

---

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

---

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**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.

---



# 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 TRANSACTIONS CONTINUING CONNECTED TRANSACTIONS

## ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT, THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT AND THE NEW FINANCIAL SERVICES AGREEMENT

## CONNECTED TRANSACTION

## AMENDMENTS TO THE EXISTING NON-COMPETITION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT TO THE EXISTING NON-COMPETITION AGREEMENT

## PROPOSAL ON GENERAL MANDATE TO REPURCHASE H SHARES

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



**SOMERLEY CAPITAL LIMITED**

---

A letter from the Board is set out on pages 6 to 49 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 50 to 51 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 52 to 99 of this circular.

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

May 17, 2023

---

## CONTENTS

---

<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	6
1. INTRODUCTION .....	6
2. DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS .....	7
3. CONNECTED TRANSACTION .....	41
4. PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES .....	46
5. THE AGM AND THE CLASS MEETINGS .....	47
6. RECOMMENDATION .....	48
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	50
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	52
<b>APPENDIX I – GENERAL INFORMATION</b> .....	100
<b>APPENDIX II – EXPLANATORY STATEMENT</b> .....	105

---

## DEFINITIONS

---

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

“2014 Non-Competition Undertakings”	the non-competition undertakings made by China Energy on 27 June 2014;
“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, 16 June 2023 at 10:00 a.m.;
“Abstained Directors”	Mr. Jia Jinzhong and Mr. Yang Rongming, who had abstained from voting as Directors on the relevant Board resolution(s) relating to the entering into of the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement, the New Financial Services Agreement, and amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement;
“AGM”	the 2022 annual general meeting of the Company to be held on Friday, 16 June 2023;
“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;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“China Energy Group”	collectively, China Energy and its subsidiaries (excluding the Group);

---

## DEFINITIONS

---

“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 with limited liability, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Existing Non-Competition Agreement”	the Non-Competition Agreement entered into on 24 May 2005 between China Energy and 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);
“Finance Company Capital Increase Agreement”	the “Shenhua Finance Co., Ltd. Capital Increase Agreement” 《神華財務有限公司之增資協議》 dated 27 March 2020 entered into between the Company, China Energy, Guoneng Shuohuang Railway Development Co., Ltd., Shenhua Zhunge’er Energy Co., Ltd., China Energy Baoshen Railway Co., Ltd. (formerly known as Shenhua Baoshen Railway Co., Ltd.) and the Finance Company;
“Financial Services Agreement”	the Financial Services Agreement entered into between the Company and the Finance Company on 26 March 2021;
“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);

---

## DEFINITIONS

---

“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, 16 June 2023 at 10:15 a.m.;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors;
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement, the New Financial Services Agreement, and amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition 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 2023, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;
“Legacy China Guodian”	Legacy China Guodian Group Co., Ltd (中國國電集團有限公司);
“Legacy Guodian Group”	Legacy China Guodian and its subsidiaries;
“Member(s) of China Energy Group”	including China Energy and its subsidiaries;

---

## DEFINITIONS

---

“Members of the Group”	including the Company and its subsidiaries;
“Merger of the Group Companies”	Shenhua Group Corporation Limited changed its company name to China Energy Investment Corporation Limited and merged with Legacy China Guodian by way of merger by absorption of Legacy China Guodian;
“NDRC”	National Development and Reform Commission of the PRC;
“New Financial Services Agreement”	the New Financial Services Agreement entered into with the Finance Company on 28 April 2023;
“New Mutual Coal Supply Agreement”	the New Mutual Coal Supply Agreement entered into with China Energy on 28 April 2023;
“New Mutual Supplies and Services Agreement”	the New Mutual Supplies and Services Agreement entered into with China Energy on 28 April 2023;
“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;
“Retained Businesses”	businesses retained by China Energy Group as a result of reorganization for the listing purpose, which directly or indirectly compete with the core businesses of the Company, i.e. assets other than the conventional power generation business in assets No. 1–9, No. 13 and 14 which were confirmed in 2014 Non-Competition Undertakings; and unlisted businesses obtained by China Energy Group as a result of the merger with Legacy Guodian Group by China Energy Group which directly or indirectly compete with the core businesses of the Company, i.e. unlisted businesses held by Legacy Guodian Group which directly or indirectly compete with the core businesses of the Company (excluding the relevant assets that Legacy Guodian Group undertook to inject into its subsidiary, Inner Mongolia Pingzhuang Energy Co., Ltd., in 2007);
“RMB”	Renminbi, the lawful currency of the PRC;
“SAFE”	State Administration of Foreign Exchange of the PRC;

---

## DEFINITIONS

---

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shareholder(s)”	the shareholder(s) of the Company;
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on the Shanghai Stock Exchange;
“Supplemental Agreement to the Existing Non-Competition Agreement”	the Supplemental Agreement to the Existing Non-Competition Agreement entered into on 1 March 2018 by the Company and China Energy;
“Supplemental Agreement II to the Existing Non-Competition Agreement”	the supplemental agreement to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement entered into between the Company and China Energy on 28 April 2023;
“Supplemental Agreement to the Financial Services Agreement”	the supplemental agreement to the Financial Services Agreement entered into between the Company and the Finance Company on 23 September 2022;
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers and Share Buybacks.

---

## LETTER FROM THE BOARD

---



# 中国神华能源股份有限公司

## CHINA SHENHUA ENERGY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 01088)

*Executive Directors:*

Lu Zhiren  
Xu Mingjun

*Non-executive Directors:*

Jia Jinzhong  
Yang Rongming

*Independent Non-executive Directors:*

Yuen Kwok Keung  
Bai Chong-En  
Chen Hanwen

*Employee Director:*

Liu Xiaolei

*Registered Office:*

Shenhua Tower  
22 Andingmen Xibinhe Road  
Dongcheng District  
Beijing, PRC

May 17, 2023

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTIONS CONTINUING CONNECTED TRANSACTIONS**

### **ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT, THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT AND THE NEW FINANCIAL SERVICES AGREEMENT**

### **CONNECTED TRANSACTION**

### **AMENDMENTS TO THE EXISTING NON-COMPETITION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT TO THE EXISTING NON-COMPETITION AGREEMENT**

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

## **INTRODUCTION**

Reference is made to the announcements made by the Company on 28 April 2023 on the entering into of the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement, the New Financial Services Agreement, and amendments to the Existing Non-Competition Agreement and Supplemental Agreement to the Existing Non-Competition Agreement.



---

## LETTER FROM THE BOARD

---

The purpose of this circular is to provide you with further information in relation to the above matters and the proposal for general mandate to repurchase H Shares and the recommendation from the Independent Board Committee in relation to the entering into of the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement, the New Financial Services Agreement, and amendments to the Existing Non-Competition Agreement and Supplemental Agreement to the Existing Non-Competition Agreement, and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the entering into of the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement, the New Financial Services Agreement, and amendments to the Existing Non-Competition Agreement and Supplemental Agreement to the Existing Non-Competition Agreement.

### **DISCLOSEABLE TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

#### **Entering into the New Mutual Coal Supply 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 have several industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal production, power generation, transportation and coal-based chemical processing business as well as investment and finance activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.52% interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

As disclosed in the announcement dated 27 August 2021, and the circular dated 17 September 2021, the Company has entered into the mutual coal supply agreement with China Energy on 27 August 2021, to provide for the mutual supply of coal between the Group and China Energy Group, the term of which will expire on 31 December 2023.

The Company has entered into the New Mutual Coal Supply Agreement to provide for the mutual supply of coal between the Group and China Energy Group, which shall come into force upon approval by the AGM, and shall be effective from 1 January 2024 and shall expire on 31 December 2026.

#### **Major Terms of the New Mutual Coal Supply Agreement**

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

28 April 2023

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

The Company and China Energy

---

## LETTER FROM THE BOARD

---

### ***Details of the transaction***

Pursuant to the New Mutual Coal Supply Agreement:

- (1) the Group has agreed to supply coal to China Energy Group; and
- (2) China Energy Group has agreed to supply coal to the Group.

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

The New Mutual Coal Supply Agreement shall come into force upon approval by the AGM and shall be effective from 1 January 2024 and expire on 31 December 2026.

### ***Price determination***

The transaction amount of mutual coal supply under the New Mutual Coal Supply Agreement is the product of the unit price RMB/tonne multiplied by the actual weight. The unit price of coal shall be determined by both parties after arm's length negotiations with reference to the market price and conditions and the following factors, provided that the transaction terms shall not be less favourable than those provided by independent third parties:

- (1) the national industrial policy as well as industry and market conditions in the PRC;
- (2) the specified guidelines issued by NDRC setting out the coal purchase prices (if any);
- (3) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable quality that is offered to or offered by third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of China Coal Market Website ([www.cctd.com.cn](http://www.cctd.com.cn)) organised by China Coal Transportation & Sale Society in the PRC; (ii) the sale price of local large coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of one or more other enterprises with comparable quality, quantity and location;
- (4) the quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);
- (5) the quantity of coal; and
- (6) the transportation fees.

### ***Proposed annual caps and past transactions***

The Company proposes that the annual caps of the New Mutual Coal Supply Agreement for the years ending 31 December 2024, 31 December 2025 and 31 December 2026, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2021 and 31 December 2022 and three months ended 31 March 2023.

## LETTER FROM THE BOARD

### *Supply of coal by the Group to the China Energy Group*

#### *(1) Historic annual caps and actual transaction amount*

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023	
Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Unaudited) (RMB million)	
	99,000	96,776	99,000	94,195	99,000	22,593

#### *(2) Proposed annual caps*

Year ended 31 December 2024 Annual Cap (RMB million)	Year ended 31 December 2025 Annual Cap (RMB million)	Year ended 31 December 2026 Annual Cap (RMB million)
110,000	110,000	110,000

### *Supply of coal by the China Energy Group to the Group*

#### *(1) Historic annual caps and actual transaction amount*

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023	
Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Unaudited) (RMB million)	
	20,000	14,019	29,000	9,831	29,000	2,145

#### *(2) Proposed annual caps*

Year ended 31 December 2024 Annual Cap (RMB million)	Year ended 31 December 2025 Annual Cap (RMB million)	Year ended 31 December 2026 Annual Cap (RMB million)
27,000	27,000	27,000

The terms of the New Mutual Coal Supply Agreement have been reached after arm's length negotiation between the Company and China Energy.

---

## LETTER FROM THE BOARD

---

The proposed annual caps of the New Mutual Coal Supply Agreement for the supply of coal by the Group to the China Energy Group have been set taking into account the following factors:

- (a) The overall operation of the domestic coal market is stable. Affected by the international energy situation, public health incidents, climate and other factors, the supply of coal was tight in some periods and regions, and the price of coal was volatile at high level. As at the end of 2022, the Bohai Bay Thermal Coal Index (5,500 Kcal) was RMB737/tonne representing a year-on-year increase of RMB64/tonne, or 9.5%. As at the end of 2022, the NCEI (國煤下水動力煤價格指數) (5,500 Kcal) was RMB793/tonne, representing a year-on-year increase of RMB43/tonne, or 5.7%.

