Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
12. Guidance on Valuation Report of State-owned Assets of Financial Enterprises (Zhong Ping Xie [2017] No. 43);
13. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
14. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
15. Guiding Opinions on Legal Ownership of the Target of Asset Valuation (Zhong Ping Xie [2017] No. 48).

**(IV) Basis of ownership**

1. Property ownership certificate;
2. Motor Vehicle Driving Permit;
3. Title-related transfer contract;
4. Other title-related certificates.

**(V) Pricing basis**

1. Financial statements and audit reports for previous years provided by the enterprise;
2. Other relevant information related to valuation recorded and collected by the appraisers during on-site survey;
3. Other information related to this asset valuation.

**(VI) Other references**

1. The list of assets and the declaration form for valuation provided by the evaluated entity;
2. Audit report issued by KPMG Huazhen LLP;
3. Database of China Enterprise Appraisals Co., Ltd.

**VII. VALUATION METHODOLOGY**

Income approach refers to the approach in which the expected return of the appraisal target shall be capitalized or discounted so as to determine its value.

Market approach refers to the approach in which the appraisal target shall be compared with other comparable listed companies or transactions so as to determine the value of the appraisal target.

Asset-based approach refers to the approach in which, based on the balance sheet of the appraisal target on the Benchmark Date, the value of identifiable assets and liabilities in and out of the balance sheet shall be reasonably appraised so as to determine the value of the appraisal target.

As stated in the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any evaluation of enterprise value, the suitability of the three basic asset valuation methods namely the income approach, the market approach and the asset-based approach shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc. in its selection of valuation methods. If different valuation methods are suitable for any evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.

Income approach and market approach were applied in the valuation on the following grounds:

Conditions for applying income approach are satisfied as Shenhua Finance serves members of the Group and heavily relies on group companies; further, its development plan and operating budget are determined according to related policies of the Group, and its future revenues can be relatively reliably predicted. Conditions for applying market approach are also satisfied as the equity transfer transactions of Shenhua Finance is relatively active in M&A market; further, specific conditions affecting transaction price and related indicators are available in the annual reports or announcements of the company, which enables us to analyze its transaction price. There is a great limitation in applying asset-based approach as such approach focuses on identification and valuation of individual assets and liabilities from the perspective of carrying amount of assets and liabilities, which cannot properly represent the value of future overall operating profitability of the company. In view of the above, income approach and market approach are adopted in the valuation.

**(I) Income approach**

Shenhua Finance belongs to a financial enterprise, having a relatively large discrepancy as compared with normal enterprises in terms of operating features, capital structure and other aspects. The gearing ratio of which is generally higher. As liabilities constitute its operating costs, the decision-making of financing is an important factor necessary to be considered in the course of the operation of the Company. The prerequisite of applying comprehensive investment cash flow is all investment of enterprises within the period of future operating forecast, that is equity investment and creditor's right investment (D+E) shall remain unchanged. In general, as financial enterprises necessary for constantly adopting financing methods to increase creditor's right fail to satisfy the aforementioned assumption, the comprehensive investment cash flow is not applicable, and only Flows to Equity (FTE) approach is applicable to Shenhua Finance.

A FTE model was applied in this valuation, in order to predict its value of total equity interests of shareholders in two stages, namely, definite prediction period and going concern period, respectively, as described below:

Value of total equity interests of shareholders = present value of equity interests in definite prediction period +going concern value in going concern period

The formula of DCF model:

$$P = \sum_{i=1}^n \frac{F_i}{(1+r)^i} + \frac{F_n \times (1+g)}{(r-g) \times (1+r)^n}$$

Where,    P:            value of total equity interests of shareholders of the company on the Benchmark Date;  
               $F_i$ :            estimated flows to equity for the  $i$ th year after Benchmark Date;  
               $F_n$ :            estimated flows to equity for the last year of the prediction period;  
               $r$ :             discount rate (it refers to Capital Asset Pricing Mode (CAPM) herein);  
               $n$ :             prediction period;  
               $i$ :             the  $i$ th year in the prediction period;  
               $g$ :             growth rate during going concern period.

