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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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 CONTINUING CONNECTED TRANSACTION**

### **RESCISSION OF THE ORIGINAL FINANCIAL SERVICES AGREEMENT AND ENTERING INTO FINANCIAL SERVICES AGREEMENT PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR REDUCTION OF REGISTERED CAPITAL AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES**

*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 30 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 31 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 32 to 46 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.

14 May 2021

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“2019 Financial Services Agreement”	the Financial Services Agreement entered into on 22 March 2019 between the Company and Finance Company;
“2020 Financial Services Agreement”	the Financial Services Agreement entered into on 27 March 2020 between the Company and Finance Company;
“A Share(s)”	the domestic share(s) issued by the Company to domestic investors denominated in RMB and which are listed on the Shanghai Stock Exchange;
“A Shareholder(s)”	holder(s) of A Share(s);
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the PRC on Friday, 25 June 2021 at 10:00 a.m.;
“Abstained Directors”	Mr. Wang Xiangxi and Mr. Jia Jinzhong, who had abstained from voting as Directors on the relevant board resolution(s);
“AGM”	the 2020 annual general meeting of the Company to be held on 25 June 2021;
“Articles of Association”	the articles of association of the Company;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“CSRC”	China Securities Regulatory Commission;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;

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## DEFINITIONS

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“China Energy Group”	collectively, China Energy and its subsidiaries (excluding the Group);
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Finance Company”	China Energy Finance Co., Ltd. (國家能源集團財務有限公司), a limited company incorporated in the PRC, formerly known as Shenhua Finance Co., Ltd. (神華財務有限公司);
“Financial Services Agreement”	the financial services agreement dated 26 March 2021 entered into between the Company and Finance Company;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“H Share Repurchase Mandate”	the general mandate to exercise the power of the Company to repurchase H Shares not exceeding 10% of the number of H Shares in issue as at the date of passing the proposed resolution(s) approving the H Share Repurchase Mandate at the AGM, the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting, details of which are set out in the notice of the AGM and the notice of the H Shareholders’ Class Meeting;
“H Shareholder(s)”	holder(s) of H Share(s);
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the PRC on Friday, 25 June 2021 at 10:15 a.m.;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;

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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” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Financial Services Agreement;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the AGM under the Hong Kong Listing Rules;
“Latest Practicable Date”	10 May 2021, 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;
“Original Financial Services Agreement”	the financial services agreement dated 29 December 2020 entered into between the Company and Finance Company;

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## DEFINITIONS

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“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SAFE”	State Administration of Foreign Exchange of the PRC;
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council;
“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;
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers and Share Buybacks.

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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  
Yang Jiping  
Xu Mingjun

*Registered Office:*

Shenhua Tower  
22 Andingmen Xibinhe Road  
Dongcheng District  
Beijing, PRC

*Non-executive Director:*

Jia Jinzhong

*Independent Non-executive Directors:*

Yuen Kwok Keung  
Bai Chong-En  
Chen Hanwen

*Employee Director:*

Wang Xingzhong

*To the Shareholders*

Dear Sir or Madam,

14 May 2021

**DISCLOSEABLE TRANSACTION  
CONTINUING CONNECTED TRANSACTION**

**RESCISSION OF THE ORIGINAL FINANCIAL SERVICES AGREEMENT AND  
ENTERING INTO FINANCIAL SERVICES AGREEMENT  
PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR  
REDUCTION OF REGISTERED CAPITAL AND AMENDMENTS TO THE  
ARTICLES OF ASSOCIATION  
PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES**

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the announcement made by the Company on 28 March 2021 on rescission of the Original Financial Services Agreement and entering into Financial Services Agreement.

Reference is made to the announcement made by the Company on 28 March 2021 on proposed appointment of non-executive director.

Reference is made to the announcement made by the Company on 28 March 2021 on reduction of registered capital and amendments to the Articles of Association.

The purpose of this circular is to provide you with further information in relation to the above matters and the proposal for general mandate to repurchase H Shares and the recommendation from the Independent Board Committee in relation to rescission of the Original Financial Services Agreement and entering into 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 Financial Services Agreement.

### RESCISSION OF THE ORIGINAL FINANCIAL SERVICES AGREEMENT AND ENTERING INTO FINANCIAL SERVICES AGREEMENT

#### Background

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

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 69.52% of equity interest in the Company.



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## LETTER FROM THE BOARD

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

As disclosed in the announcement dated 29 December 2020, the Company entered into the Original Financial Services Agreement with the Finance Company on 29 December 2020. Pursuant to the Original Financial Services Agreement, the Finance Company agreed to provide financial services to the Members of the Group. The Original Financial Services Agreement will expire on 31 December 2021.

The Company has entered into the Financial Services Agreement with the Finance Company on 26 March 2021, pursuant to which the Finance Company agreed to provide financial services to Members of the Group. The Financial Services Agreement will be effective from the date of the approval at the 2020 annual general meeting and will expire on 31 December 2023. The Original Financial Services Agreement shall terminate from the date on which the Financial Services Agreement becomes effective, and all rights and obligations under the Original Financial Services Agreement of both parties shall be terminated. The Company and the Finance Company will agree on their respective rights and obligations in accordance with the Financial Services Agreement.

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## LETTER FROM THE BOARD

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### Entering into Financial Services Agreement

#### *Date*

26 March 2021

#### *Parties*

The Company and Finance Company

#### *Transaction*

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

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

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## LETTER FROM THE BOARD

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- (11) provision of financial training and consultation services;
- (12) provision of other financial services (letter of credit, online banking and entrusted loans) to Members of the Group and charge agency fee, handling fee, consulting fee or other service fee.

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

### ***Term and termination***

The Financial Services Agreement will be effective from the date of approval at the 2020 annual general meeting and will expire on 31 December 2023, after the legal representative or authorized representative of the parties affix their signatures and common seals or contract seals of their companies. The Original Financial Services Agreement shall terminate from the date on which the Financial Services Agreement becomes effective, and all rights and obligations under the Existing Financial Services Agreement of both parties shall be terminated. The Company and the Finance Company will agree on their respective rights and obligations in accordance with the Financial Services Agreement.

### ***Price determination***

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

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## LETTER FROM THE BOARD

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

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

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

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

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## LETTER FROM THE BOARD

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### *Capital Risk Control Measures*

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

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## LETTER FROM THE BOARD

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- (8) Prior to the commencement of connected transaction with Finance Company, Members of the Group are entitled to review whether valid financial license and business license have been obtained by Finance Company. Members of the Group shall not engage in relevant business with Finance Company in the event that the foregoing licenses concerned are absent or expired. In addition, within four months after the end of the year before the Financial Services Agreement takes effect, Finance Company shall provide its annual report for the most recent fiscal year audited by an accounting firm qualified for the securities and futures business, and the finance department of the Company will be in charge of careful assessment of the annual report and relevant documents. The Company may conduct business with Finance Company on condition that the risk is confirmed to be controllable.
- (9) The Group examines the operation status and financial position of Finance Company on a regular basis, and pay close attention to whether Finance Company is in violation of any relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises issued by CBIRC. Finance Company will provide various regulatory indicators to the finance department of the Company within 20 business days after the end of each quarter. In the event that major regulatory indicators of Finance Company are found to be inconsistent with relevant regulatory requirements and may lead to material risks, Members of the Group shall discontinue depositing at Finance Company.
- (10) Members of the Group will be able to withdraw cash to satisfy the flexible requirements of treasury timely at any time without limitation, and may, from time to time, transfer its deposit placed with Finance Company in full or in part to test and ensure the security and liquidity of the relevant deposits.
- (11) Finance Company shall assist in monitoring the maximum daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company to ensure the relevant balance does not exceed the applicable annual caps of connected transactions. If the service fees charged by Finance Company reach the annual cap for the year, Members of the Group shall discontinue the relevant service with Finance Company for the rest of the year unless otherwise approved by the Board and the general meeting (if applicable) of the Company.
- (12) Finance Company guarantees that the Company will be informed in a timely manner upon occurrence of any event that may imperil or bring potential risk to the deposit safety of Members of the Group. On occurrence of the following circumstances, including but not limited to:
- (i) The major regulatory indicators of Finance Company fail to comply with the relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises which may lead to material risks;