The Group's commercial coal sales price (exclusive of tax) is affected by factors such as various calorific values of different coal products and the places of sales. In 2022, the average coal sales price of the Group was RMB644/tonne (exclusive of tax, the same below) (2021: RMB588/tonne), representing a year-on-year increase of 9.5%.

Considering factors such as the continuous improvement of the supply and demand relationship in the coal market and the promotion of coal prices to run within a reasonable range under national guidance, it is expected that the coal price center will fluctuate within a reasonable range in 2023. Regional, temporal, and variety based coal supply and demand contradictions still exist. The Group implements the same pricing policy for both internal and external customers, and it is expected that the sales prices of coal supplied by the Group to the China Energy Group will remain relatively high.

- (b) In 2022, China's national power consumption reached 8,637.2 billion kWh, representing a year-on-year increase of 3.6%. In 2022, the power generation of sizable power plants nationwide was 8,388.6 billion kWh, representing a year-on-year increase of 2.2%. Among them, thermal power generated 5,853.1 billion kWh, representing a year-on-year increase of 0.9%, and accounting for 69.8% of the national total, which means coal power is still the main source of electricity supply in China at present. Taking into account uncertain factors such as economic growth, foreign trade exports, weather, and wind and solar resources, China Electricity Council predicts that the total electricity consumption for the whole Chinese society will increase by about 6% year-on-year in 2023. The overall balance of electricity supply and demand in the country is tight, with some regions experiencing tight electricity supply and demand during peak periods.

As the world's largest thermal power company, by the end of 2021, China Energy Group's thermal power installed capacity has reached 194 GW, accounting for about 16% of the country's total; in 2022, 5.71 million kilowatts of cutting-edge clean coal power units have been put into operation. A number of coal-fired power generation projects are still under construction, and the demand for coal will continue to go up in the future. At the same time, the NDRC requires coal enterprises to step up their guarantees on coal for power generation and heat supply. The Group's coal sales will further tilt towards thermal coal. Thus it is estimated that in 2023 the coal supply for China Energy Group will continue to be on the rise.

---

## LETTER FROM THE BOARD

---

- (c) In 2021 and 2022, the actual amounts of coal supplied by the Group to China Energy Group were close to the annual caps. In order to implement the country's energy supply guarantee plans and continue to consolidate the advantages of integrated industrial chain operations, the Group's total coal sales in 2022 was at 417.8 million tonnes. The planned coal sales in 2023 is at 435.8 million tonnes, representing a year-on-year increase of 4.3% as compared to that of the year 2022. Assuming that the increase of amount of coal supplied by the Group to China Energy Group will be on par with such increase, and the supply price would mirror, basically, that of the 2022, it is estimated that in 2023, the Group will sell approximately RMB98.2 billion of coal to China Energy Group. It is estimated that from 2024 to 2026, the amount of coal sold to the China Energy Group will remain the same as that in 2023, with slight fluctuations. The annual transaction amount is about RMB98.2 billion. Taking into account a built-in 15% buffer, the coal supply annual caps from 2024 to 2026 for the Group's supply to China Energy Group is RMB110 billion.

The proposed annual caps of the New Mutual Coal Supply Agreement for the supply of coal by the China Energy Group to the Group have been set taking into account the following factors:

- (a) The domestic coal market is generally stable. Yet under the influence of the international energy situation, social public health events, climate and other factors, supply in some regions has been tight during certain periods of time, with coal prices fluctuating at a high level. In 2022, the Bohai Bay Thermal Coal Index (5,500 Kcal) was RMB737/tonne, representing a year-on-year increase of RMB64/tonne, or 9.5%. At the end of 2022, the NCEI (國煤下水動力煤價格指數) (5,500 Kcal) was RMB793/tonne, representing a year-on-year increase of RMB43/tonne, or 5.7%.

The commercial coal purchased by the Group includes commercial coal with different calorific value, and the purchase price varies with the calorific value. In 2022, the average purchase price (excluding tax, same as follows) of the Group's outsourced coal was RMB641/tonne, which is 36.7% higher than that of the first half of 2021 which was RMB469/tonne, as was used to determine the annual caps of continuing connected transactions from 2021 to 2023 back in 2021. It is expected that the price of coal purchased by the Group from China Energy Group will remain at a relatively high level.

- (b) In 2022, the Group's installed capacity of coal-fired generators increased by 2,340 MW for the year. The total coal consumption of the power generation business in 2022 was 84.4 million tonnes, representing an increase of 13 million tonnes or 18.2% compared with 2021. At present, the Group also have coal-fired power generation projects of 10 GW under construction and planning. Considering the geographical location of the Group's power plants and the convenience and economy of purchasing coal, and helping the Group continue to obtain reliable and quality-assured coal supplies, coal purchases from China Energy Group by the Group may thus increase.

---

## LETTER FROM THE BOARD

---

- (c) It is expected that in 2023, the Group's commercial coal production will reach 309.4 million tonnes, with a year-on-year decrease of 4 million tonnes, and coal sales to reach 435.8 million tonnes, with a year-on-year increase of 18 million tonnes, leading to an increase of 22 million tonnes in terms of annual external purchases of coal. China Energy Group is an important source for additional coal purchased by the Group. At the same time, with the development of power generation and coal chemical business, the coal purchase volume from China Energy Group may also increase. It is estimated that the Group's spending on coal purchases from China Energy Group in 2023 can be controlled under RMB27 billion (factored in a built-in buffer of 15%). It is estimated that the amount of coal procurement expenditure from 2024 to 2026 will essentially mirror that of 2023. It is suggested that the annual caps of coal purchased by the Group from China Energy Group will be at RMB27 billion from 2024 to 2026, which is RMB2 billion lower than the annual caps for transactions in 2022 and 2023.

### **Implementation Agreements and Payment**

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the New Mutual Coal Supply Agreement with China Energy and each subsidiary of China Energy. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the New Mutual Coal Supply Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will stay within the bounds of the New Mutual Coal Supply Agreement and the annual caps.

All payment made pursuant to the New Mutual Coal Supply Agreement and its implementation agreements will be by electronic transfer or other payment methods agreed by both parties.

### **Reasons and Benefits for Entering into the New Mutual Coal Supply Agreement**

The Group has experience in long-term cooperation with China Energy Group in mutual supply of coal. In furtherance of the long-term and stable cooperative relationship, the Company entered into the New Mutual Coal Supply Agreement with China Energy. The Group continues to supply coals of various calorific value to China Energy Group and charge consideration thereon on normal commercial terms, China Energy Group continues to sell coals of various calorific value to the Group for the purposes of coal blending and resale. Whilst differences exist in the types of coal supplied by the Group and the China Energy Group to each other, same types of coal are also involved. The reason being that considering the distance between coal mines and power plants, coal-to-liquid or coal-based chemical plant, purchasing coal from nearby coal mines owned by the other party is sometimes more convenient. The entering into of the New Mutual Coal Supply Agreement will ensure that the Group continues to maintain stable coal sales channel and market, and obtain reliable coal supply of assured quality, whilst having factored in convenience and economy, which is conducive to the Group's normal production and operational activities and reduction of operating risks and costs.

---

## LETTER FROM THE BOARD

---

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

China Energy holds 69.52% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the New Mutual Coal Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the New Mutual Coal Supply Agreement, as one or more of the applicable percentage ratios exceed 5% (as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules), the New Mutual Coal Supply Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the mutual coal supply agreement) entered into between the Group and the China Energy Group and the ultimate beneficial owners of the China Energy within a 12-month period or otherwise related, which would, together with transactions under the New Mutual Coal Supply Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

### **General Information**

The Directors (including independent non-executive Directors) consider that the New Mutual Coal Supply Agreement (including terms, annual caps and pricing) are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

The Board has resolved and approved the New Mutual Coal Supply Agreement and the proposed annual caps thereto on 28 April 2023. Of the Directors attending the board meeting, the Abstained Directors were considered to have material interest by virtue of being employed by China Energy, and thus abstained from voting on the board resolution(s) in respect of the New Mutual Coal Supply Agreement and the proposed annual caps thereto.

### **Entering into the New Mutual Supplies and Services Agreement**

#### ***Background***

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



---

## LETTER FROM THE BOARD

---

China Energy and its subsidiaries have several industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal production, power generation, transportation and coal-based chemical processing business as well as investment and finance activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.52% interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

As disclosed in the announcement dated 27 August 2021, and the circular dated 17 September 2021, the Company has entered into the mutual supplies and services agreement with China Energy on 27 August 2021, to provide for the mutual supply of products and services between the Group and China Energy Group, the term of which will expire on 31 December 2023.

The Company has entered into the New Mutual Supplies and Services Agreement to provide for the mutual supply of products and services between the Group and China Energy Group, which shall come into force upon approval by the AGM, and shall be effective from 1 January 2024 and shall expire on 31 December 2026.

### **Major Terms of the New Mutual Supplies and Services Agreement**

#### ***Date***

28 April 2023

#### ***Parties***

The Company and China Energy

#### ***Details of the transaction***

Pursuant to the New Mutual Supplies and Services Agreement:

- (a) The Group has agreed to supply products and provide services to the China Energy Group, including:
  - (i) production: power trading and other related or similar services;
  - (ii) production supplies: selling of chemical products, selling or leasing of production equipment and spare parts, office products and other related or similar products or services;
  - (iii) ancillary production services: rail, shipping and port transportation services, sales and related technical services of hardware and software equipment, information technology services, logistics and support services, training and other related or similar products and services;
  - (iv) administrative services: various daily administrative services to China Energy Group (exclusive of financial management and services).



---

## LETTER FROM THE BOARD

---

- (b) The China Energy Group has agreed to supply products and provide services to the Group, including:
  - (i) production: power trading and other related or similar services;
  - (ii) production supplies: sales of refined oil and chemicals, sales or lease of production equipment and spare parts, office supplies and other related or similar products and services;
  - (iii) ancillary production services: shipping and port services, construction, logistics and support services, training, tendering agency services, information technology services, technical consulting and other related or similar services;
  - (iv) administrative services: social security and pension management services and staff data recording services.

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

The New Mutual Supplies and Services Agreement is conditional on the approval at the AGM, and is effective from 1 January 2024 and will expire on 31 December 2026.

### ***Price determination***

The pricing of the products and services provided under the New Mutual Supplies and Services Agreement shall be determined in accordance with the general principles and in the order of the section below:

- (a) Government-prescribed price and government-guided price: if at any time, the government prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price.
- (b) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.
- (c) Market price: it is determined based on the following methods: the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third parties for the same period when determining whether the price for any product transaction under the New Mutual Supplies and Services Agreement is the market price.

---

## LETTER FROM THE BOARD

---

- (d) Agreed price: to be determined by adding a reasonable profit margin over a reasonable cost. The management shall consider at least two comparable deals with independent third parties for the same period when determining the reasonable profit of any product transaction under the New Mutual Supplies and Services Agreement.