Flows to equity are included in cash flows attributable to shareholders, after deducting capital expenditure for repayment of principal and interest, maintenance of existing production and establishment of new assets required for future growth and changes in working capital. Its formula is as described below:

Flows to equity = net profit after tax + depreciation and amortization - capital expenditure - changes in net working capital + increase (decrease) in interest-bearing debt = net profit after tax - increase in equity interest

Discount rate should match cash flows. Cost of equity capital is calculated using Capital Asset Pricing Mode (CAPM). Its calculation formula is as described below:

$$K_e = r_f + MRP \times \beta + r_c$$

Where,     $r_f$ :            risk-free interest rate;  
              MRP:           market risk premium;  
               $\beta$  :            system risk factor of equity interest;  
               $r_c$ :            company-specific risk adjustment factor.

## **(II) Market approach**

There are two market approaches that are primarily used when valuing a business, the Guideline Public Company Method and the Guideline Transaction Method.

Guideline Public Company Method aims to obtain the value of the appraisal target based on comparative analysis of appropriate value ratio or economic indicator of a publicly traded company in the same or similar industry as the evaluated entity in capital market calculated by analyzing its operating and financial data, with that of the evaluated entity.



Guideline Transaction Method aims to obtain the value of the appraisal target based on comparative analysis of appropriate value ratio or economic indicator of a company in the same or similar industry as the evaluated entity calculated by analyzing its trading, acquisition and merger cases, and acquiring and analyzing the data of such transaction cases, with that of the evaluated entity.

Shenhua Finance, as a non-banking financial institution under a large group, functions for financing and accommodation of funds for members of the Group and heavily relies on Group companies. Currently there is no finance company that is listed independently in domestic capital market. In view of the above, it is not applicable to directly apply Guideline Public Company Method in the valuation. Over recent years, equity transactions involving finance companies in China are increasingly active, and major data relating to transaction cases and affecting transaction price are available in announcements of listed companies, which enables us to analyze its value. In view of the above, Guideline Transaction Method was applied in the valuation.

Set out below is the specific valuation process:

1. We confirmed the basic information of the evaluated entity, including the conditions of the appraisal target and its related equity, such as type of enterprise, capital size, business cope, business size, market share and growth potential.
2. We selected transaction cases for comparative analysis with the evaluated entity. We conducted detailed research and analysis on specifics of transaction-ready cases, including main business scope, main target markets, composition of income, company size and profitability, for selecting comparative transaction cases.
3. We analyzed the business and financial conditions of the selected transaction cases, compared and analyzed with the conditions of the evaluated entity, and made necessary adjustment.
4. We selected, calculated and adjusted value ratio. After analyzing and adjusting the financial data of reference enterprise, we needed to select appropriate value ratios, such as P/E ratio, P/B ratio, P/S ratio and other equity ratios, or enterprise value ratio, and analyze and adjust value ratios based on above work, as necessary.

Similar to other financial institutions, Shenhua Finance is a typical capital-driven enterprise, and is subject to the limitation imposed by regulatory authority on capital. That is to say, net asset size is an important factor to the determination of the asset value and revenues of Shenhua Finance, and net asset size is relatively stable as it is subject to less effect of macroeconomic policy and industry life cycle. Therefore, net asset size could better represent enterprise value of Shenhua Finance. In view of the above, P/B ratio was selected as the value ratio in the valuation, while ROE, NPGR, Cost of Equity Capital and asset size and other critical value-related factors were selected as adjustment indicators.

5. Valuation results were obtained by applying value ratio. The equity value or enterprise value was calculated by multiplying the calculated and adjusted value ratio of the enterprise of transaction case by corresponding financial data or indicator of the appraisal target.

## **VIII. IMPLEMENTATION AND PARTICULARS OF VALUATION PROCEDURES**

Appraisers evaluated the assets and liabilities relating to the appraisal target from 27 June 2019 to 25 July 2019. The implementation and particulars of the valuation procedures are as follows:

### **(I) Acceptance of engagement**

On 27 June 2019, our company and the clients reached an agreement on the basic matters (including the purpose of valuation, the target of valuation, the scope of valuation and the benchmark date, etc.) related to the valuation service and the rights and obligations of the parties, and we have, upon negotiations with the clients, prepared an appropriate valuation plan.