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## LETTER FROM THE BOARD

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

Senior managers in charge of financial work shall urge the relevant departments of the Company and Members of the Group to take risk response measures in due course, such as withdrawing full or partial deposits placed with Finance Company, suspending any deposits placement with Finance Company and requesting Finance Company to carry out rectification within a prescribed time limit, so as to ensure the safety of deposits of Members of the Group placed with Finance Company. In the event of default where the deposits become unable to be withdrawn, Members of the Group are entitled to set off the amount of unrecovered deposits with the loan provided by Finance Company.

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



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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 cooperation between the Group and Finance Company and satisfying the needs of continuous development of the Group, the annual caps of the Financial Services Agreement for the year ending 31 December 2023 are set as follows. Meanwhile, the Company also sets out below the historical transaction amounts of each annual cap categories for the three years ended 31 December 2018, 31 December 2019 and 31 December 2020.

The historical transaction amount of financial services between the Group and the Finance Company is within the existing annual caps stipulated in the 2019 Financial Services Agreement and the 2020 Financial Services Agreement and the Original Financial Services Agreement.

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

#### *(1) Historical transaction amounts*

<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2020</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
81,875.1	104,902.7	113,767.5 <sup>note</sup>

*Note:* The maximum amount of the daily balance (including interests accrued thereon) under the 2019 Financial Services Agreement from 1 January 2020 to 31 August 2020 was RMB113,767.5 million; The maximum amount of the daily balance (including interests accrued thereon) under the 2020 Financial Services Agreement from 1 September 2020 to 31 December 2020 was RMB20,364.3 million.

#### *(2) Annual cap under the Original Financial Services Agreement*

<b>Year ending 31 December 2021</b>
<i>Annual cap (RMB million)</i>
10,800

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## LETTER FROM THE BOARD

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(3) *Proposed Annual Cap under the Financial Services Agreement*

<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>	<b>Year ending 31 December 2023</b>
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>
27,900	27,900	27,900

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

(1) *Historical transaction amounts*

<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2020</b>
<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>	<i>Aggregated transaction amount (RMB million)</i>
2.3	1.3	0.9 <sup>note</sup>

*Note:* The total amount of agency fee, handling fee, consultation fee and other services fee charged by Finance Company for providing Members of the Group with financial services under the 2019 Financial Services Agreement from 1 January 2020 to 31 August 2020 was RMB0.42 million; the total amount of agency fee, handling fee, consultation fee and other services fee charged by Finance Company for providing Members of the Group with financial services under the 2020 Financial Services Agreement from 1 September 2020 to 31 December 2020 was RMB0.51 million.

(2) *Annual cap under the Original Financial Services Agreement*

<b>Year ending 31 December 2021</b>
<i>Annual cap (RMB million)</i>
200

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## LETTER FROM THE BOARD

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(3) *Proposed annual cap under the Financial Services Agreement*

<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>	<b>Year ending 31 December 2023</b>
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>
200	300	400

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

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

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

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## LETTER FROM THE BOARD

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- (d) The average balance of the Company's monthly deposits were approximately RMB80 billion in 2019 and 2020, therefore, the Members of the Group will continue to maintain reasonable demands for deposit service provided by depository financial institutions such as Finance Company. To facilitate sound risk control and standardized management and to reduce potential risks, the Company proposes that the annual cap of daily balance (including accrued interest thereon) of deposits placed by Members of the Group with Finance Company from 2021 to 2023 be set as RMB27.9 billion.
- (e) The Finance Company will continue to provide financial services for Members of the Group. In the future, the Finance Company will fully utilize the functions of the financial platform to carry out entrusted loans, syndicated loans and bills business on a large scale. It is expected that the handling fees and consultation fees will be significantly increased. It is proposed that the annual cap for service fees charged by Finance Company for provision of financial services to Members of the Group for the year of 2021, 2022 and 2023 be set as RMB200 million, RMB300 million and RMB400 million, respectively. The proposed annual caps are not substantial to the Group as the highest applicable percentage ratio is around 0.1% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules.
- (f) The Company is committed to gradually reducing connected transactions while setting the proposed annual caps of continuing connected transactions. The Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that Members of the Group and Finance Company will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. Members of the Group and Finance Company will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive Directors and auditors will opine on the continuing connected transaction to receive supervision of the independent shareholders.

The Finance Company only provided Members of the Group with financial services in respect of entrusted loan, bill acceptance and financial advisory, etc. with a relevant small size of business. Therefore, the historical transactions were minimal.

With the substantial increasing of the Finance Company's capital size, the range and size of financial services to be provided will be substantially increased. The Finance Company will extend size of existing businesses (entrusted loan, syndicated loan, bill acceptance, financial advisory, etc.) on one hand and will also conduct wider range of businesses (e.g. consultation, agency, investment, letter of credit, guarantee, etc.). It is expected that that the service fees for financial services by the Finance Company will substantially increase.

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## LETTER FROM THE BOARD

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In respect of the Finance Company providing financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of the Group, bill acceptance and discount services to Members of the Group; granting loans, consumption credit and buyer's credit to Members of the Group on normal commercial terms or better, it would amount to a provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.90 of the Hong Kong Listing Rules from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group has been or will be granted in respect of such financial assistance from the Group. Nevertheless, the Company is required to propose and set maximum daily balance in respect of the comprehensive credit (including loans, credit loan, bill acceptance and discount, guarantee, letter of indemnity, overdraft, letter of credit) (including interests accrued thereon) provided by Finance Company to Members of the Group pursuant to the Shanghai Listing Rules. The proposed annual caps of the Company for the years ending 31 December 2021, 31 December 2022 and 31 December 2023 are set out as below, respectively. The historical transaction amounts of the Company for the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 are listed here.

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

<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>	<b>Year ended</b> <b>31 December 2020</b> <i>Aggregated</i> <i>transaction amount</i> <i>(RMB million)</i>
19,984.0	25,177.7	24,221.5 <sup>note</sup>

*Note:* The daily maximum remaining amount of loans granted by Finance Company to Members of the Group under the 2019 Financial Services Agreement from 1 January 2020 to 31 August 2020 was RMB23,281.9 million; the daily maximum remaining amount of loans granted by Finance Company to Members of the Group under the 2020 Financial Services Agreement from 1 September 2020 to 31 December 2020 was RMB24,221.5 million.