In addition to the above, for certain types of product or service, specific pricing policy is adopted as follows:

- (a) Rail transportation: price prescribed by NDRC and other related government authorities.
- (b) Construction: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, the market price.
- (c) Oil products: government-guided price.
- (d) Power trading: government-guided price if any; market price for the centralized bidding transaction execution; and the independent negotiated transaction shall refer to transaction price of the recent market comparable deals.
- (e) Hardware and software equipment and related services: market price (including tender and bidding price).
- (f) Chemical products: market price.
- (g) Production equipment and spare parts, office products: market price.
- (h) Tendering agency services: price prescribed by relevant rules of NDRC.
- (i) Technical consulting services: agreed price with a profit margin of approximately 10%.
- (j) Information technology services: the budget is reviewed by professional institution(s) with pricing reviewing qualification according to relevant national and industrial rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to the market customs of the information technology industry, actual standards and market price, taking into account the actual condition of the Company's information technology construction. The parties negotiate and agree on the service price within the scope of budget.
- (k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%).

---

## LETTER FROM THE BOARD

---

- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%).
- (m) Various daily administrative services to headquarters of China Energy (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

### Proposed annual caps and past transactions

The Company proposes that the annual caps of the New Mutual Supplies and Services Agreement for the years ending 31 December 2024, 31 December 2025 and 31 December 2026, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2021 and 31 December 2022 and three months ended 31 March 2023.

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

#### (1) *Historic annual caps and actual transaction amount*

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023
Transaction Amount		Transaction Amount			Transaction Amount
Annual Cap (RMB million)	(Audited) (RMB million)	Annual Cap (RMB million)	(Audited) (RMB million)	Annual Cap (RMB million)	(Unaudited) (RMB million)
13,000	10,502	39,000	18,560	39,000	4,301

#### (2) *Proposed annual caps*

Year ended 31 December 2024	Year ended 31 December 2025	Year ended 31 December 2026
Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)
35,000	35,000	35,000

## LETTER FROM THE BOARD

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

*(1) Historic annual caps and actual transaction amount*

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023
Transaction Amount		Transaction Amount		Annual Cap	Transaction Amount
Annual Cap (RMB million)	(Audited) (RMB million)	Annual Cap (RMB million)	(Audited) (RMB million)	Annual Cap (RMB million)	(Unaudited) (RMB million)
13,000	6,595	17,000	7,780	17,000	1,064

*(2) Proposed annual caps*

Year ended 31 December 2024	Year ended 31 December 2025	Year ended 31 December 2026
Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)
17,000	17,000	17,000

The terms of the New Mutual Supplies and Services Agreement have been reached after arm's length negotiation between the Company and China Energy.

The proposed annual caps of the New Mutual Supplies and Services Agreement for the supply of products and provision of services by the Group to the China Energy Group have been set taking into account the following factors:

- (a) The products and services provided by the Group to China Energy Group include transportation services, power trading, information services, sales of chemicals, etc. China Energy Group is one of the Group's long-term important customers, and the two parties have a stable cooperative relationship. With the development of the Group's business and the growth of its operating income, the amount of products and services provided by the Group to China Energy Group in 2020, 2021 and 2022 was at RMB9.73 billion, RMB10.50 billion and RMB18.56 billion, respectively, with an compound annual growth rate of 38.1%.
- (b) In the future, the Group will continue to promote the reconstruction of railway capacity, the construction of dedicated coal transportation lines, and the investment and construction of information and smart industries. With the Group's continuing strengthening of its competitive edge in railway transportation and other aspects, the Group's ability to provide transportation services, information services and other services and products to China Energy Group will be continually enhanced. Considering the impact of business growth, rising prices and labour costs, the

---

## LETTER FROM THE BOARD

---

compound annual growth rate for the amounts charged by the Group for products supplied and services rendered to China Energy Group is expected to be 28% in 2023 and 2024, which is 10.1 percentage points lower than the compound annual growth rate from 2020 to 2022. It is estimated that the Group will provide products and services to China Energy Group amounting to approximately RMB30.4 billion from 2024 to 2026, and with a built-in buffer of 15%, that the annual caps for the amount charged by the Group for products supplied and services rendered to China Energy Group in 2024 to 2026 to be set at RMB35 billion, respectively, which is RMB4 billion lower than the annual caps for 2022 and 2023.

The proposed annual caps of the New Mutual Supplies and Services Agreement for the supply of products and provision of services by the China Energy Group to the Group have been set taking into account the following factors:

- (a) The products and services provided by China Energy Group to the Group include engineering construction services, technical consulting services, sales of refined oil products, sales or lease of production equipment and spare parts, etc. In view of the long-term cooperative relationship between the Group and China Energy Group, China Energy Group has business advantages, good reputation and can provide the Group with production materials and auxiliary services at fair and reasonable prices. In 2020, 2021 and 2022, the amount of products and services provided to the Group by China Energy Group was at RMB3.27 billion, RMB6.60 billion and RMB7.78 billion, respectively, with a compound annual growth rate of 54.2%.
- (b) During the “14th Five-Year Plan” period, the Group will continue to promote the construction of green mines, green transportation, green power stations, and green chemicals, accelerate the clean and efficient mining and utilisation of coal, build clean and efficient coal-fired power generation units, and strengthen heating, energy saving, and flexibility transformation and promote the development of high-end, diversified and low-carbon coal chemical industry. It is expected to increase the purchase of products and services such as engineering construction services, material supply and technical services from the China Energy Group. Considering the impact of business growth, rising prices and labor costs, the compound annual growth rate is expected to reach approximately 35% in 2023 and 2024, which is 19.2 percentage points lower than the compound annual growth rate from 2020 to 2022. It is estimated that products and services purchased by the Group from China Energy Group amounted to around RMB14.2 billion from 2024 to 2026. In addition, from 2024 to 2026, promotion of construction of major projects such as Baotou Coal Chemical Coal-to-Olefins Phase II, Xinjie No. 1 Well and No. 2 Well, will continue, and the amount of connected transactions may thus increase by approximately RMB1 billion per year. It is estimated that from 2024 to 2026, the annual amount of products and services purchased by the Group from China Energy Group will be about RMB15.2 billion, and a built-in buffer of 15%. It is recommended that the annual caps for the products and services purchased by the Group from China Energy Group in 2024 to 2026 to be set at RMB17 billion, respectively, which is to remain the same to that of 2022 and 2023.

---

## LETTER FROM THE BOARD

---

### **Implementation Agreements**

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the New Mutual Supplies and Services Agreement with China Energy and each subsidiary of China Energy. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of products and services as contemplated by the New Mutual Supplies and Services Agreement, and as such, they do not constitute new categories of connected transactions. Any such implementation agreement will stay within the bounds of the New Mutual Supplies and Services Agreement and the annual caps.

All payments made pursuant to the New Mutual Supplies and Services Agreement and its implementation agreements will be by electronic transfer or other payment methods agreed by both parties.

### **Reasons and Benefits for Entering into the New Mutual Supplies and Services Agreement**

The Group has experience in long term cooperation with China Energy Group in mutual supply of products and services. The Company entered into the New Mutual Supplies and Services Agreement with China Energy. The Group will continue to provide China Energy Group, on a fair basis, with chemicals, railway transport and other products and services, China Energy Group will continue to provide the Group, on a fair basis, with refined oil products, engineering construction and other products and services. The signing thereof ensures that the Group will continue to obtain stable, reliable, and quality-assured supplies of materials and services, which is conducive to the Group's normal production and operational activities and promotes the Group's business development and business growth.

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

China Energy holds 69.52% interest in the Company, and is the controlling shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the New Mutual Supplies and Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the New Mutual Supplies and Services Agreement, as one or more of the applicable percentage ratios exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the New Mutual Supplies and Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable inquiries, there is no other transaction (other than those carried out pursuant to the mutual supplies and services agreement) entered into between the Group and the China Energy Group and the ultimate beneficial owners of the China Energy within a 12-month period or otherwise related, which would, together with transactions under the New Mutual Supplies and Services Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

### **General Information**

The Directors (including independent non-executive Directors) consider that the New Mutual Supplies and Services Agreement (including terms, annual caps and pricing) are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

The Board has resolved and approved the New Mutual Supplies and Services Agreement and the proposed annual caps thereto on 28 April 2023. Of the Directors attending the board meeting, the Abstained Directors were considered to have material interest by virtue of being employed by China Energy, and thus abstained from voting on the board resolution(s) in respect of the New Mutual Supplies and Services Agreement and the proposed annual caps thereto.

### **Entering into the New 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 have several industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal production, power generation, transportation and coal-based chemical processing business as well as investment and finance activities. China Energy is the controlling shareholder of the Company. As at the date of this circular, China Energy holds 69.52% interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

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 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 the Finance Company in total (among which, the Company directly holds 32.57% of the equity interests of the Finance Company; China Energy Shuohuang Railway Development Co., Ltd.

---

## LETTER FROM THE BOARD

---

(國能朔黃鐵路發展有限責任公司), Shenhua Zhunge'er Energy Co., Ltd. (神華準格爾能源有限責任公司), China Energy Baoshen Railway Co., Ltd. (國能包神鐵路有限責任公司) (formerly known as Shenhua Baoshen Railway Co., Ltd. (神華包神鐵路有限責任公司)), which are the controlled subsidiaries of the Company, holds 2.86%, 2.86% and 1.71% of equity interest in the Finance Company, respectively.)

As disclosed in the announcement dated 28 March 2021, and the circular dated 14 May 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 expire on 31 December 2023. As disclosed in the announcement dated 23 September 2022, and the circular dated 30 September 2022, the Company and the Finance Company have entered into the Supplemental Agreement to the Financial Services Agreement on 23 September 2022 to amend annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group with Finance Company for the years ending 31 December 2022 and 31 December 2023, and price determination and capital risk control measures clauses of the Financial Services Agreement.

The Company has entered into the New Financial Services Agreement with the Finance Company. Pursuant to which, the Finance Company agreed to provide financial services to Members of the Group. The New Financial Services Agreement shall come into force upon approval by the AGM and shall be effective from 1 January 2024 and will expire on 31 December 2026.

### **Major Terms of the New Financial Services Agreement**

#### ***Date***

28 April 2023

#### ***Parties***

The Company and the Finance Company

#### ***Details of the transaction***

Pursuant to the New Financial Services Agreement, the Finance Company will provide the following regulatory authorities approved domestic and foreign currency financial services to Members of the Group:

- (1) provision of non-financing letters of guarantee service to Members of the Group;
- (2) bill acceptance and discount services to Members of the Group;
- (3) taking deposits from Members of the Group;



---

## LETTER FROM THE BOARD

---

- (4) granting loans, consumption credit and buyer's credit loans 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) internal settlement and settlement planning services between Members of the Group;
- (8) provision of comprehensive credit limits to Members of the Group, including loans, bill acceptance and discount services;
- (9) provision of financial training and consultation services;
- (10) provision of other financial services with regulatory approval (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;
- (11) provision of foreign exchange deposits, foreign exchange loans, and approved international business to Members of the Group in accordance with approvals by the regulatory authorities.

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

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

The New Financial Services Agreement shall come into force upon approval by the AGM and shall be effective from 1 January 2024 and will expire on 31 December 2026.