### **(II) First-phase preparation**

1. Preparation of valuation scheme
2. Building of a valuation team
3. Implementation of project training

**(1)    *Training to the staff of the evaluated entity***

In order to give the financial and assets management personnel of the evaluated entity an all-round understanding of asset valuation to facilitate their completion and submission of asset valuation-related materials so as to ensure the quality of the declaration materials for the purpose of valuation, our company prepared the Training Materials for Enterprises to provide training to relevant staff of the evaluated entity and assigned appropriate staff to answer any questions raised in the course of completing asset valuation-related materials.

**(2)    *Training to appraisers***

To ensure the quality of the valuation project and to improve efficiency, as well as to thoroughly implement the proposed Implementation Plan for Asset Valuation, our company provided relevant training to the project team members including the background of the relevant economic behavior, the characteristics of the assets of the valuation target, technical ideas and requirements for conducting valuation.

**(III)   *On-site investigation***

During the period between 28 June 2019 and 5 July 2019, the appraisers conducted necessary investigations and verification on the assets and liabilities of the valuation target and carried out necessary due diligence on the operation and management of the evaluated entity.

**1.    *Asset verification***

**(1)    *Guiding the evaluated entity on how to complete the forms and to prepare materials to be provided to the appraisal institution***

While the financial and asset management personnel of the evaluated entity are required to conduct their own checking of assets, the appraisers guided them on how to correctly and carefully fill out each of the required forms covering the assets which fall under the scope of this valuation according to the Verification Schedule of Asset Valuation and their instructions to complete the Statement and the list of information which were provided by the appraisal institution. They are also required to collect and prepare title certification of the assets and documents and information that can reflect their performance, status and economic and technical indexes.

(2) *Preliminary review and improvement of the Verification Schedule of Asset Valuation filled out by the evaluated entity*

The appraisers checked the relevant information to have an understanding of the details of the assets which fall under the scope of this valuation and carefully reviewed the various Verification Schedules of Asset Valuation to check if there are any incomplete information, errors, or unclear statements of asset items. Based on their experience and the information they had obtained, the appraisers reviewed the Verification Schedule of Asset Valuation to check if there is any omission before providing feedback to the evaluated entity for it to improve the Verification Schedules of Asset Valuation.

(3) *On-site survey*

In accordance with the relevant asset valuation standards, the appraisers conducted, with the cooperation of the relevant personnel of the evaluated entity, on-site survey on various assets in terms of the types, quantity and distribution of the assets. Different survey methods were used in light of the nature and characteristics of the different types of assets.

(4) *Supplementation, modification and improvement of Verification Schedules of Asset Valuation*

Based on the on-site survey result, the appraisers further improved the Verification Schedules of Asset Valuation after proper communication with the relevant personnel of the evaluated entity in order to ensure the consistency among the accounts, forms and actual circumstances.

(5) *Verification of property title certificates*

The appraisers verified the property title certificates of the assets (such as buildings, vehicles and land use rights) which fall under the scope of this valuation.

**2.      *Due diligence***

The appraisers conducted necessary due diligence in order to fully understand the operation and management of the evaluated entity and the risks which the entity is facing. The due diligence mainly covered the following:

- (1) History, substantial shareholders and shareholding proportions of the evaluated entity, necessary property title and operation and management structure;
- (2) Assets, financial position, production, operation and management of the evaluated entity;
- (3) Business plans, development planning and financial forecast of the evaluated entity;
- (4) Previous valuations and transactions of the valuation target and the evaluated entity;
- (5) Macro and regional economic factors which affect the production and operation of the evaluated entity;
- (6) Development trend and outlook of the industry that the evaluated entity is engaged in;
- (7) Other relevant information.

**(IV)    Collection of information**

The appraisers collected necessary information for the valuation project, including the information acquired directly and independently from the market and other channels, the information obtained from the clients and relevant parties and the information obtained from government agencies, professional institutions and other relevant departments. They made necessary analysis, induction and collation of the collected information to develop basis for valuation and estimate.

**(V) Valuation and estimate**

The appraisers adopted, in light of the specific situations of various assets, the corresponding formulae and parameters to make analysis, calculation and judgment on the assets using the selected valuation methods to reach a preliminary conclusion of valuation. The project leader summarized the preliminary conclusion of valuation concerning various assets, and prepared and formulated the preliminary asset valuation report.