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## LETTER FROM THE BOARD

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

(1) *Annual cap under the Original Financial Services Agreement*

**Year ending  
31 December 2021**

*Annual cap  
(RMB million)*

100,000

(2) *Proposed annual cap under the Financial Services Agreement*

**Year ending  
31 December 2021**

*Annual cap  
(RMB million)*

100,000

**Year ending  
31 December 2022**

*Annual cap  
(RMB million)*

100,000

**Year ending  
31 December 2023**

*Annual cap  
(RMB million)*

100,000

### **Implementation Agreements**

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

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

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## LETTER FROM THE BOARD

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

The Members of the Group have established long-term and stable cooperation with Finance Company, as well as relatively stable business relations in terms of deposits, loans, bills, settlements and agents. The Company has entered into the Financial Services Agreement with Finance Company. Provision of financial services by Finance Company to Members of the Group is conducive to maintaining the continuity of financial services received by Members of the Group, thereby lowering the financing cost. Further details are as follows:

- (1) Improving treasury management efficiency, realising centralised treasury management: Finance Company provides deposits and other financial services to Members of the Group to facilitate settlement within Members of the Group and between Members of the Group and Members of China Energy Group and shorten the time required for transfer and turnover of funds. Compared with opening bank accounts by Members of China Energy Group and Members of the Group separately in independent commercial banks, direct clearing and settlement between both sides would be more efficient. Finance Company will enable the Company to lower the cost by improving the efficiency of the internal settlement and help to realise optimisation of cost and operational efficiency. In addition, deposits placed by Members of the Group with Finance Company would be conducive to realising centralised treasury management as Members of the Group will be able to withdraw cash to satisfy their flexible requirements of treasury timely at any time without limitation. Meanwhile, Members of the Group will also be entitled to withdraw its deposit placed with Finance Company in full or in part. Members of the Group may, at its sole discretion, deposit its funds into Finance Company or other independent commercial banks without any restrictions.
- (2) Familiar with the Company's business, providing more flexible and convenient services: Since Finance Company mainly provides financial services to China Energy and its subsidiaries, it has accumulated in-depth knowledge over the years in respect of the industry in which Members of the Group operate. Finance Company is familiar with the capital structure, business operation, capital requirements and cash flow pattern of Members of the Group, enabling it to better forecast the capital requirements of Members of the Group. Therefore, Finance Company can provide flexible, convenient and low-cost service to Members of the Group at any time, while it will be difficult for independent commercial banks to provide equivalent services.
- (3) Offering better commercial terms: As a professional centralised treasury management platform, Finance Company generally can offer Members of the Group with more favourable terms and interest rates as compared to other financial institutions. Pursuant to the Financial Services Agreement, the deposit interest rate offered by Finance Company will be no less than that offered by major commercial banks for the deposits of the same nature and the same maturity. And the loan interest rate will be no higher than that offered by major commercial banks for the loans of the same nature and the same maturity.

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## LETTER FROM THE BOARD

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### **Hong Kong Listing Rules Implications**

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

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

### **General Information**

The Board has resolved and approved the Financial Services Agreement and the proposed annual caps thereto on 26 March 2021. Of the Directors attending the board meeting, connected Directors Mr. Wang Xiangxi and Mr. Jia Jinzhong were considered to have material interests by virtue of being employed by China Energy and had thus abstained from voting on the relevant resolution(s). The Directors (including independent non-executive Directors) consider that the Financial Services Agreement and the proposed annual caps thereto are on normal commercial terms or better and in the ordinary and usual course of business of the Group, the pricing principle is fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

### **PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR**

In accordance with the Articles of Association of the Company, the Company Law of the People's Republic of China and applicable laws and regulations, the Board proposes the appointment of Mr. Yang Rongming as a non-executive director of the fifth session of the Board of the Company.

The proposed appointment of non-executive director is subject to the approval of the shareholders of the Company by way of ordinary resolution at the general meeting.



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## LETTER FROM THE BOARD

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### **Background of the Candidate for Non-Executive Director**

#### ***Mr. Yang Rongming***

Yang Rongming, male, born in May 1965, aged 55, Chinese nationality, professorate senior engineer and a member of Communist Party of China. Mr. Yang has extensive experience in coal enterprise management. He graduated from the Mining Engineering Department of Fuxin Mining Institute in 1990, majoring in mining engineering. In 2010, he received a master's degree in engineering from Shandong University of Science and Technology. In 2016, he received a postgraduate degree and a doctorate degree in engineering from Liaoning Technical University.

Since December 2020, Mr. Yang has been serving as the director of coal and transportation industry management department of China Energy. From May 2018 to December 2020, he served as secretary of the Party Committee and chairman of Shenhua Zhunneng Group Co., Ltd.. From May 2009 to May 2018, he served as deputy general manager, general manager and deputy secretary of Party Committee of Shenhua Shendong Coal Group Co., Ltd., director, general manager and deputy secretary of Party Committee of Shenhua Xinjie Energy Co., Ltd., secretary of the Party Committee, director and chairman (legal representative) of Yulin Shenhua Energy Co., Ltd..

Prior to the foregoing, Mr. Yang had served as deputy head of Liuta Mine, Shenhua Group Wanli Coal Company Limited, manager of Shuozhou Branch, assistant to the general manager and deputy general manager of Wanli Coal Branch of China Shenhua Energy Company Limited.

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

Save as disclosed above, Mr. Yang has no relationship with any directors, members of the senior management or substantial or controlling shareholders of the Company. As at the date of this circular, Mr. Yang does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Upon approval of appointment of Mr. Yang by the shareholders of the Company, Mr. Yang will enter into a service contract with the Company till the expiry of the tenure of the fifth session of the Board commencing from the date of appointment. Pursuant to the articles of association of the Company, Mr. Yang shall be elected and appointed at a general meeting of the Company and may be re-elected and re-appointed at a general meeting of the Company.

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## LETTER FROM THE BOARD

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

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

### **REDUCTION OF REGISTERED CAPITAL AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

#### **Introduction**

Pursuant to the resolutions of the 6th meeting of the fifth session of the Board held on 26 March 2021, the Company proposes to reduce the registered capital of the Company to RMB19,868,519,955 and make certain amendments to the Articles of Association.

The proposed reduction of registered capital and the amendments to the Articles of Associations must be approved by way of special resolutions of the Shareholders at the General Meeting to become effective.

#### **Reduction of registered capital**

On 25 September 2020, the Resolution on the General Mandate for the Board to Repurchase H Shares was considered and approved at the 2020 first extraordinary general meeting, the 2020 second class meeting of the holders of A shares and the 2020 second class meeting of the holders of H shares of the Company. According to the general mandate, a total of 21,100,500 H shares were repurchased by the Company, and then cancelled on 8 March 2021.

Upon the cancellation, the total number of issued shares of the Company reduced to 19,868,519,955 shares, and the Company shall reduce its registered capital to RMB19,868,519,955 accordingly.

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## LETTER FROM THE BOARD

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### Proposed amendments to the articles of association

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

“In order to protect the legitimate rights and interests of the Company, shareholders and creditors and regulate the organization and behavior of the Company, these Articles of Association (or “Articles of Association of the Company”) are formulated pursuant to the Company Law of the PRC (Revised in 2018) (hereinafter, the “Company Law”), the Securities Law of the PRC (Revised in 2014) (hereinafter, the “Securities Law”), the State Council’s Special Regulations on Overseas Offerings and Listing of Shares by Joint Stock Limited Company (hereinafter, “Special Regulations”), Mandatory Provisions for the Articles of Association of Companies Listed Overseas (hereinafter, “Mandatory Provisions”), the Guide to Articles of Association of Listed Companies (Revised in 2016) (hereinafter, the “Guide to Articles of Association”) and Code of Corporate Governance for Listed Companies (Revised in 2018).”