### ***Price determination***

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

---

## LETTER FROM THE BOARD

---

- (b) The interest rates for loans granted by the Finance Company to Members of the Group shall be no more than the benchmark loan interest rate for the corresponding period of 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 the Finance Company for deposits placed by Members of the Group, the Finance Company will pay close attention to the benchmark interest rate of the PBOC on a regular basis and ascertain the deposit interest rates of major commercial banks (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 the Finance Company shall be no less than the interest rate paid by major commercial banks for comparable deposits services provided to Members of the Group. Furthermore, price determination of deposits interest rate offered by the Finance Company will be under strict supervision and the Company will enforce relevant internal approval procedures. For further details, please refer to “The Company’s internal approval procedures for the price determination process”.

- (2) In terms of paid services provided by the Finance Company to Members of the Group:
  - (a) The Finance Company can provide paid consultation, agency, settlement, transfer, letter of credit, online banking, entrusted loan, non-financing letters of guarantee, bill acceptance and other related services to Members of the Group.
  - (b) Subject to compliance with the laws and regulations and relevant rules of PBOC, CBIRC and other relevant regulatory authorities, the service fees charged by the 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 and other financial institutions 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 the Finance Company for provision of financial services to Members of the Group, the Finance Company will ascertain the service fees rate charged by major commercial banks on a regular basis and ensure the service fees charged by the 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 for comparable financial services provided to Members of the Group. In addition, price determination of service fees charged by the Finance Company will be under strict supervision and the Company will enforce relevant internal approval procedures. For further details, please refer to “The Company’s internal approval procedures for the price determination process”.

---

## LETTER FROM THE BOARD

---

### The Company'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 the 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 benchmark deposit rates publicized by the PBOC on a monthly basis, and conduct business inquiries periodically and publicly with major commercial banks in the PRC and the 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 the Finance Company by Members of the Group, to keep abreast of the loans granted by the 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 shall be conducted by relevant review departments of the Company.

---

## LETTER FROM THE BOARD

---

### **Risk assessment and control mechanism and measures in relation to the New Financial Services Agreement**

- (1) China Energy undertakes in the Finance Company Capital Increase Agreement that in case of an emergency where the Finance Company has difficulties making payments, China Energy shall, in accordance with the actual needs to address payment difficulties, satisfy the payment needs of the Finance Company through various channels including, among others, the increase of capital and the provision of liquidity support to the Finance Company in conformity with laws, regulations and internal regulations such as its articles of association.
- (2) The Finance Company is a major domestic non-banking financial institution under the supervision of the national financial regulatory administration. Competent authority delegated by national financial regulatory administration conducts daily supervision on the Finance Company and conducts on-site and off-site inspections. The Finance Company ensures that it is in strict compliance with the risk control indicators and risk monitoring indicators stipulated by national laws and regulations.
- (3) The 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 the 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, the 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) The 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) The Finance Company shall not accept Members of the Group to provide entrusted loans and entrusted wealth management to other connected members through the Finance Company, and shall not accept deposit of proceeds (if any) in the Finance Company.
- (7) The Company will divide the deposit limit to Members of the Group. The Finance Company shall monitor the deposit placed by Members of the Group with the 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 the Finance Company exceeding the limit, the 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

---

## LETTER FROM THE BOARD

---

Company. Approval of finance department of the Company shall be obtained in the event of the deposit to be placed exceeding the designated deposit limit. Under this circumstance, the deposit limit of other Members of the Group shall be deducted accordingly so as to ensure the overall deposit limit is not exceeded.

- (8) Prior to the commencement of connected transactions with the Finance Company, Members of the Group are entitled to review the Finance Company's audited annual financial report for the latest financial year, risk indicators and other necessary information, as well as the latest and valid financial license and business license. The financial department of the Company shall seriously evaluate such information and confirm that the risks are controllable before commencing business with the Finance Company. Members of the Group shall not engage in relevant business with the Finance Company in the event that the foregoing licenses concerned are absent or expired.
- (9) The Company has the right to examine the operation status and financial position of the Finance Company on a regular or non-regular basis, and pay close attention to whether the Finance Company is in violation of any relevant regulations including the Administrative Measures on Financial Companies of Group Enterprises . The Finance Company shall fully cooperate and provide accurate and comprehensive information. The Finance Company will provide its financial reports, risk indicators and other necessary information and the latest valid financial license and business license to the Company's finance department by 15 February of the year after the end of each year and within 20 calendar days after the end of each half year, and will provide various regulatory indicators to the Company's finance department within 20 calendar days after the end of each quarter. In the event the Finance Company becomes aware of any non-compliance of its major regulatory indicators with the relevant regulatory requirements or the existence of other material risks, the Finance Company shall timely inform the Company and shall not continue to take deposit from the Members of the Group, and the Members of the Group shall discontinue such depositing at the 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 the Finance Company in full or in part to test and ensure the security and liquidity of the relevant deposits.
- (11) The Finance Company shall not exceed the transaction limit stipulated in the New Finance Services Agreement to collect funds from Members of the Group, and based on the list of the Members of the Group and deposit limit designated by the Company for each Member of the Group (if any), shall assist in monitoring the maximum daily balance (including interests accrued thereon) of deposits placed by each of and all the Members of the Group with the Finance Company to ensure the relevant balance does not exceed the applicable annual caps of connected transactions. If the service fees charged by the Finance Company reached the annual cap for the year, the Finance Company shall timely inform the Company and notify the Members of the Group, and shall not provide the relevant service to the Members of the Group for the rest of the year unless otherwise approved by the Board or the general meeting (if applicable) of the Company.

---

## LETTER FROM THE BOARD

---

- (12) The Company shall dynamically evaluate and supervise the risk status of the funds deposited with the Finance Company, and the Finance Company shall cooperate; the Finance Company guarantees that it shall inform the Company in the first instance, cooperate with the Company to actively dispose of the risks, and protect the safety of funds of Members of the Group in the event of the occurrence of the following circumstances: (i) the Finance Company has non-group (contingent) liability business such as interbank lending and bill acceptance is overdue for more than 5 working days; (ii) the occurrence of material credit risk events (including but not limited to overdue of open market bonds for more than seven working days, payment of guarantee of large value etc.) on China Energy Group or other related parties; (iii) the Finance Company continues to fail to meet the regulatory requirements in accordance with the regulatory indicators such as capital adequacy ratio and liquidity ratio stipulated in the Administrative Measures on Finance Companies of Corporate Groups (《企業集團財務公司管理辦法》), and the major shareholders are unable to fulfill their obligations for capital replenishment and risk relief; (iv) other circumstances as stipulated in the risk disposal plan for the financial business with the Finance Company such as connected deposits and loans that have been reviewed and approved by the Board of the Company.
- (13) When the situation mentioned in the preceding paragraph occurs, officers of the Company in charge of financial work shall urge the relevant departments of the Company and the Members of the Group to take risk response measures in due course, such as withdrawing full or partial deposits placed with the Finance Company, suspending any deposits placement with Finance Company and requesting the Finance Company to carry out rectification within a prescribed time limit, so as to ensure the safety of deposits of the Members of the Group placed with the Finance Company. The Finance Company shall fully assist and cooperate. In the event of default where the deposits become unable to be withdrawn, the Company is entitled to set off the amount of unrecovered deposits with the loan provided by the Finance Company to any Members of the Group, in which case the Finance Company shall, after obtaining the written consent documents from the relevant depository units and lending units, cooperate with the relevant Members of the Group to carry out such offsetting by performing the corresponding procedures and signing relevant legal documents as required by the Company.
- (14) During the annual audit period of the Company, the external auditor will review and issue opinions on the connected transactions of both parties. The Company shall be subject to the information disclosure obligation under the requirements of the Listing Rules of the place where it is listed in a timely manner. The Finance Company shall provide necessary cooperation, including but not limited to the provision of information on the amount and balance of relevant financial services.
- (15) The Company and the Finance Company agree to, under the requests and recommendations of securities regulatory authorities where the shares of the Company are listed, independent non-executive Directors of the Company, and independent financial adviser (if any), adjust risk assessment and control measures mentioned above, including, but not limited to adding and modifying relevant risk assessment and control measure, which shall be agreed.

---

## LETTER FROM THE BOARD

---

### Proposed annual cap and past transactions

The Company proposes that the maximum daily balance (including interests accrued thereon) of deposits placed by Members of the Group with the Finance Company, and the annual caps of the agency fee, handling fee, consultation fee and other services fee charged by the Finance Company for providing Members of the Group with financial services including but not limited to consultation, agency, settlement, transfer, letter of credit, online banking, entrusted loan, non-financing letters of guarantee, bill acceptance and other services under the New Financial Services Agreement for the years ending 31 December 2024, 31 December 2025 and 31 December 2026, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2021 and 31 December 2022 and three months ended 31 March 2023.

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

##### *(1) Historic annual caps and actual transaction amount*

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023
Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Unaudited) (RMB million)
27,900	27,439	75,000	72,316	75,000	68,651

##### *(2) Proposed annual caps*

Year ended 31 December 2024 (RMB million)	Year ended 31 December 2025 (RMB million)	Year ended 31 December 2026 (RMB million)
75,000	75,000	75,000



## LETTER FROM THE BOARD

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

*(1) Historic annual caps and actual transaction amount*

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023
Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Unaudited) (RMB million)
200	32	300	16	400	0

*(2) Proposed annual caps*

Year ended 31 December 2024 (RMB million)	Year ended 31 December 2025 (RMB million)	Year ended 31 December 2026 (RMB million)
300	300	300

In respect of comprehensive credit provided by the Finance Company to Members of the Group, 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, by its business needs, to propose and set maximum daily balance of comprehensive credit provided by the Finance Company to Members of the Group for the years ending 31 December 2024, 31 December 2025 and 31 December 2026 respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the years ended 31 December 2021 and 31 December 2022 and three months ended 31 March 2023.



## LETTER FROM THE BOARD

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

***(1) Historic annual caps and actual transaction amount***

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	Three months ended 31 March 2023
Transaction Amount Annual Cap (RMB million)		Transaction Amount Annual Cap (RMB million)		Annual Cap (RMB million)	Transaction Amount (Unaudited) (RMB million)
	(Audited)		(Audited)		
100,000	24,527	100,000	29,544	100,000	25,811

***(2) Proposed annual caps***

Year ended 31 December 2024 (RMB million)	Year ended 31 December 2025 (RMB million)	Year ended 31 December 2026 (RMB million)
100,000	100,000	100,000

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

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

- (a) As for the Company's business operations and the situation concerning its monetary funds, as compared with when the Company's reviewed and approved the revision of the annual caps of the daily deposit balance (including the accrued interest incurred) of the Members of the Group on 28 October 2022 at the first extraordinary general meeting of the Company in 2022, no major changes has occurred. As of 31 December 2020, 31 December 2021, and 31 December 2022, the Group's monetary funds were approximately RMB127.5 billion, RMB162.9 billion and RMB170.5 billion, respectively, and the scale of monetary funds has grown steadily by the year. With the growth of the Group's operating scale and the continuous increase of the currency held, the demand of the Members of the Group for the deposit services provided by the Finance Company has also grown steadily. With reference to the deposits of similar large-scale energy listed companies in connected financial companies, the amount of connected transactions of the Group in 2022, the utilisation rate of its annual caps, and future business development, it is recommended that the

---

## LETTER FROM THE BOARD

---

annual caps of the daily deposit balance (including the accrued interest incurred) of the Members of the Group to be set at RMB75 billion from 2024 to 2026, which remains unchanged as compared with that of the 2022 and 2023 annual caps set under the Supplemental Agreement to the Financial Services Agreement. The ratio of the annual caps of the daily deposit balance (including the accrued interest incurred) of the Members of the Group to the balance of monetary funds at the end of 2022 is 44%, which is significantly lower than the average level of similar energy listed companies.