**(VI) Internal audit**

According to the Administrative Measures for Valuation Process of our company, the project leader would submit the Asset Valuation Report for our internal audit after the preliminary asset valuation report has been prepared. Upon completion of the internal audit, the project leader would communicate with the client or other related parties agreed by the client on related contents of the asset valuation report. After reasonable modification based on feedback and opinions, the project leader would determine and submit the final version of the Asset Valuation Report to the client.

**IX. VALUATION ASSUMPTIONS**

The following assumptions were used for the analysis and estimate in this Asset Valuation Report:

**(I) General assumptions**

1. It is assumed that there are no material changes in current related national laws, regulations and policies, as well as national macroeconomic situation; no material changes in the local political, economic and social environment of such regions where parties to the transaction are based;
2. It is assumed that the enterprise will operate on a going concern basis according to the actual conditions of assets on the Benchmark Date;
3. It is assumed that there are no material changes in interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the evaluated entity after the Benchmark Date;
4. It is assumed that the management of the evaluated entity is accountable, stable and competent to perform their duties after the Benchmark Date;

5. It is assumed that the evaluated entity fully complies with all relevant laws and regulations, unless otherwise stated;
6. It is assumed that there is no force majeure events which may materially and adversely affect the evaluated entity after the Benchmark Date.

**(II) Special assumptions**

1. It is assumed that the accounting policies adopted by the evaluated entity after the Benchmark Date are consistent with the accounting policies adopted when preparing this Asset Valuation Report in all material aspects;
2. It is assumed that the scope of business and the mode of operation of the evaluated entity after the Benchmark Date are consistent with the current ones based on the existing management mode and management level and that the management of the entity will propel its development plans smoothly;
3. It is assumed that the evaluated entity will have balance cash inflows and cash outflows after the Benchmark Date;
4. It is assumed that on the premise of satisfying capital regulation and accrual requirements for various ratios, all distributable profit of the capital of the evaluated entity will be distributed to shareholders each year after the Benchmark Date.

The conclusion of valuation of this Asset Valuation Report is established on the Benchmark Date based on the above assumptions. In the event of any material changes to the above assumptions, the undersigned appraisers and the appraisal institution shall not be responsible for deducing different conclusions of valuation due to any changes of the assumptions.

**X. CONCLUSION OF VALUATION**

**(I) Valuation result using the income approach**

Book values of total assets, total liabilities and net assets of Shenhua Finance Co., Ltd. as of the Benchmark Date were RMB104,312.9800 million, RMB96,696.6188 million, and RMB7,616.3612 million, respectively.

The value of total equity interests of shareholders upon valuation by income approach was RMB8,849.1440 million, amount of increase was RMB1,232.7829 million and appreciation rate was 16.19%.

**(II) Valuation result using market approach**

Book values of total assets, total liabilities and net assets of Shenhua Finance Co., Ltd. as of the Benchmark Date were RMB104,312.9800 million, RMB96,696.6188 million, and RMB7,616.3612 million, respectively.

The value of total equity interests of shareholders upon valuation by market approach was RMB8,516.8069 million, amount of increase was RMB900.4458 million and appreciation rate was 11.82%.

**(III) Conclusion of valuation**

Based on the valuation using the income approach, the value of total equity interests of shareholders was RMB8,849.1440 million, while the value of total equity interests of shareholders was RMB8,516.8069 million when the market approach is used. The difference was RMB332.3371 million, representing a difference rate of 3.90%.

Market approach and income approach use different valuation paths. For market approach, the value of appraisal target is evaluated with reference to the object of reference in real market. For income approach, estimated income of assets is considered as the standard of value, to present the level of earning capacity (profitability) of assets. Shenhua Finance, as a group finance company, serves members of the Group and heavily relies on Group members. Its development plans and operation budget are determined by related policies of the Group and future incomes can be relatively reliably predicted. Further, as Shenhua Finance is subject to the policies of its superior Group company, there may be certain inherent differences among indicators of comparative finance companies, which imposes a certain limitation on the application of market approach.