**to:**

“In order to protect the legitimate rights and interests of the Company, shareholders and creditors and regulate the organization and behavior of the Company, these Articles of Association (or “Articles of Association of the Company”) are formulated pursuant to the **Company Law of the PRC** (hereinafter, the “Company Law”), **the Securities Law of the PRC** (hereinafter, the “Securities Law”), the State Council’s Special Regulations on Overseas Offerings and Listing of Shares by Joint Stock Limited Company (hereinafter, “Special Regulations”), Mandatory Provisions for the Articles of Association of Companies Listed Overseas (hereinafter, “Mandatory Provisions”), **the Guide to Articles of Association of Listed Companies** (hereinafter, the “Guide to Articles of Association”) and **Code of Corporate Governance for Listed Companies.**”

#### *2. Amend Article 7 of the Articles of Association*

“In accordance with the provisions of the Company Law and the Constitution of the Communist Party of China, a Party Committee shall be established within the Company. The working organs of the Party shall be established, equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organization. The Party Committee of the Company shall play a leadership role, set the right direction, keep in mind the big picture, ensure the implementation of Party policies and principles, and discuss and decide on major issues of the Company in accordance with regulations.”

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## LETTER FROM THE BOARD

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**to:**

“In accordance with the provisions of the Company Law and the Constitution of the Communist Party of China, the Company shall establish a Party Committee shall be established within the Company **to carry out the activities of the Party**, establish a working organ for the Party, **allocate sufficient and competent** staff to deal with Party affairs and guarantee sufficient funds to operate the Party organisation.”

**3. Amend Article 9 of the Articles of Association**

“These Articles of Association are binding on the Company and its shareholders, directors, supervisors, chief executive officer and other senior officers, all of whom are entitled, according to these Articles of Association, to claim with respect to the affairs of the Company.”

**to:**

“These Articles of Association are binding on the Company and its shareholders, **Party Committee members**, directors, supervisors, chief executive officer and other senior officers, all of whom are entitled, according to these Articles of Association, to claim with respect to the affairs of the Company.”

**4. Amend Article 19 of the Articles of Association**

“Upon the approval of the companies administration department authorized by the State Council, the Company may issue a total of 19,889,620,455 ordinary shares. Upon incorporation, the Company issued 15,000,000,000 shares to its promoter, representing 75.42% of the total ordinary shares that the Company issued.”

**to:**

“Upon the approval of the companies administration department authorized by the State Council, the Company **has issued** a total of **19,868,519,955** ordinary shares. Upon incorporation, the Company issued 15,000,000,000 shares to its promote.”

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

“Upon incorporation, 3,398,582,500 H shares were issued to the public in 2005, including the issuance of 3,089,620,455 new shares and the sale of 308,962,045 state-owned shares. The Company issued 1,800,000,000 A Shares in 2007 upon approval by special resolutions at general meeting of shareholders, and approval by the regulatory authority authorized by the State Council.

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## LETTER FROM THE BOARD

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The capital structure of the Company is: The Company issued a total of 19,889,620,455 ordinary shares, including 16,491,037,955 held by shareholders of A Shares, representing approximately 82.91% of the total share capital of the Company; 3,398,582,500 held by shareholders of H Shares, representing approximately 17.09% of the total share capital of the Company. 13,812,709,196 A Shares are held by the promoter, China Energy Investment Corporation Limited, representing approximately 69.45% of the total share capital of the Company.”

**to:**

“Upon incorporation, 3,398,582,500 H shares were issued to the public in 2005, including the issuance of 3,089,620,455 new shares and the sale of 308,962,045 state-owned shares. The Company issued 1,800,000,000 A Shares in 2007 upon approval by special resolutions at general meeting of shareholders, and approval by the regulatory authority authorized by the State Council. **Upon the completion of the issuance above,** the capital structure of the Company is: The Company issued a total of 19,889,620,455 ordinary shares, including 16,491,037,955 held by shareholders of A Shares, representing approximately 82.91% of the total share capital of the Company; 3,398,582,500 held by shareholders of H Shares, representing approximately 17.09% of the total share capital of the Company. 13,812,709,196 A Shares are held by the promoter, China Energy Investment Corporation Limited, representing approximately 69.45% of the total share capital of the Company.”

**After being approved by special resolutions at the general meeting, the class meeting of the holders of A shares and the class meeting of the holders of H shares of the Company, the Company repurchased and then cancelled 21,100,500 H shares. Upon the cancellation, the capital structure of the Company is: The Company issued a total of 19,868,519,955 ordinary shares, including 16,491,037,955 shares held by shareholders of A Shares, representing approximately 83% of the total share capital of the Company; 3,377,482,000 shares held by shareholders of H Shares, representing approximately 17% of the total share capital of the Company. 13,812,709,196 A Shares are held by the promoter, China Energy Investment Corporation Limited, representing approximately 69.52% of the total share capital of the Company.”**

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

“The registered share capital of the Company shall be Renminbi 19,889,620,455.”

**to:**

“The registered share capital of the Company shall be Renminbi **19,868,519,955.**”

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## LETTER FROM THE BOARD

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**7. *Adjust Chapter 11 “Party Committee” to “Chapter 10” of the Articles of Association, and amend the contents of this Chapter***

**“Article 146** 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.

**Article 147** The Party Committee shall perform its duties in accordance with the Constitution of Communist Party of China and other Party rules:

- (1) to guarantee and supervise over the implementation and execution of the guidelines and polices of the Party and the State in the Company, and implement major strategic decisions of the CPC Central Committee and the State Council and relevant important work arrangements of the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council, the Leading Party Group of China Energy Investment Corporation Limited and higher Party organizations.
- (2) to insist on the combination of the principle of the Party assuming the responsibility for cadres affairs with the selection of managers by the board of directors according to the law and the exercise of the power to promote or demote staff by managers according to the law. The Party Committee considers and advises on the candidates nominated by the board of directors or the chief executive officer, or nominate candidates to the board of directors or the chief executive officer; to investigate proposed candidates jointly with the board of directors, and consider collectively and provide opinions and suggestions.
- (3) to consider and discuss matters in relation to the reform, development and stability of the Company, major operation and management matters and major issues in relation to direct interests of the employees, and provide opinions and suggestions.
- (4) to undertake the main responsibility for exercising full and strict self-governance of the Party; to lead the ideological and political work, united front work, spiritual civilization, building of corporate culture, and the work of groups, including labor union and the Communist Youth League in the Company; to lead in improving Party conduct, building a clean government, and support the implementation of supervisory responsibilities of the Commission for Discipline Inspection.”

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## LETTER FROM THE BOARD

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to:

**“Article 118** According to the requirements of the Constitution of the Communist Party of China and subject to the approval by upper Party organization, the Company shall establish the Communist Party of China Committee of China Shenhua Energy Company Limited (hereafter abbreviated as the “Party Committee”). Meanwhile, according to relevant regulations, the Company shall establish the Commission for Discipline Inspection of the Party.