- (b) The Finance Company has a long-standing history in terms of relationship with the Group, and has played an important supporting role in the development of the Group. The Finance Company was formerly known as Shenhua Finance Co., Ltd., and before the capital increase and name change in 2020, it has been operating in an integrated manner with the Group, and has formed a long-term and stable business partnership in terms of deposits and loans, settlements, and bills. The Finance Company can proactively get in close contact with the Members of the Group, understand their financial needs and operating conditions, and provide unique, timely and comprehensive financial services to meet the changing needs of the Members of the Group for financial services, which will help the Group achieve good cash flow management and improve capital efficiency and will meet the needs of the Group's business development and operation management.
- (c) Members of the Group make deposits in the Finance Company, which is conducive to effectively improving the investment income of the Company. The Company and the Finance Company will regularly monitor the changes in the benchmark deposit rates announced by the PBOC, learn about the deposit rates of major commercial banks, and ensure that the deposit interest rates in the Finance Company are not lower than the benchmark deposit rates announced by the PBOC for the same period and not lower than the deposit rates of the same type of deposit service provided by major commercial banks to Members of the Group, which is beneficial for the Group to obtain a deposit interest income not lower than that of a major commercial bank. In addition, the Company, as an important shareholder of the Finance Company, directly and indirectly holds 40% of the shares of the Finance Company, and can share the return on investment brought about by the increase in the business scale and operating profit of the Finance Company.
- (d) Members of the Group will obtain funds from the Finance Company through the comprehensive credit service, which will help support the business development of the Group. It is recommended that the Finance Company grant the Members of the Group an annual cap of comprehensive credit limit of RMB100 billion, which remains the same as compared with 2021-2023 annual caps for comprehensive credit as set under the Financial Service Agreement. At present, industries such as coal, electric power, transportation, and chemical

---

## LETTER FROM THE BOARD

---

industry will remain important basic industries in the PRC for a relatively long period of time. While the Group's various businesses will continue on a track of healthy development, demand for deposits and loans, settlements, bills, etc. provided by the Finance Company also increased significantly. The Finance Company is actively promoting innovation in the financial services provided, whilst continually reducing capital costs, and providing comprehensive credit facilities of RMB100 billion to Members of the Group, including loans, bill acceptance and discounts, non-financing letters of guarantee, overdrafts, and letter of credit issuance, with no collateral or guarantee being required from the Members of the Group. In the next three years, the Group will continue to carry out major projects construction such as Xinjie No.1 Well and Xinjie No.2 Well, several clean and efficient coal-fired power generation units, railway lines, and Baotou Coal Chemical Coal to Olefin Project Phase II. The total capital expenditure of the Group in 2022 is about RMB31.9 billion, and the capital expenditure plan for 2023 is about RMB36.2 billion. The comprehensive credit limit with a higher limit and no guarantee is beneficial for Shareholders, as it helps to ensure the necessary or urgent financing needs for the future development of the Group. As at the end of 2022, the total assets of the Finance Company were approximately RMB221.9 billion, with a balance of approximately RMB169.6 billion in loans, bill discounting, and other business operations. The Finance Company is capable of providing large amount of financial support to the Group.

- (e) Members of the Group can obtain flexible and convenient financial services from the Finance Company. The Finance Company provides financial services to the Group, giving full play to the functions of the financial platform, carrying out entrusted loans, syndicated loans, issuing non-financing letters of guarantee, issuing letters of credit, international exchange, financial consulting and other services, which will promote the high-quality development of the Group, creating economic benefits, ensuring energy supply, implementing the dual-carbon strategy, whilst preventing and defusing major risks, thereby assuming a vital role of enhanced financial support for the enterprises. With the development of the Group's project construction works and overseas business expansion, it is expected that the demand for financial support in syndicated loans, foreign currency settlement, bills, etc. will continue to increase. Therefore, from 2024 to 2026, it is recommended that the annual caps for the total amount of agency fees, handling fees, consulting fees or other service fees charged by the Finance Company to provide financial services to Members of the Group be set at RMB300 million. As for such proposed annual caps, the applicable percentage ratios (calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules) are less than 0.1%, which is deemed insignificant as far as the Group is concerned.

---

## LETTER FROM THE BOARD

---

- (f) The Finance Company has strict risk control measures and accepts the supervision of internal and external parties. As a large domestic licensed non-bank financial institution, the Finance Company operates under strict observance with the risk monitoring indicators and risk monitoring indicators required by national laws and regulations. At the same time, the Company and the Finance Company agreed on a series of strict risk assessment and control measures in the New Financial Services Agreement to ensure the safety of Members of the Group's deposits in the Finance Company. As the controlling shareholder of the Finance Company, China Energy has promised in the Finance Company Capital Increase Agreement to provide financial support to the Finance Company through various channels to ensure that the Group's normal fund needs are met. The proposed annual caps for continuing connected transactions should be flexible to allow for maximum consideration of various possibilities. Even where the Company sets an annual cap for continuing connected transactions, it does not mean that the Members of the Group and the Finance Company will conduct continuing connected transactions on such basis, and the proposed annual cap is not laid out as strict guidance when the actual transaction amount is concerned. The continued connected transactions between Members of the Group and the Finance Company will be carried out strictly in accordance with the actual required transaction volume and transaction price. The Company will disclose the expected situation of continuing connected transactions with the Finance Company and the range of deposit and loan interest rates at the beginning of each year, and disclose actual transaction amount for the year in the annual report. The Board reviews the annual report which includes the implementation of connected transactions every year. The Company's independent non-executive Directors and auditors will continue to review the connected transactions so as to allow for supervision of Independent Shareholders. The Company will also regularly disclose relevant information such as the operation management, risk indicators and internal control of the Finance Company and evaluate and explain the financial business of the Finance Company such as the overall arrangement of its fund receipts and expenditures and deposits and loans, and whether the deposits in the Finance Company affect the Company's normal production and operations during the reporting period through the Continuous Risk Assessment Report on China Energy Group Finance Co., Ltd..

### **Implementation Agreements and Payment**

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the New Financial Services Agreement with the 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 New Financial Services Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the New Financial Services and the annual caps.

---

## LETTER FROM THE BOARD

---

All payment made pursuant to the New Financial Services Agreement and its implementation agreements will be by electronic transfer or other payment methods agreed by both parties.

### **Reasons and Benefits for Entering into the New Financial Services Agreement**

The Members of the Group have established long-term and stable cooperation with the Finance Company, as well as relatively stable business relations in terms of deposits, loans, bills, settlements and agents. The Company has entered into the New Financial Services Agreement. Continuous provision of financial services by the Finance Company to Members of the Group is conducive to maintaining the continuity of financial services received by Members of the Group, optimizing the Group's financial management, improving the efficiency of capital utilization, reducing financing costs, and improving the Company's return on investment in the Finance Company. Further details are as follows:

- (1) Realising centralised treasury management, improving treasury management efficiency: the Finance Company provides deposits and other financial services to Members of the Group to facilitate settlement within Members of the Group and between Members of the Group and Members of China Energy Group and shorten the time required for transfer and turnover of funds. Compared with opening bank accounts by Members of China Energy Group and Members of the Group separately in independent commercial banks, direct clearing and settlement between both sides would be more efficient. The Finance Company will enable the Group to lower the cost by improving the efficiency of the internal settlement and help to realise optimisation of cost control and operational efficiency. In addition, deposits placed by Members of the Group with the 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 the Finance Company in full or in part. Members of the Group may, at its sole discretion, deposit its funds into the Finance Company or other independent commercial banks without any restrictions.
- (2) Familiar with the Group's business, providing more flexible and convenient services: Since the 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. The 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, the Finance Company can provide flexible, convenient and low-cost service to Members of the Group at any time, while it will be difficult for independent commercial banks to provide equivalent services.

---

## LETTER FROM THE BOARD

---

- (3) Offering fair commercial terms and investment incomes: Pursuant to the New Financial Services Agreement, the interest rate for deposits of the Members of the Group in the Finance Company shall not be lower than the benchmark interest rate for the same period prescribed by the PBOC and shall not be lower than the interest rate determined by major commercial banks for the same type of deposit services provided to the Members of the Group. The increase in deposits of the Members of the Group in the Finance Company shall be beneficial to the Members of the Group in obtaining more interest income from the deposits which are not lower than major commercial banks. In addition, the Company, as a substantial shareholder of the Finance Company, directly and indirectly holds 40% equity interests in the Finance Company in aggregate, which is entitled to share the investment return brought by the increase in the business scale of the Finance Company.

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

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

In respect of the proposed annual caps of the maximum daily deposit balance (including the accrued interest incurred) of the Members of the Group in the Finance Company, 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, and is thereby subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, and also constitutes a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

With regard to the proposed annual caps on the total amount of fees for financial services provided by the Finance Company to Members of the Group, since all such percentage ratios are less than 0.1% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, and is thereby exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Financial Services Agreement and the Supplemental Agreement to the Financial Services Agreement) entered into between the Group and the China Energy Group and the ultimate beneficial owners of the China Energy within a 12-month period or otherwise related, which would, together with transactions under the New Financial Services Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

### General Information

The Directors (including independent non-executive Directors) consider that the New Financial Services Agreement (including terms, annual caps and pricing) are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

The Board has resolved and approved the New Financial Services Agreement and the proposed annual caps thereto on 28 April 2023. Of the Directors attending the board meeting, the Abstained Directors were considered to have material interest by virtue of being employed by China Energy, and thus abstained from voting on the board resolution(s) in respect of the New Financial Services Agreement and the proposed annual caps thereto.

### Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions

The Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the continuing connected transactions are fair and reasonable and no less favourable than the terms provided by any third party, so as to ensure that they serve the interests of the Company and its Shareholders as a whole. Such procedures and internal control measures mainly include:

- (1) The transactions contemplated under the continuing connected transactions agreements are conducted on a non-exclusive basis.
- (2) The Company has adopted internal control rules such as its connected transaction decision making system and its connected transaction management measures.

### *Connected Transaction Decision Making System of China Shenhua Energy Company Limited*

Connected Transaction Decision Making System of China Shenhua Energy Company Limited (the “**Decision Making System**”) contains seventeen articles. The Decision Making System defines the meanings of “connected person” and “connected transaction”, specifies the situations subject to disclosure and approval and the principles to abide by when conducting connected transactions, abstention measures to be taken when executing connected transaction agreements, the powers conferred on the Board, the general meeting of the Shareholders and the Shareholders. The Decision Making System also contains matters such as abstention mechanism when conflict of interest arises, voting procedures of general meetings of Shareholders, etc. The aforementioned rules are consistent with the requirements in relation to connected transactions under the Shanghai Listing Rules and the Hong Kong Listing Rules.