As analyzed above, this Asset Valuation Report adopts the valuation results derived by using the income approach as the conclusion of valuation. That is to say, the appraised value of total equity interests of shareholders Shenhua Finance Co., Ltd. was RMB8,849.1440 million.

This Asset Valuation Report did not take into consideration the possible premium or discount resulting from the possession or lack of right of control nor the impact of liquidity on the value of the valuation target.



**XI. SPECIAL NOTES**

It was discovered in the course of valuation that the following matters may affect the conclusion of valuation; however, they are beyond the evaluation and estimation of the appraisers by virtue of the standard of valuation practice and professional competence:

- (I) The valuation results represent the current price of the appraisal target determined based on the rule of market overt under the purpose of valuation, taking no account of the effect of potential pledge, guarantee to be assumed in the future and additional price to be paid by special counterparties on the appraised value, and the effect of material changes in national macroeconomic policy and occurrence of natural forces or other force majeure on the price of assets;
- (II) Certain title defects were identified in the properties that fall under the scope of the valuation (title deed is not executed; title deed holder is inconsistent with the evaluated entity, etc.), as listed below:

No.	Name	Property owner	Property ownership certificate No.	Owner indicated in the land certificate	Land certificate No.
1	Shenfu office building and auxiliary facilities	Shenfu Business Department of Shenhua Finance Co., Ltd.	Shenmu County Property Ownership Certificate Daliuta Zi No. 00981 (神木縣房權證大柳塔字第00981號)	Shenhua Shendong Coal Company Limited (神華神東煤炭有限責任公司)	Shen Guo You (2000) 11206 (神國用(2000)11206)
2	Dongsheng office building	Not yet processed	Not yet processed	Shenhua Group Shenfu Dongsheng Coal Company Limited (神華集團神府東勝煤炭有限責任公司)	E Guo Yong 2007 No. 1753 (鄂國用2007第1753號)
3	Dongsheng garage	Shenhua Finance Co., Ltd.	Dong Fang Quan Zheng Chan Zi No. 6751 (東房權證產字第6751號)	Not yet processed	Not yet processed

- (III) The appraisal institution and the appraisers shall assume no responsibility as to other defects of the evaluated entity other than those stated in (II) that may affect the appraised value of assets if no special statements are made by the evaluated entity and the appraisers still fail to be aware of such defects after performing appraisal procedures;
- (IV) Business license, property ownership certificates, financial statements, accounting documents, asset details and other information relating to the valuation provided by the client and the evaluated entity are the basis for the preparation of the Report. The client, evaluated entity and other related parties shall be responsible for the truthfulness, legitimacy and completeness of above original information for the valuation provided.

Users of the Asset Valuation Report shall pay special attention to the impact of above special notes on the conclusion of valuation.

## **XII. RESTRICTIONS ON THE USE OF THE ASSET VALUATION REPORT**

- (I) The Asset Valuation Report can only be used for the objectives and purposes as stated in the Asset Valuation Report, and can only be used by the users as stated in the Asset Valuation Report. In case of extraction, quotation or disclosure of the Asset Valuation Report in full or in part to public media, related contents shall be reviewed by the appraisal institution, unless as required by laws and regulations or as otherwise agreed among related parties;
- (II) The asset appraisal institution and its professional appraisers will not assume any responsibilities arising from the failure of the clients or other users to use the Asset Valuation Report in accordance with the laws, administrative rules and regulations and the scope of use as set out in the Asset Valuation Report;
- (III) Except for the clients, other users of the Asset Valuation Report as agreed in the entrustment contract on asset valuation and users of the Asset Valuation Report as set out under the laws and administrative rules and regulations, no other institutions and individuals can be the users of the Asset Valuation Report;
- (IV) Users of the Asset Valuation Report should establish a proper understanding of the valuation conclusion. The valuation conclusion is not equal to, and should not be regarded as a guarantee for the realizable value of the valuation target;
- (V) This Asset Valuation Report can be used officially only after being signed and stamped by the asset appraisers and sealed by the appraisal institute undertaking this valuation with filing with the State-owned assets supervision and administration authority or the invested enterprise;

- (VI) The conclusion of valuation as stated in this Asset Valuation Report is only valid in relation to the economic activity described in the Asset Valuation Report, and is valid for one year from the Benchmark Date.