**Article 119** The Party Committee of the Company shall be elected from the Party member congress or the Party representative congress; each term of office is five (5) years. Regular re-election shall be conducted upon the expiration of its term of office. Each term of office of the Commission for the Discipline Inspection under the Party shall be the same as the Party Committee.

**Article 120** The Party Committee of the Company generally consists of seven (7) to nine (9) members, including one (1) party secretary, one (1) to two (2) deputy party secretaries and several other members. There should be one (1) secretary of the Commission for the Discipline Inspection of the Party.

**Article 121** Party Committee of the Company shall play a leading role, set the right direction, keep in mind the big picture, promote the implementation of Party policies and principles, discuss and decide on major issues of the Company in accordance with the regulations. The main responsibilities are:

- (1) to enhance the building of politics of the Party in the Company, adhere to and implement the fundamental system, basic system and important system of socialism with Chinese characteristics as well as educate and guide all Party members to maintain a high degree of consistency with the Party Central Committee with Comrade Xi Jinping as the core in the political stance, political direction, political principles and political path;
- (2) to thoroughly study and implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, learn and propagate the Party’s theory, thoroughly implement the Party’s line, principles and policies as well as supervise and guarantee the implementation of major strategy deployments of the Party Central Committee as well as the resolutions of the Party organisation at a higher level in the Company;
- (3) to investigate and discuss the major operation and management issues of the Company and support the shareholders’ general meeting, the Board of Directors, the Supervisory Committee and the management to exercise their rights and perform their duties in accordance with the laws;

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## LETTER FROM THE BOARD

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- (4) to strengthen the leadership and gatekeeping role in the process of selection and appointment of personnel of the Company, and the building of the leading team, cadre and talents team of the Company;
- (5) to undertake the main responsibility in improving Party conduct and upholding integrity, lead and support discipline inspection institutions to fulfil their supervisory and disciplining responsibilities as well as exercise strict administrative discipline and political rules and promote Party self-governance exercised fully and with rigor into the grassroots level;
- (6) to strengthen the building of grassroot Party organisations and the Party member service, unit and lead officials and employees to devote themselves into the reform and development of the Company;
- (7) to lead the Company's ideological and political work, the spirit and civilization progress, the United Front work and lead mass organisations such as the Labour Union, Communist Youth League and Women's Organisation of the Company.

**Article 122** By insisting on and improving the leadership mechanism of “Dual Entry and Cross Appointment”, eligible members of the Party Committee may take seats in the Board of Directors, the Supervisory Committee and the management through statutory procedures, while eligible members of the Board of Directors, the Supervisory Committee and the management who are also Party members may take seats in the Party Committee in accordance with related regulations and procedures, of which, the general manager who are Party members shall serve as the deputy secretary of the Party Committee.”

**8. Amend Article 224 of the Articles of Association**

“Employees of the Company may establish labor unions and carry out union activities in accordance with the laws to protect their legal entitlements. The Company shall provide necessary conditions for such activities.”

**to:**

“The Company may establish labor unions in accordance with the laws. The labor union shall give full play to its role as a bridge and link between the Party and the employees, and safeguard the legal entitlements of employees; carry out union activities, build staff quarter, enhance the cohesion of employees, and guide cadres and employees to follow the Party firmly. The Company shall provide necessary conditions for such activities.”



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## LETTER FROM THE BOARD

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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.

### **PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES**

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

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

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

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

Accordingly, approval is being sought from the Shareholders for a general mandate to repurchase H Shares in issue. In accordance with the legal and regulatory requirements described herein, the Directors will convene the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting. A special resolution will be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting to grant the Board the H Share Repurchase Mandate, details of which will be set out in the notice of the AGM and the notice of the H Shareholders' Class Meeting. The H Shares which may be

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## LETTER FROM THE BOARD

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repurchased pursuant to the H Share Repurchase Mandate shall not exceed 10% of the number of H Shares in issue of the Company as at the date of passing of the resolution(s) approving the H Share Repurchase Mandate. The period of the H Share Repurchase Mandate shall not exceed the relevant period (the “**Relevant Period**”). The Relevant Period commences from the day when the authority conferred by this special resolution is approved by a special resolution of shareholders at a general meeting, a class meeting of holders of A Shares and a class meeting of holders of H Shares and ends at the earlier of: (a) the conclusion of the annual general meeting for 2021; or (b) the date on which the authority conferred by this special resolution is revoked or varied by a special resolution at a general meeting, or a special resolution at a class meeting of holders of A Shares or a class meeting of holders of H Shares.

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

### THE AGM AND THE CLASS MEETINGS

The AGM will be convened and held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People’s Republic of China at 9:30 a.m. on Friday, 25 June 2021 for the purpose of, inter alia, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), entering into Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (2) by the Shareholders, and by way of ordinary resolution(s), proposed appointment of non-executive director;
- (3) by the Shareholders, and by way of special resolution(s), reduction of registered capital and amendments to the Articles of Association;
- (4) by the Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

The A Shareholders’ Class Meeting will be convened and held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People’s Republic of China at 10:00 a.m. on Friday, 25 June 2021 for the purpose of considering and approving by the A Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

The H Shareholders’ Class Meeting will be convened and held at Conference Room 1906, 19/F, Block C, Shenhua Tower, 16 Ande Road, Dongcheng District, Beijing, the People’s Republic of China at 10:15 a.m. on Friday, 25 June 2021 for the purpose of considering and approving by the H Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

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## LETTER FROM THE BOARD

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

Pursuant to the Hong Kong Listing Rules, China Energy and its associates will abstain from voting on resolution(s) relating to entering into 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 69.52% of total issued shares of the Company.

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

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

### RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that entering into Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder, proposed appointment of non-executive director, reduction of registered capital and amendments to the Articles of Association and the H Share Repurchase Mandate set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

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

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## LETTER FROM THE BOARD

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Gram Capital 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 of Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder.

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 entering into the 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 of 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 page 31, the letter from the Independent Financial Adviser set out on pages 32 to 46 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*

14 May 2021

Dear Sir or Madam,

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

**RESCISSION OF THE ORIGINAL FINANCIAL SERVICES AGREEMENT AND**  
**ENTERING INTO 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 entering into of 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 32 to 46 of this circular, we are of the opinion that the entering into of 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, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the entering into of Financial Services Agreement to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Dr. Yuen Kwok Keung**

*Independent*

*Non-executive Director*

**Dr. Bai Chong-En**

*Independent*

*Non-executive Director*

**Dr. Chen Hanwen**

*Independent*

*Non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

14 May 2021

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

Dear Sirs,

### DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS

#### 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 transactions contemplated under the Financial Services Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 14 May 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 26 March 2021, the Company and the Finance Company entered into the Financial Services Agreement, pursuant to which, Finance Company agreed to provide financial services, including (i) taking deposits from Members of the Group (“**Deposit Services**”); (ii) providing comprehensive credit services to Members of the Group, including loans, credit loan, bill acceptance and discount, guarantee, letter of indemnity, overdraft, letter of credit (“**Comprehensive Credit Services**”); and (iii) other 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 (“**Other Financial Services**”) for a term from the date of approval at the 2020 annual general meeting and will expire on 31 December 2023. The Original Financial Services Agreement shall terminate from the date on which the Financial Services Agreement becomes effective, and all rights and obligations under the Original Financial Services Agreement of both parties shall be terminated. The Company and the Finance Company will agree on their respective rights and obligations in accordance with the Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With reference to the Board Letter, in respect of the annual caps under the 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 Financial Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement, the approval of independent shareholders and annual review requirements under Chapter 14A of the Hong Kong Listing Rules. This transaction also constitutes a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

Furthermore, with reference to the Board Letter, in respect of the Finance Company providing financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of the Group, bill acceptance and discount services to Members of the Group; granting loans, consumption credit and buyer's credit to Members of the Group on normal commercial terms or better, it would amount to a provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.90 of the Hong Kong Listing Rules from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group have been or will be granted in respect of such financial assistance. Nevertheless, the Company is required to propose and set annual caps on maximum daily balance in respect of the comprehensive credit (including loans, credit loan, bill acceptance and discount, guarantee, letter of indemnity, overdraft, letter of credit) (including interests accrued thereon) provided by Finance Company to Members of the Group pursuant to the Shanghai Listing Rules.