---

## LETTER FROM THE BOARD

---

### *Connected Transaction Management Measures of the China Shenhua Energy Company Limited*

Connected Transaction Management Measures of China Shenhua Energy Company Limited (the “**Management Measures**”) consist of thirty six articles divided into nine chapters. The Management Measures define the manner of constitution of the connected transactions group and the scope of responsibilities of the Company’s management and respective departments, confirming duties of branches and subsidiaries when conducting connected transactions. Rules are also prescribed by the Management Measures for information collection, identification and management in respect of connected persons, confirming the system governing the responsibilities of connected persons on timely, voluntary reporting. As for continuing connected transactions, the Management Measures confirms that the key of management thereof is to ensure that continuing connected transactions do not exceed the annual caps, with detailed management procedures included. As for non-continuing connected transactions, prior approval and disclosure (where necessary) are necessary before conducting the transactions, with management procedures also being included. What also being regulated by the Management Measures are matters pertaining to the supervising and reviewing of branches and subsidiaries.

- (3) Under the leadership of the Board, the Company has set up a connected transaction group headed by the chief accountant. The connected transaction group is responsible for managing the daily affairs of the Company’s connected transactions guiding, supervising and inspecting the management of connected transactions of its subsidiaries, and regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly organising the training of connected transactions across the Group and periodically conducting supervision and inspection of the connected transactions.
- (4) Each subsidiary of the Group has established a connected transaction group, and having arranged specialists to be in charge of the pricing of the continuing connected transactions, with such specialists being required to strictly observe the pricing principles and policies for the continuing connected transaction as disclosed in this circular to set the price for each transaction. (i) For the New Mutual Coal Supply Agreement, such specialist shall obtain information about spot market price of coal through various channels; (ii) As far as the New Mutual Supplies and Services Agreement is concerned, according to the Group’s rules and regulations for procurement and sales, in the absence of applicable government-prescribed price or government-guided price, the Company will seek to obtain information about market price through various channels, for example, by referring to prices of the Company’s comparable transactions with independent third parties (at least two or more) for the same period, comparable transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Such price is determined by the



---

## LETTER FROM THE BOARD

---

contracting parties (i.e., the subsidiaries of the Group on the one hand and the subsidiaries of the China Energy Group on the other hand) on normal commercial terms with reference to the information obtained as mentioned above. Where tender and bidding process is necessary under applicable laws, regulations and rules, the Group and the China Energy Group shall engage professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group or the China Energy Group shall participate fairly. For products and services with prices to be agreed upon, the supplier shall provide the cost list and the purchaser compares the comparable average cost of similar enterprises in the adjacent areas or the costs of similar products to ascertain the reasonable cost and thereby confirming the price of the connected transaction. Once executed, unilateral change to the price is prohibited. The Company's connected transaction group regularly reviews the pricing of continuing connected transactions.

- (5) The Group has adopted the legal management and other system. After pricing of continuing connected transactions are being proposed by specialists, they shall submit the same to the system for the connected transaction groups and finance departments of the subsidiaries of the Group to determine the pricing. The connected transaction groups and finance departments also monitor the pricing through the system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price.
- (6) The Company's internal control and risk management departments conduct regular internal assessments on the internal control measures of the Company on an annual basis, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Further, the legal departments conduct prudent review of the connected transaction agreements, the financial departments manage pricing of the connected transactions and the contract implementation departments monitor the transaction amounts in a timely manner.
- (7) The Company implements connected transactions in accordance with the internal control process, and requires all of the subsidiaries to submit implementation reports of connected transactions on a monthly basis. The Company consolidates, reviews, sums up and analyses the data, and monitors whether the transaction amounts are within the annual caps, and recommends improvement measures for any issues identified.
- (8) The Board reviews the implementation of the continuing connected transactions on an annual basis and reviews the periodic reports which consist of the implementation of the continuing connected transactions on a half-yearly basis on matters mainly including: whether the Company and relevant connected person performed the continuing connected transaction agreement during the relevant period; whether the actual transaction amount incurred are within the annual caps as approved at the general meeting. The independent non-executive Directors report to the general meeting of the Company on an annual basis on their performance of duties. Such

---

## LETTER FROM THE BOARD

---

reports include opinions on the continuing connected transactions as to (i) whether the transactions are entered into within the ordinary course of business of the Group; (ii) whether being conducted on normal commercial terms or better; and (iii) whether conduct of the transactions pursuant to the agreements are on terms that are fair and reasonable, and in the interests of the Shareholders of the Company as a whole.

- (9) The Supervisory Committee supervises the matters relating to the continuing connected transactions. It reviews the annual reports and interim reports which consist of the implementation of the continuing connected transactions on an annual basis. It also opines on the domestic and overseas compliance of the connected transactions, whether the prices are fair and reasonable and whether there are any acts which are detrimental to the interests of the Company and the Shareholders.
- (10) The Audit and Risk Committee of the Board reviews the annual reports, and interim reports which consist of the implementation of the continuing connected transactions and opine on the connected transactions during the relevant periods on matters mainly including the fairness of the connected transactions and whether the transaction amount incurred are within the annual caps.
- (11) The external auditor of the Company conducts year-end audit for each financial year, issues its opinions and letters to the Board in relation to whether the continuing connected transactions are (i) conducted in accordance with the pricing policy of the Group in all material aspects, (ii) any non-compliance with the agreements for the relevant transactions in all material aspects, and (iii) whether annual caps are exceeded pursuant to the Hong Kong Listing Rules and submits the same to the Hong Kong Stock Exchange.

The Company has also taken necessary and additional measures to strengthen the reporting and documentation system of the Company and its subsidiaries including:

- (a) The connected transaction leading group frequently monitors and updates the trend of coal prices on a weekly basis by taking into account the Group's development and market conditions for a more accurate assessment of market expectations. As and when any adjustment to the annual caps of continuing connected transaction becomes foreseeable, the Company will promptly make necessary announcement and seek prior approval from Independent Shareholders.
- (b) The Company conducts more frequent review of the total volume of continuing connected transactions and assigns additional executives from the business unit and key subsidiaries of the Company to the connected transaction leading group to report on the projected volume of continuing connected transactions on a monthly basis, with such frequency increased to biweekly during periods of high market volatility to avoid exceeding the approved annual caps for continuing connected transactions.

---

## LETTER FROM THE BOARD

---

- (c) The Company has reviewed and strengthened the Group's internal control policies and measures on continuing connected transactions, including, but not limited to, the data collection and cross-checking process, reporting, filing system, and intervals of regular meetings between the Group's finance and compliance departments to discuss potential issues and streamline internal reporting process.
- (d) The connected transaction leading group provides monthly transaction data for review by the Company's management and members of the Audit and Risk Committee in order to enhance oversight of the Group's continuing connected transactions.
- (e) The Company has engaged external legal advisers to provide not less than 15 hours of additional trainings on connected transactions to the directors, senior management and relevant employees to enhance their familiarity with the Hong Kong Listing Rules, and to conduct frequent trainings and distribute compliance guidelines and training material on a regular basis to remind of and update their knowledge and understanding of the requirements of the Hong Kong Listing Rules and compliance with internal control procedures in relation to the Group's continuing connected transactions to ensure that the Company will continue to comply with the Hong Kong Listing Rules in a timely manner.
- (f) The Company will promptly consult with professional advisers, including the legal advisers as and when appropriate in planning for and reviewing of future transactions.

The Company undertakes that, in the event that it is necessary to adjust the annual caps under the continuing connected transaction agreements for any reasons, arrangements will be made in advance and the relevant requirements of the Hong Kong Listing Rules will be strictly complied with.

By implementing the above internal control measures and procedures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing of each transaction will be conducted in strict accordance with the various pricing principles and policies of continuing connected transactions as disclosed in this circular on normal commercial terms or better, and will be fair and reasonable to the Company and the Shareholders as a whole.

### CONNECTED TRANSACTION

#### Background

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

---

## LETTER FROM THE BOARD

---

China Energy and its subsidiaries have various industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical, technology and environmental protection and finance, and are principally engaged in the coal production, power generation, transportation and coal based chemical processing as well as investment and finance activities. China Energy is the controlling Shareholder of the Company. As at the date of this circular, China Energy holds 69.52% interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

References are made to the announcement of the Company dated 1 March 2018 and the circular of the Company dated 12 March 2018 in relation to the amendments to the Existing Non-Competition Agreement.

Article 4 of the Supplemental Agreement to the Existing Non-Competition Agreement stipulates that within 5 years after the Merger of the Group Companies, the Company will seize the opportune moment to exercise the right of preferential transaction, option and the right of first refusal to acquire the assets involved in the Retained Businesses.

Retained Businesses include businesses retained by China Energy Group as a result of reorganization for the listing purpose, which directly or indirectly compete with the core businesses of the Company, i.e. assets other than the conventional power generation business in assets No. 1–9, No. 13 and 14 which were confirmed in 2014 Non-Competition Undertakings; and unlisted businesses obtained by China Energy Group as a result of the merger with Legacy Guodian Group by China Energy Group which directly or indirectly compete with the core businesses of the Company, i.e. unlisted businesses held by Legacy Guodian Group which directly or indirectly compete with the core businesses of the Company (excluding the relevant assets that Legacy Guodian Group undertook to inject into its subsidiary, Inner Mongolia Pingzhuang Energy Co., Ltd., in 2007).

On 27 June 2014, the Company issued the Announcement on the Performance of Non-Competition Undertakings and confirmed that for the fourteen assets that China Energy promised to divest and inject into the Company under the Existing Non-Competition Agreement. These fourteen assets are:

Asset No. 1: 51% Equity Interest in Shenhua Ningxia Coal Industrial Group Co., Ltd.

Asset No. 2: 100% Equity Interest in Shenhua Guoneng Energy Group Corporation Limited

Asset No. 3: 100% Equity Interest in China Shenhua Coal to Liquid and Chemical Co., Ltd.

Asset No. 4: 100% Equity Interest in Shenhua Xinjiang Energy Company Limited

Asset No. 5: 100% Equity Interest in Xinjiang Shenhua Mining Industry Company Limited

Asset No. 6: 100% Equity Interest in Shenhua Wuhai Coal Group Corporation Limited

Asset No. 7: 100% Equity Interest in Shenhua Group Baotou Mining Co., Ltd.

Asset No. 8: 51% Equity Interest in Shaanxi Shenyang Coal Co., Ltd.

---

## LETTER FROM THE BOARD

---

Asset No. 9: 100% Equity Interest in Shenhua Hangjin Energy Company Limited

Asset No. 10: 100% Equity Interest in Guohua Xuzhou Power Generation Co., Ltd.

Asset No. 11: 100% Equity Interest in Ningxia Guohua Ningdong Power Generation Co., Ltd

Asset No. 12: 51% Equity Interest in Shenhua Guohua (Zhoushan) Power Generation Co., Ltd.

Asset No. 13: 45% Equity Interest in Jiangsu Guohua Gaozi Power Generation Co., Ltd.

Asset No. 14: 49% Equity Interest in Shanxi Province Jinshen Energy Co., Ltd.