### **XIII. DATE OF THE ASSET VALUATION REPORT**

The date of the Asset Valuation Report is 25 July 2019.

Legal representative: Quan Zhongguang

Asset appraiser: Yu Ning

Asset appraiser: Ran Mengya

**China Enterprise Appraisals Co., Ltd.**

25 July 2019

**(I) GENERAL ASSUMPTIONS**

1. It is assumed that there will be no material changes in the current national laws, regulations and policies, and macro-economic conditions, and there will be no material changes in the political, economic and social environment of the area where parties of the transaction are located;
2. Regarding the actual status of the assets as at the Benchmark Date, assuming the enterprise will continue to operate as a going concern;
3. It is assumed that there will be no material changes to the interest rates, tax bases, tax rates and policy-based levies related to the evaluated entity after the Benchmark Date;
4. It is assumed that the management of the evaluated entity is accountable, stable and competent to perform their duties after the Benchmark Date;
5. It is assumed that the firm fully complies with all the relevant laws and regulations unless stated otherwise;
6. It is assumed that there will be no force majeure and unforeseen factors which may materially and adversely affect the evaluated entity after the Benchmark Date.

**(II) SPECIAL ASSUMPTIONS**

1. It is assumed that the accounting policies adopted by the evaluated entity after the Benchmark Date are consistent with the accounting policies adopted when preparing this Valuation Report in all material aspects;
2. It is assumed that the scope of business and the mode of operation of the evaluated entity after the Benchmark Date are consistent with the current ones based on the existing management mode and management level;
3. It is assumed that the evaluated entity will have an even cash outflow and cash inflow after the Benchmark Date;
4. It is assumed that on the basis that the capital amount of the evaluated entity meets the requirements of capital supervision and various provision ratios, the annual profit available for distribution will all be allocated to shareholders after the Benchmark Date.

*The following is the text of a report received from the Company's auditor KPMG, Certified Public Accountants, Hong Kong, for inclusion in this circular.*



**REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE ENTIRE SHAREHOLDERS' INTERESTS OF SHENHUA FINANCE CO., LTD.**

**TO THE BOARD OF DIRECTORS OF CHINA SHENHUA ENERGY COMPANY LIMITED**

We refer to the discounted future cash flows on which the valuation of the entire shareholders' interests of Shenhua Finance Co., Ltd. (the **"Target Company"**) (the **"Valuation"**) dated 25 July 2019 prepared by China Enterprise Appraisals Co., Ltd. in respect of the appraisal of the value of the entire shareholders' interests of the Target Company as at 31 May 2019 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **"Listing Rules"**).

**DIRECTORS' RESPONSIBILITIES**

The directors of China Shenhua Energy Company Limited (the **"Directors"**) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**OUR INDEPENDENCE AND QUALITY CONTROL**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (**"HKICPA"**), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**REPORTING ACCOUNTANTS' RESPONSIBILITIES**

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

**BASIS OF OPINION**

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**OPINION**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

**OTHER MATTERS**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**KPMG***Certified Public Accountants*

Hong Kong

27 March 2020



China International Capital Corporation  
Hong Kong Securities Limited  
29th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

The Board of Directors  
China Shenhua Energy Company Limited  
22 Andingmen Xibinhe Road  
Beijing 100011, the PRC

27 March 2020

Dear Sirs,

We refer to the announcement of China Shenhua Energy Company Limited (the “**Company**”) dated 27 March 2020 (the “**Announcement**”) in relation to the capital increase agreement, pursuant to which China Energy Investment Corporation Limited, the controlling shareholder of the Company, proposed to subscribe additional registered capital of RMB7.5 billion in Shenhua Finance Co., Ltd. (the “**Target**”), a subsidiary controlled by the Company, by way of cash contribution at a consideration of RMB13,273.72 million and also the asset valuation report dated 25 July 2019 (the “**Valuation Report**”) prepared by the independent valuer, China Enterprise Appraisals Co., Ltd. (the “**Independent Valuer**”), in respect of the valuation of the Target. We understand that the Independent Valuer has prepared the Valuation Report based on the discounted cash flow method, which is regarded as profit forecast (the “**Forecast**”) under Rule 14.61 of the Hong Kong Listing Rules. Unless otherwise defined or if the context otherwise requires, all terms defined in the Announcement shall have the same meaning when used in this letter.