The Independent Board Committee comprising Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the transactions contemplated under the Financial Services Agreement are fair and reasonable; (ii) whether the transactions contemplated under the Financial Services Agreement are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the transactions contemplated under the Financial Services Agreement at the AGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors', the Company's or the management's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Financial Services Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the directors of the issuer 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 the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Finance Company, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into the Financial Services Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

(1) **Background and Reasons for the Transactions Contemplated under the Financial Services Agreement**

***Business Overview of the Group***

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

***Information on the Finance Company***

With reference to the Board Letter, the Finance Company is principally engaged in domestic and foreign currency services: the provision of financial consultation services, credit appraisal and other related consultation and agency services to members; 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 Latest Practicable Date, China Energy holds 60% of the equity interest of the Finance Company, the Company and its controlled subsidiaries hold 40% equity interests in Finance Company in aggregate.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Finance Company, as a non-banking financial institution providing financial services to Members of the Group, is subject to compliance with the relevant rules and regulations as promulgated by the CBIRC from time to time. These regulations may not be the same as those regulating commercial banks. As Finance Company and commercial banks have different target customers for their respective financial services, they may be subject to different risk profiles.

As confirmed by the Company, Finance Company is required to operate in compliance with the 《企業集團財務公司管理辦法》(Administrative Measures for the Group Finance Companies\*, the “**Administrative Measures**”) promulgated by China Banking Regulatory Commission (now known as CBIRC) to regulate the operation of group finance companies and reduce the possible financial risk, and other regulations promulgated by the PBOC and CBIRC (e.g. 《企業集團財務公司風險監管指標考核暫行辦法》(Assessment Measures for Risk Control Indicators for the Group Finance Company\*, the “**Assessment Measures**”). We noted that the Administrative Measures and the Assessment Measures set out certain compliance and risk control requirements/measures, including but not limited to, maintaining certain ratios at all times.

In addition, as confirmed by the Company, the Company is not aware of any record of non-compliance with the relevant rules and regulations by the Finance Company in the recent two years.

As noted and with reference to the Financial Services Agreement, there are relevant capital risk control measures to safeguard the Group’s deposits, including but not limited to (i) Finance Company guarantees that the Company will be informed in a timely manner upon occurrence of any event that may imperil or bring potential risk to the deposit safety of Members of the Group; and (ii) in the event of default where the deposits become unable to be withdrawn, Members of the Group are entitled to set off the amount of unrecovered deposits with the loan provided by Finance Company.

In addition, with reference to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) shall increase such group finance company’s capital accordingly based on the actual need. For our due diligence purpose, we noted from the Finance Company’s article that board of directors of China Energy Group agrees to undertake in writing, should the Finance Company face any difficulty in making payment, it will increase the Finance Company’s capital based on the actual needs in respect of solving the difficulty in making payment issue.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (2) Reasons for and Benefit of Entering into the Financial Services Agreement

As set out in the Board Letter, the Members of the Group have established long-term and stable cooperation with the Finance Company, as well as relatively stable business relationship in terms of deposits, loans, bills, settlements and agents. The Company has entered into the Financial Services Agreement with the Finance Company. Provision of financial services by Finance Company to Members of the Group is conducive to maintaining the continuity of financial services received by Members of the Group, thereby lowering the financing cost. The reasons for and benefit of entering into the Financial Services Agreement include: (1) improving treasury management efficiency, realising centralised treasury management; (2) familiar with the Company's business, providing more flexible and convenient services; and (3) offering better commercial terms. Details of the benefit are set out in the section headed "Background and Reasons for Entering into the Financial Services Agreement and the Benefits to the Company" of the Board Letter.

As confirmed by the Company, as compared with the cooperation with other commercial banks in the past, the Company is of the opinion that the Finance Company is more efficient in terms of Deposit Services, reasons being the Finance Company was a subsidiary of the Company and had cooperated with the Group for over ten years, having in-depth knowledge in respect of the business model and operating routine of each other. Therefore, the entering into the Financial Services Agreement is beneficial to Members of the Group as they will be able to utilize the internal financing and cash management function of the Finance Company effectively.

With reference to the Financial Services Agreement, (i) the interest rates for deposits placed by Members of the Group with Finance Company shall be no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group and shall be negotiated in normal commercial terms; (ii) the interest rates for loans granted by Finance Company to Members of the Group shall be no more than the benchmark loan interest rate for the corresponding period stipulated by the PBOC and no more than the interest rate charged by major commercial banks in the PRC for comparable loans services provided to Members of the Group and shall be negotiated in normal commercial terms; and (iii) subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities, the service fees charged by Finance Company for the provision of the Other 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. As such, we consider that entering into the Financial Services Agreement will enable the Group to obtain financial services under preferential price or terms during the ordinary course of business, and provide an additional choice for financial services providers, so that the Group is enabled to obtain more competitive terms from financial services provider (including the Finance Company) in the future.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered the above factors, in particular, (i) background of the Finance Company; and (ii) pricing policies for the financial services contemplated under the Financial Services Agreement, we are of the view that the transactions contemplated under the Financial Services Agreement are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

### (3) Principal Terms of the Financial Services Agreement

Set out below are the major terms of the Financial Services Agreement, details of which are set out under section headed “Entering into Financial Services Agreement” of the Board Letter:

#### **Date**

26 March 2021

#### **Parties**

- (1) the Company; and
- (2) the Finance Company.

#### **Transactions**

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 and enterprise bonds of Members of the Group;
- (x) provision of comprehensive credit limits to Members of the Group, including loans, bill acceptance and discount services;
- (xi) provision of financial training and consultation services; and
- (xii) provision of other financial services (letter of credit, online banking and entrusted loans) to Members of the Group and charge agency fee, handling fee, consulting fee or other service fee.

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

### **Term and Termination**

The Financial Services Agreement will be effective from the date of approval at the 2020 annual general meeting and will expire on 31 December 2023, after the legal representative or authorized representative of the parties affix their signatures and common seals or contract seals of their companies. The Original Financial Services Agreement shall terminate from the date on which the Financial Services Agreement becomes effective, and all rights and obligations under the Original Financial Services Agreement of both parties shall be terminated. The Company and the Finance Company will agree on their respective rights and obligations in accordance with the Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Pricing Policy

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

With respect to the deposit interest rate offered by Finance Company for deposits placed by Members of the Group, Finance Company will pay close attention to the benchmark interest rate stipulated by the PBOC on monthly basis and, by way of inquiry, ascertain the deposit interest rates of major commercial banks in the PRC (i.e. Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications), to ensure the interest rates for deposits placed by Members of the Group with Finance Company shall be no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With respect to the service fees charged by Finance Company for provision of financial services to Members of the Group, Finance Company will, by way of inquiry, ascertain the service fees rate charged by major commercial banks on monthly basis and ensure the service fees charged by Finance Company for provision of financial services to Members of the Group shall be no more than the service fees charged by major commercial banks in the PRC for comparable financial services provided to Members of the Group.