In 2015, the Company acquired assets No.10–12. The other assets have not been injected into the Company. Retained Businesses include assets other than the conventional power generation business in assets No. 1–9, No. 13 and 14 which were confirmed in 2014 Non-Competition Undertakings.

Other than Retained Businesses, China Energy Group does not have other business that directly or indirectly competes with the core businesses of the Company.

The Company has been actively coordinating with and urging China Energy and monitoring the compliance with relevant non-competition undertakings by China Energy, as well as continuously paying attention to and promoting the comprehensive review and inspection of the Retained Businesses set out in the Supplemental Agreement to the Existing Non-Competition Agreement. Within the time limit of performance of the Supplemental Agreement to the Existing Non-Competition Agreement, certain preliminary work has been carried out by China Energy and the Company, while the injection of relevant assets has not commenced, the reasons for which are as follows:

1. Given the high coal price with relatively severe volatility in recent years, coal trading enterprises generally set the coal price at a high level. On a prudent basis, taking into account the volatility risk of future coal price and subject to the continuous supervision on the operation of relevant coal assets, the Company considered integration effect comprehensively, firmly protected its Shareholders' interests, exercised stringent control over the acquisition price of assets and suspended preliminary work for certain assets with high premium risk.
2. Certain Retained Businesses have yet to meet the criteria for injection to the Company due to ownership issues such as incomplete or defective title or risk factors such as pending issues and legal disputes, which are not estimated to be effectively resolved in the near future due to certain objective factors such as jurisdiction policies and the complicated equity relationships. The Company has been continuously monitoring the progress of the abovementioned issues and will commence the preliminary work as and when appropriate upon the establishment of clear solutions.

---

## LETTER FROM THE BOARD

---

3. Certain Retained Businesses have yet to meet the criteria for injection to the Company due to the uncertainties on profitability prospect and the potential dilution effect on the earnings level of the Company's Shareholders resulting from the assets injection for the reasons such as the significant price volatility of bulk commodity or the uncertain timetable for substantive put-into-production.

The Company has been actively promoting the acquisition of coal resource to safeguard the continuance of coal resource of the Company and strengthen its integrated operation infrastructure and capability. Taking into account the low availability and high price of coal resource from external markets, the Company continuously takes the injection of relevant existing coal assets from China Energy Group as an important approach to resource acquisition. Therefore, the Company proposed to reserve the right of first refusal on the relevant assets in order to increase the resource inventory for its core coal business at reasonable prices as and when appropriate to enhance its sustainability.

In order to further promote the resolving of the non-competition issues of China Energy Group in the Company's business areas such as coal and power generation, the Company and China Energy Group proposed to enter into the Supplemental Agreement II to the Existing Non-Competition Agreement to amend the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement.

### **Supplemental Agreement II to the Existing Non-Competition Agreement**

China Energy and the Company entered into the Supplemental Agreement II to the Existing Non-Competition Agreement on 28 April 2023. Such supplemental agreement shall become effective upon obtaining the approval of the Independent Shareholders at the AGM and signing by the legal representatives or authorized representatives of both parties with their company seals affixed thereto.

The Supplemental Agreement II to the Existing Non-Competition Agreement supplements the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement as follows:

1. the parties agree that save as otherwise agreed by the Supplemental Agreement II to the Existing Non-Competition Agreement, the parties shall continue with the performance of the Existing Non-Competition Agreement and Supplemental Agreement to the Existing Non-Competition Agreement.
2. Within 5 years after the expiration of the period as stipulated by Article 4 of the Supplemental Agreement to the Existing Non-Competition Agreement, the Company will seize the opportune moment to exercise the right of preferential transaction, option and the right of first refusal to acquire the assets involved in the Retained Businesses.

---

## LETTER FROM THE BOARD

---

### **Reasons and Benefits for the Amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement**

Amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement are decisions made on the basis of objective conditions of the assets of the relevant Retained Businesses of China Energy Group, which are conducive to resolving the potential competition issue, and do not prejudice the interests of the Company and other Shareholders, do not affect the independence of the Company, and do not have a material impact on the current and future financial position and operating results of the Company. Accordingly, the Company proposed to amend the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement. Pursuant to the Supplemental Agreement II to the Existing Non-Competition Agreement, the period for the Company to seize the opportune moment to exercise the right of preferential transaction, option and the right of first refusal to acquire the assets involved in the Retained Businesses is extended to 27 August 2028.

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

China Energy holds 69.52% interest in the Company, and is the controlling Shareholder of the Company. As such, China Energy is a connected person of the Company under the Hong Kong Listing Rules, and the entering into of the Supplemental Agreement II to the Existing Non-Competition Agreement between the Company and China Energy to amend the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement constitutes a connected transaction of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules, and is subject to reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

### **General Information**

The Directors (including independent non-executive Directors) consider that the entering into of the Supplemental Agreement II to the Existing Non-Competition Agreement (including its terms) 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 entering into of the Supplemental Agreement II to the Existing Non-Competition Agreement with China Energy on 28 April 2023. Of the Directors attending the Board meeting, Abstained Directors were considered to have material interests in the transaction by virtue of being employed by China Energy and had thus abstained from voting on the relevant Board resolution(s) in respect of the entering into of the Supplemental Agreement II to the Existing Non-Competition Agreement.



---

## LETTER FROM THE BOARD

---

### PROPOSAL FOR GENERAL MANDATE TO REPURCHASE H SHARES

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

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

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

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

Accordingly, approval is being sought from the Shareholders for a general mandate to repurchase H Shares in issue. In accordance with the legal and regulatory requirements described herein, the Directors will convene the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting. A special resolution will be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting to grant the Board the H Share Repurchase Mandate, details of which will be set out in the notice of the AGM and the notice of the H Shareholders' Class Meeting. The H Shares which may be repurchased pursuant to the H Share Repurchase Mandate shall not exceed 10% of the number of H Shares in issue of the Company as at the date of passing of the resolution(s) approving the H Share Repurchase Mandate at the AGM and the Class Meetings. The period of the H Share Repurchase Mandate



---

## LETTER FROM THE BOARD

---

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 2023; 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 9:00 a.m. on Friday, 16 June 2023 for the purpose of, inter alia, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement;
- (2) 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, 16 June 2023 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, 16 June 2023 for the purpose of considering and approving by the H Shareholders, and by way of special resolution(s), the H Share Repurchase Mandate.

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

Pursuant to the Hong Kong Listing Rules, China Energy and its associates will abstain from voting on resolution(s) relating to the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement

---

## LETTER FROM THE BOARD

---

and the Supplemental Agreement to the Existing Non-Competition 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 with reply slips 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 the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement, 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 the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition 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.

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the resolutions in relation to the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, and entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement.

---

## LETTER FROM THE BOARD

---

Having considered the advices given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion that the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, and entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement set out herein is fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions in relation to the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, and entering into the New Financial Services Agreement, amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement to be proposed at the AGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 50 to 51, the letter from the Independent Financial Adviser set out on pages 52 to 99 and the other information set out in the appendices to this circular.

Yours faithfully,

By order of the Board

**Song Jinggang**

*Chief Financial Officer and Secretary to the Board of Directors*



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

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 01088)**

May 17, 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS  
CONTINUING CONNECTED TRANSACTIONS**

**ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT,  
THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT  
AND THE NEW FINANCIAL SERVICES AGREEMENT**

**CONNECTED TRANSACTION**

**AMENDMENTS TO THE EXISTING NON-COMPETITION  
AGREEMENT AND THE SUPPLEMENTAL AGREEMENT TO  
THE EXISTING NON-COMPETITION AGREEMENT**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement and amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, are in the interests of the Company and its Shareholders as a whole and how to vote.

Having considered the above and the advice of the Independent Financial Adviser in relation thereto as set out on pages 52 to 99 of this circular, we are of the opinion that the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement and amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement set out herein are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole.

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the entering into the New Mutual Coal Supply Agreement, entering into the New Mutual Supplies and Services Agreement, entering into the New Financial Services Agreement, and amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition 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*

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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



### SOMERLEY CAPITAL LIMITED

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

17 May 2023

*To: The Independent Board Committee and the Independent Shareholders*

Dear Sirs or Madam,

**DISCLOSEABLE TRANSACTIONS  
CONTINUING CONNECTED TRANSACTIONS  
ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT,  
THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT AND  
THE NEW FINANCIAL SERVICES AGREEMENT**

**CONNECTED TRANSACTION  
AMENDMENTS TO THE EXISTING NON-COMPETITION AGREEMENT  
AND THE SUPPLEMENTAL AGREEMENT TO THE EXISTING  
NON-COMPETITION AGREEMENT**

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with (i) the New Mutual Coal Supply Agreement and the proposed annual caps; (ii) the New Mutual Supplies and Services Agreement and the proposed annual caps; (iii) the services in relation to the deposits placed by Members of the Group with the New Finance Company (“**Deposit Services**”) contemplated under Financial Services Agreement and the respective proposed annual caps; and (iv) the proposal on the amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement (collectively, the “**Transactions**”). Details of the Transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its shareholders dated 17 May 2023, of which this letter form part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As at the Latest Practicable Date, China Energy holds 69.52% interest in the Company and is the controlling shareholder of the Company, and Finance Company is held as to 60% of equity interest by China Energy. As such, China Energy and Finance Company are a connected person of the Company under the Hong Kong Listing Rules, and the Transactions constitute continuing connected transactions and connected transaction of the Company respectively pursuant to Chapter 14A of the Hong Kong Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

In respect of the proposed annual caps under the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement, as one or more of the applicable percentage ratios exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps of the Deposit Services, 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, it is thereby subject to reporting, announcement, and the approval of Independent Shareholders 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.

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

We are not associated or connected with the Company, China Energy or their respective core connected persons or associates and, accordingly, are considered eligible to give independent advice on the Transactions. In the two years prior to this appointment, we did not have other engagement with the Company or its associates except for having acted as the independent financial adviser to the Company relating to (1) the proposed revision of annual caps for (i) supply of coal by the Group to the China Energy Group; and (ii) supply of products and provision of services by the Group to the China Energy Group, details of which were set out in the Company's circular dated 20 May 2022; and (2) the proposed revision of the annual caps and certain clauses relating to the deposits placed by Members of the Group with the Finance Company contemplated under financial services agreement, details of which were set out in the Company's circular dated 30 September 2022. We do not consider the past engagement as independent financial adviser gives rise to any conflict for Somerley Capital Limited to act as the independent financial adviser for the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, China Energy or their respective core connected persons or associates.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to, details of the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement, the Deposit Services under the New Financial Services Agreement and the Supplemental Agreement II, annual reports of the Company for the year ended 31 December 2021 (“FY2021”) (“2021 Annual Report”) and 31 December 2022 (“FY2022”) (“2022 Annual Report”) and other information contained in the Circular.