We have reviewed the Forecast included in the Valuation Report, for which you as the Directors are solely responsible. We have attended discussions involving the management of the Company, the management of the Target and the Independent Valuer where the historical performance of the Target, the calculations of the Forecast as well as the qualifications, bases and assumptions set out in the Valuation Report. We have also considered the report addressed solely to and for the sole benefit of the Directors from KPMG dated 27 March 2020 regarding the calculation of discounted future cash flows on which the Forecast is based. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target may or may not achieve as expected and the variation may be material.



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## APPENDIX IV LETTER FROM FINANCIAL ADVISER ON SHENHUA FINANCE PROFIT FORECAST

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On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer, for which the Independent Valuer and the Company are responsible, we are satisfied that the Forecast included in the Valuation Report, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Hong Kong Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,

For and on behalf of

**China International Capital Corporation Hong Kong Securities Limited**

Name: LONG LIANG

Title: Managing Director

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the 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 2019 (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 H shares/ A shares over total issued	Percentage of total issued share capital of the Company
						respectively %	%
1	China Energy	Beneficial owner	A shares	N/A	13,812,709,196	83.76	69.45
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position	230,414,404	6.78	1.16
3	Citigroup Inc.	Interest of corporation controlled by the substantial shareholder, and approved lending agent	H shares	Long position	213,989,820	6.29	1.08
				Short position	23,369,635	0.68	0.18
				Lending Pool	188,536,473	5.54	0.95
Notes:	(1)	Among H shares in long position held by BlackRock, Inc., 175,000 H shares in long position involve derivatives, and their type is unlisted derivatives – cash settled.					
	(2)	Among 213,989,820 H shares in long position held by Citigroup Inc., 25,453,347 H shares are held in its capacity as the interest of corporation controlled by the substantial shareholder, and 188,536,473 H shares are held in its capacity as the approved lending agent. 23,369,635 H shares in short position held by Citigroup Inc. are held in its capacity as the interest of corporation controlled by the substantial shareholder. In addition, the following H shares in both long position and short position involve derivatives, including:					
	a.	1,925,552 H shares in long position and 1,250,000 H shares in short position: listed derivatives – physically settled;					
	b.	1,517,403 H shares in long position and 1,517,403 H shares in short position: unlisted derivatives – physically settled;					
	c.	130,000 H shares in short position: unlisted derivatives – cash settled.					

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
GF Capital (Hong Kong) Limited	A corporation licensed to carry on 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
KPMG	Certified Public Accountants, Hong Kong
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to carry out Type 1 (Dealing in securities), Type 4 (Advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the financial adviser to the Company
China Enterprise Appraisals Co., Ltd.	A PRC qualified appraisal institution

- 4.2 As at the Latest Practicable Date, the abovementioned professional advisers have 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 advisers have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice/report 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 advisers 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 2019, 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 2019 (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:

<b>Name</b>	<b>Name of shareholder</b>	<b>Positions</b>	<b>Commencement of term of office</b>
Wang Xiangxi	China Energy	Secretary of the Leading Party Members' Group, Chairman	March 2019
Gao Song	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017
	GD Jinsha River Xulong Hydropower Development Co., Ltd.	Chairman	June 2018
	GD Jinsha River Benzilan Hydropower Development Co., Ltd.	Chairman	June 2018
Mi Shuhua	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017
Zhao Jibin	China Energy	External Director	November 2017

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

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

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

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

- 9.1 the Shenhua Finance Capital Increase Agreement;
- 9.2 the Termination Agreement of the Existing Financial Services Agreement;
- 9.3 the New Financial Services Agreement;
- 9.4 the Articles of Association;
- 9.5 the letter from the Independent Board Committee as set out in this circular;
- 9.6 the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- 9.7 the report from KPMG on the calculation of discounted cash flows in the Valuation Report;
- 9.8 the letter from financial adviser on Shenhua Finance profit forecast;
- 9.9 the written consents of the experts referred to in 4.1 of this Appendix; and
- 9.10 the service contracts entered into between the Company and Directors.