Upon our request, we obtained three sets of agreed deposit arrangements between the Company and independent commercial banks (“**Relevant Banks**”) and an explanatory document issued by the Finance Company regarding the Deposit Services to the Company. Based on the aforementioned information, we noted the agreed interest rates offered by the Finance Company were higher than those offered by Relevant Banks.

In addition, upon our request, we obtained three copies of agreements in respect of the entrusted loan conducted between the Company and an independent commercial bank and three copies of agreements in respect of the entrusted loan matters conducted between the Company and the Finance Company. Based on the aforementioned information, we noted handling fees for the entrusted loan services offered by the Finance Company were not higher than those offered by the independent commercial bank.

With reference to the Board Letter, the Group adopted certain internal approval procedures for price determination in respect of the transactions contemplated under the Financial Services Agreement, including (i) reinforcing centralized financing control; (ii) monitoring on market price level; (iii) establishing monthly review mechanism; and (iv) persisting in legal and compliance implementation. Details of the internal approval procedures are set out in the sections headed “The Group’s internal approval procedures for the price determination process” and “Price determination” of the Board Letter. Having considered that finance department of the Company will monitor the deposit rates of PBOC on a monthly basis, and conduct business inquiries periodically and publicly with major commercial banks in the PRC and Finance Company, primarily focusing on factors relating to interest rates for deposits, scale, term, service fee and preconditions, we are of the view that the effective implementation of the internal approval procedures will ensure the fair pricing for transactions contemplated under the Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, we also discussed with a staff of Company's finance department and understood that relevant staffs of finance department are aware of the internal approval procedures for price determination in respect of the transactions contemplated under the Financial Services Agreement (in particular the procedures in respect of monitoring on market price level) and will comply with such procedures when handling transactions contemplated under the Financial Services Agreement.

Having considered (i) our discussion with the staff of the Company's finance department; and (ii) our findings in respect of deposit rates and handling fees for the entrusted loan services, we do not doubt the effectiveness of the implementation of the internal approval procedures.

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

### Proposed Annual Cap

Set out below are (i) the historical transactions amount and existing annual caps under the 2020 Financial Services Agreement and the Original Financial Services Agreement; and (ii) the proposed annual caps of the Financial Services Agreement for the three years ending 31 December 2023:

	<b>For the year ended 31 December 2020</b>	<b>For the year ending 31 December 2021</b>	
	<i>(RMB million)</i>	<i>(RMB million)</i>	
Deposit Services	20,364.3 <i>(note 1)</i>	10,775 <i>(note 2)</i>	
Existing annual caps	20,500	10,800	
Other Financial Services	0.51 <i>(note 1)</i>	6 <i>(note 2)</i>	
Existing annual caps	200	200	
	<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>Proposed Annual Caps</b>			
Deposit Services (the “ <b>Deposit Services Cap(s)</b> ”)	27,900	27,900	27,900
Other Financial Services <i>(note 3)</i> (the “ <b>Other Financial Services Cap(s)</b> ”)	200	300	400
Comprehensive Credit Services <i>(note 4)</i>	100,000	100,000	100,000



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

- (1) Pursuant to the 2020 Financial Services Agreement, the 2020 Financial Services Agreement is effective upon completion of the capital increase of the Finance Company. As such, 2020 Financial Services Agreement was effective on 1 September 2020.
- (2) the figures were for the two months ended 28 February 2021.
- (3) In respect of the Other Financial Services, the highest applicable percentage ratio is around 0.1% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules.
- (4) Comprehensive Credit Services are exempted from all reporting, announcement and independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

Basis of determination of the proposed annual caps for the proposed annual caps for the three years ending 31 December 2023 are set out in the section headed "Proposed annual caps and past transactions" of the Board Letter.

As set out in the table above, since the effective of the 2020 Financial Services Agreement, The Group's deposits placed with Finance Company were very close to the existing annual cap for Deposit Services for the year ended 31 December 2020 (utilisation rate: approximately 99.3%). In addition, the Group's deposits placed with Finance Company were very close to the existing annual cap for Deposit Services for the year ending 31 December 2021 (utilisation rate: approximately 99.8%).

To assess the fairness and reasonableness of the Deposit Services Caps for the three years ending 31 December 2023, we conducted the following analyses:

- According to the Company's 2020 annual report, as at 31 December 2020, the Group's monetary fund amounted to approximately RMB127.457 billion. This (being much more than the Deposit Services Caps for the three years ending 31 December 2023) indicates the Group's possible demand for deposit services to be provided by commercial banks and Finance Company.
- The existing annual cap of Deposit Services for 2021 stipulated under the Original Financial Services Agreement amounted to RMB10.8 billion, which was significantly lower than the annual cap of RMB20.5 billion of Deposit Services for 2020 stipulated under the 2020 Financial Services Agreement (and deposits placed with Finance Company were close to the annual cap during the effectiveness of 2020 Financial Services Agreement in 2020). Furthermore, as aforementioned, the Group's deposits placed with Finance Company during 2021 were close to the existing annual cap for the year ending 31 December 2021.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As such, in assessing the fairness and reasonableness of the Deposit Services Caps for the three years ending 31 December 2023, we mainly made reference to the Deposit Services Cap for the year ended 31 December 2020.

We noted that, as at 31 December 2020 (being the published financial information when entering into the Financial Services Agreement), the Group's monetary funds increased by approximately 147.6% or RMB75,976 million as compared to that as at 31 December 2019 (being the latest published financial information when entering into the 2020 Financial Services Agreement). According to the Company's 2020 annual report, the change in monetary fund was mainly due to the recovery of wealth management products and the effect of deconsolidation of Finance Company's financial statements.

As stated in the Company's 2020 annual report, the Company's business targets for 2021 includes (among other things), revenue reaching RMB242.6 billion, representing an increase of RMB9.337 billion as compared to the revenue for 2020 of RMB233.263 billion.

Despite the Deposit Services Cap for the year ending 31 December 2021 represent a substantial increase of approximately 36.1% or RMB7,400 million as compared to the existing annual cap for Deposit Services for the year ended 31 December 2020, having considered the aforesaid change, in particular, the expected increase in Company's revenue target for 2021 as compared to that for 2020, we are of the view that the aforesaid increase in Deposit Services to be acceptable.

- As advised by the Company, it is difficult to forecast the total cash level since the effective date of the Financial Services Agreement up to 31 December 2023. Nevertheless, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

In light of the above factors, we considered the Deposit Services Caps for the three years ending 31 December 2023 (being the same for each of the three years) to be fair and reasonable.

As mentioned above, 2020 Financial Services Agreement was effective on 1 September 2020, the total service fees of the Other Financial Services amounted to approximately RMB0.51 million during the period from the effective of 2020 Financial Services Agreement to 31 December 2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on our understanding, the Finance Company only provided Members of the Group with financial services in respect of entrusted loan, bill acceptance and financial advisory, etc. with a relevant small size of business. Therefore, the historical transactions were minimal.

With the substantial increasing of the Finance Company's capital size, the range and size of financial services to be provided will be substantially increased. Finance Company will extend size of existing businesses (entrusted loan, syndicated loan, bill acceptance, financial advisory, etc.) on one hand and will also conduct wider range of businesses (e.g. consultation, agency, investment, letter of credit, guarantee, etc.). It is expected that that the service fees for financial services by the Finance Company will substantially increase.

We also noted that, in 2020, China Energy Group (being the controlling Shareholder of the Company) proposed to subscribe additional registered capital of RMB7.5 billion in Finance Company by way of cash contribution at a consideration of RMB13,273.7160 million. Upon completion of the said proposed capital increase, the registered capital of Finance Company will increase from RMB5 billion to RMB12.5 billion.

In light of the above factors, we considered the Other Financial Services Caps for the three years ending 31 December 2023 be fair and reasonable.

### **Hong Kong Listing Rules Implication**

As confirmed by the Company, the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the transactions amounts/maximum values, subject to nature, of the transactions contemplated under the Financial Services Agreement must be restricted by the proposed annual caps; (ii) the terms of the transaction contemplated under the Financial Services Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the transactions contemplated under the Financial Services Agreement must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the transactions contemplated under the Financial Services Agreement (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and (iii) have exceeded the proposed annual caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In the event that the transaction amounts/maximum values, subject to nature, of the transactions contemplated under the Financial Services Agreement are anticipated to exceed the proposed annual caps, or that there is any proposed material amendment to the terms of the transactions contemplated under the Financial Services Agreement, as confirmed by the Company, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the Financial Services Agreement and hence the interest of the Independent Shareholders would be safeguarded.

### **Recommendation**

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

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

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

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the issuer. The Directors, having made all reasonable 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 2020 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**3. SUBSTANTIAL SHAREHOLDERS**

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

## Interests in the Shares of the Company

No.	Name of shareholders	Capacity	H shares/ A shares	Nature of interest	Number of H shares/ A shares held	Percentage of	Percentage of
						H shares/ A shares over total issued	H shares/ A shares respectively of the Company
						%	%
1	China Energy	Beneficial owner	A shares	N/A	13,812,709,196	83.76	69.52
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position	171,235,455	5.07	0.86

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
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Gram Capital Limited	A licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO
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4.2 As at the Latest Practicable Date, the abovementioned professional adviser has no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

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

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

## **5. SERVICE CONTRACTS**

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

## **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that there have been no material adverse changes in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

## **7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS**

Pursuant to the Articles of Association, at any general meeting of shareholders, a resolution shall be decided on a show of hands unless otherwise required by the Hong Kong Listing Rules, or a poll is demanded, before or after any vote by show of hands. 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 company</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
Jia Jinzhong	China Energy	Chief economist	May 2018

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 Financial Services Agreement;

9.2 the Articles of Association;

9.3 the letter from the Independent Board Committee as set out in this circular;

9.4 the letter from the Independent Financial Adviser, the text of which is set out in this circular;

9.5 the written consent of the expert referred to in 4.1 of this Appendix; and

9.6 the service contracts entered into between the Company and Directors.



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

## **SECURITIES REPURCHASE MANDATE**

### **Reasons for Repurchasing H Shares**

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

### **Registered Capital**

As at the Latest Practicable Date, the registered capital of the Company was RMB19,889,620,455 comprising 3,398,582,500 H Shares with a nominal value of RMB1.00 each and 16,491,037,955 A Shares with a nominal value of RMB1.00 each. From 23 November 2020 and up to the Latest Practicable Date, the Company had repurchased an aggregate of 21,100,500 H Shares on the Hong Kong Stock Exchange, and such repurchased H Shares were cancelled on 8 March 2021.

### **Exercise of the H Share Repurchase Mandate**

Subject to the passing of the relevant special resolution(s) set out in the notice of AGM, the special resolution(s) approving the grant to the Board of the H Share Repurchase Mandate in the A Shareholders' Class Meeting and H Shareholders' Class Meeting respectively, the Board will be granted the H Share Repurchase Mandate until the earlier of (a) the conclusion of the annual general meeting for 2021; or (b) the date on which the authority conferred by this special resolution is revoked or varied by a special resolution of shareholders at a general meeting, or a special resolution of shareholders at a class meeting of holders of domestic shares (A shares) or a class meeting of holders of overseas-listed foreign invested shares (H shares) (the "**Relevant Period**"). The exercise of the H Share Repurchase Mandate is subject to relevant approval(s) of and/or filings with SAFE and/or any other regulatory authorities as required by the laws, rules and regulations of the PRC being obtained and/or carried out.

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

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

### **Funding of Repurchases**

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

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

### **GENERAL INFORMATION**

The Directors consider that there would not be a material adverse impact on the working capital or on the gearing position of the Company in the event that the H Share Repurchase Mandate is to be exercised in full at any time during the proposed repurchase period (as compared with the position disclosed in the latest published audited accounts contained in the annual report of the Company for the year ended 31 December 2020). However, the Directors do not propose to exercise the H Share Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital needs of the Company or the gearing level of the Company. The number of H Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regarded to the circumstances then prevailing, in the best interests of the Company.

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

### H SHARES PRICES

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

	<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>
<b>2020</b>		
May	14.16	13.12
June	14.64	12.06
July	14.04	12.76
August	13.10	12.52
September	13.94	13.02
October	14.08	13.40
November	15.40	13.52
December	15.26	14.28
<b>2021</b>		
January	15.98	14.38
February	15.54	13.86
March	16.02	14.30
April	16.60	15.90
May (up to the Latest Practicable Date)	18.16	16.20

### H SHARES REPURCHASED BY THE COMPANY

During the six months preceding the Latest Practicable Date, the Company had repurchased an aggregate of 21,100,500 H Shares on the Hong Kong Stock Exchange, and such repurchased H Shares were cancelled on 8 March 2021.

The details of the repurchases are set out as follows:

Date of repurchase	No. of shares repurchased	Repurchase price per share		Aggregate
		Highest price	Lowest price	consideration
		paid	paid	paid
		HK\$	HK\$	HK\$
23 November 2020	1,291,500	14.54	14.40	18,718,580
4 December 2020	5,662,000	14.54	14.38	81,952,354
7 December 2020	6,045,500	14.54	14.26	86,562,492
8 December 2020	6,045,500	14.36	14.18	86,285,608
9 December 2020	158,000	14.44	14.38	2,280,762
14 December 2020	1,898,000	14.40	14.34	27,322,469
<b>Total</b>	<b>21,100,500</b>			

#### DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, China Energy, whose interest in the Company is notifiable under Part XV (Disclosure of Interests) of the SFO, held directly or indirectly approximately 69.52% of the Company's total registered capital. In the event that the Directors exercised in full the power to repurchase H Shares in accordance with the terms of the H Share Repurchase Mandate proposed at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting, the total interests of China Energy in the total registered capital of the Company would increase to approximately 70.72%. The Directors are not aware of any consequences which will arise under the Takeovers Code and/or any similar applicable law, as a result of any repurchases to be made under the H Share Repurchase Mandate. Moreover, the Directors will not make share repurchase on the Hong Kong Stock Exchange if such repurchase would result in the requirements under Rule 8.08 of the Hong Kong Listing Rules not being complied with.

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

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