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Information on the Group

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

According to the 2022 Annual Report, revenue of the Group for FY2022 was approximately RMB344,533 million, representing a year-on-year increase of approximately 2.6% as compared with approximately RMB335,640 million in FY2021. The main reasons for the revenue increase were: (i) several new generating units have been put into operation, resulting in a year-on-year increase of 15.2% in the Group’s power output dispatch; benefiting from the national electricity price adjustment, the Group’s average price of electricity sold increased by 20.1% year-on-year; (ii) subject to the supply-demand relationship in the coal market, the average coal sales price of the Group increased by 9.5% year-on-year; and (iii) the sales volume of polyethylene and polypropylene increased by 7.7% and 7.9% year-on-year, respectively.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Based on the 2022 Annual Report, in FY2022, profit before income tax was approximately RMB99,654 million, representing a year-on-year increase of approximately 26.2% as compared with approximately RMB78,945 million in FY2021 (*restated*). In particular, segment profit before tax of the coal segment amounted to approximately RMB73,536 million and as disclosed in the 2022 Annual Report, the segment's gross profit margin was approximately 30.5%. Main reasons for the increase in the coal segment's gross profit margin were the net effect from decrease in sales volume of purchased coal with relatively lower gross profit margins and its proportion in total sales volume of coal correspondingly.

In FY2022, profit for the period attributable to equity holders of the Company was approximately RMB72,903 million, representing a year-on-year increase of approximately 41.8%, compared to approximately RMB51,422 million in FY2021 (*restated*).

Resulting from the Group's robust operating performance, total cash and cash equivalents, time deposits with original maturity over three months was approximately RMB164,146 million as at 31 December 2022, representing an increase of approximately 3.6% as compared with approximately RMB158,407 million as at 31 December 2021.

According to the restated results for FY2021 and the discussion based on the FY2021 Annual Report, the restated revenue of the Group was approximately RMB335,640 million, representing a year-on-year increase of approximately 43.9% as compared with approximately RMB233,263 million for the year ended 31 December 2020 ("**FY2020**"). The main reasons for the revenue increase were that: (i) with strong market demand for coal and rising coal prices, the Group's coal sales volume and average sales price increased by approximately 8.0% and approximately 43.4% year-on-year, respectively; (ii) with the growth in domestic electricity demand, the Group has actively leveraged its integrated operation advantages to ensure the coal supply of power plants, and several new generating units have been put into operation successively from 2021 onwards, resulting in a year-on-year increase of approximately 22.3% in the Group's power output dispatch; (iii) the Group integrated shipping resources, improved the scale and intensification of shipping business, and ensured effective energy supply. The shipping volume increased by approximately 7.3% year-on-year, and freight rate increased; (iv) affected by international oil prices and other factors, the sales prices of polyethylene and polypropylene increased by approximately 21.7% and approximately 13.9% year-on-year, respectively.

Based on the restated results for FY2021, profit before income tax reflected a year-on-year increase of approximately 33.0%.

In FY2021, the restated profit for the year attributable to equity holders of the Company was approximately RMB51,422 million, representing a year-on-year increase of approximately 43.4%, compared to approximately RMB35,849 million in 2020.

### **2. Information on China Energy**

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

With the approval of the CPC Central Committee and the State Council, China Energy Investment Corporation (China Energy) was formally established on November 28, 2017, following the merger of China Guodian Corporation and Shenhua Group.

China Energy provides products and services of whole industrial chains including coal, electric power, transportation and chemical industry. With operations distributed in 31 provinces, autonomous regions and municipalities across China, as well as more than 10 countries and regions including the United States and Canada, China Energy is the world's largest company in coal mining, thermal power, wind power and coal-to-liquids industry. According to the corporate website of China Energy Group ([www.ceic.com](http://www.ceic.com)), it was ranked 85th on the Fortune Global 500 list. Based on the latest published information. The China Energy Group owns approximately 1,897.6 billion assets and 320,000 employees. It has been rated as Grade A in 2021 business performance assessment on leaders of central enterprises and Grade A in the 2019-2021 term assessment. In 2022, it was ranked 85th on the Fortune Global 500 list, up 16 places from the previous year.

China Energy Group, which operates substantial business operations with a scale that is much larger than the scale of the Finance Company and being the controlling shareholder of the Finance Company required to procure the Finance Company's obligations pursuant to the Undertaking, is considered to have strong financial capabilities to fulfil the undertaking requirement.

### **3. Background of and reasons for the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement**

#### ***(i) New Mutual Coal Supply Agreement***

We have discussed and understand from the Management that the Group and China Energy has been supplying coal on a mutual basis prior to the Group's listing in Hong Kong in 2005. The New Mutual Coal Supply Agreement and the continuation of which are regarded as crucial to the carrying out of the businesses of both the Group and the China Energy Group in terms of facilitating business growth and development.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As disclosed in the letter from the Board of the Circular, pursuant to the New Mutual Coal Supply Agreement, the Group sells coals of various calorific values to a number of power plants, coal-to-liquid and coal-based chemical subsidiaries owned by the China Energy. In return, the Group receives payment for the supply of coal as in any other ordinary commercial transactions. Under the New Mutual Coal Supply Agreement, the China Energy Group also supplies the Group with coals of various calorific values for the purposes of coal blending and re-sale. We understand mutual sales and purchases between the Group and China Energy Group is beneficial considering the distance between coal mines, and power plants, coal-to-liquid and coal-based chemical plants, purchasing coal from nearby coal mines owned by the other party is sometimes more convenient and such business relationship also ensures both parties would be able to maintain a reliable supply of high-quality coal. In addition, the New Mutual Coal Supply Agreement was also intended to ensure each party would be able to purchase required coal supply from the other if and where necessary should there be a need to fulfill shortfall between demand and supply.

Based on the disclosures made in the 2022 Annual Report, the mutual supply and purchase of coal between the Group and China Energy Group under the existing mutual coal supply agreement has been overall revenue generating to the Group. For FY2021 and FY2022, revenue generated from sales of coal by the Group to China Energy Group represented around 38.8% and 40.9% of the Group's revenue from the same type of transactions, respectively. Based on the 2022 Annual Report, the purchase of coal by the Group from China Energy Group under the existing mutual coal supply agreement represented 13.6% and 15.1% of the same type of transactions for each of FY2021 and FY2022 respectively.

### *(ii) New Mutual Supplies and Services Agreement*

We have discussed and understand from the Management that the Group and China Energy has been executing transactions under the Mutual Supplies and Services Agreement prior to the Group's listing in Hong Kong in 2005. As with the New Mutual Coal Supply Agreement discussed above, the New Mutual Supplies and Services Agreement and the continuation of which are regarded as crucial to the carrying out of the businesses of both the Group and the China Energy Group in terms of facilitating business growth and development.

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

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Based on the disclosures made in the 2022 Annual Report, the mutual supplies and purchases of products and services between the Group and China Energy Group under the existing mutual supply and services agreement has been overall revenue generating to the Group, for which in FY2021 and FY2022, revenue generated from (i) sales of products provided to China Energy Group represented around 11.8% and 9.2% of the Group's revenue from the same type of transactions entered into by the Group, respectively; and (ii) sales generated from services provided by China Energy Group represented around 13.4% and 38.4% of the Group's revenue from the same type of transactions entered into by the Group, respectively. Based on the 2022 Annual Report, the purchase of (i) products from China Energy Group represented around 2.1% and 3.3% of the same type of transactions entered into by the Group, respectively; and (ii) services from China Energy Group represented around 15.2% and 15.6% of the same type of transactions entered into by the Group, respectively.

In light of:

- (a) the long-established cooperation relationship between the Group and the China Energy Group;
- (b) as discussed above, the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement are essential for maintaining business stability and ensuring operational efficiency for the Group, and China Energy Group on a mutual basis;
- (c) the supply of coal and other products and services by the Group to China Energy Group under the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement, in particular, has brought a positive contribution to the Group;

we agree with the Directors and consider that the entering into of the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement are in the interests of the Company and the Shareholders.

#### **4. Terms of the New Mutual Coal Supply Agreement**

Services provided	(1) the Group has agreed to supply coal to China Energy Group; and  (2) China Energy Group has agreed to supply coal to the Group.
Term and termination	The New Mutual Coal Supply Agreement shall come into force upon approval by the AGM and shall be effective from 1 January 2024 and expire on 31 December 2026.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Price determination  
policy

The transaction amount of mutual supply under the New Mutual Coal Supply Agreement is the product of the unit price RMB/tonne multiplied by the actual weight. The unit price of coal shall be determined by both parties after arm's length negotiations with reference to the market price and conditions and the following factors, provided that the transaction terms shall not be less favourable than those provided by independent third parties:

- (1) the national industrial policy as well as industry and market conditions in the PRC;
- (2) the specified guidelines issued by NDRC setting out the coal purchase prices (if any);
- (3) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable quality that is offered to or offered by third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of China Coal Market Website ([www.cctd.com.cn](http://www.cctd.com.cn)) organised by China Coal Transportation & Sale Society in the PRC; (ii) the sale price of local large coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of one or more other enterprises with comparable quality, quantity and location;
- (4) the quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);
- (5) the quantity of coal; and
- (6) the transportation fees.

To ascertain the fairness and reasonableness of the terms to the New Mutual Coal Supply Agreement, which are substantially on the same terms as the existing mutual coal supply agreement we have requested and were provided with (i) 3 samples of transactions entered into with the Group as the purchaser and China Energy Group as the seller; (ii) 3 samples of transactions entered into with the Group as the seller and China Energy Group as the purchaser; (iii) 3 samples of transactions entered into with the Group as the purchaser with independent

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

third parties; and (iv) 3 samples of transactions entered into with the Group as the seller with independent third party purchasers (collectively, “**Coal Sample Transactions**”). We have discussed and understand from the Management that the Coal Sample Transactions entered into with China Energy Group were considered as comparable with those Coal Sample Transactions entered into with independent third parties as the counterparties.

Based on our review of the Coal Sample Transactions, we noted that terms of the transactions, in particular, (i) the price of similar coal offered by the Group were not more favourable to China Energy Group than those offered to independent third parties; and (ii) the price of similar coal offered by the China Energy Group to the Group were no less favourable to the Group than those offered by independent third parties.

Additionally, as discussed in the section headed “14. Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions” below, the Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions offered to/by connected persons are fair and reasonable and no less favorable to the Group than the terms provided by any independent third party. Such internal control measures include (i) the Company has set up a connected transaction group headed by the chief accountant. This connected transaction group is responsible for managing the day-to-day affairs of the Company’s connected transactions, directing and supervising and inspecting the management of the connected transactions of its subsidiaries, regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly organising the training of the connected transactions and regularly conducting the supervision and inspection of the connected transactions across the Group. In particular, as mentioned in the letter from the Board in the Circular, the connected transaction group will, amongst other things, frequently monitor and update the trend of coal prices on a weekly basis by taking into account the Group’s development and market conditions for a more accurate assessment of market expectations. As and when any adjustments to the annual caps of continuing connected transaction become foreseeable, the Company will promptly make necessary announcement and seek prior approval from independent shareholders; (ii) subsidiaries of the Group also has its individual connected transaction group with a nominated personnel arranged to be in charge of the pricing of the continuing connected transactions and required to strictly observe the pricing principles and policies for the continuing connected transaction disclosed in the Circular to set the price for each transaction; (iii) the Group has in place legal management and other systems in place where personnel recommend pricing of continuing connected transactions shall submit their recommendation for the relevant connected transaction groups and finance departments of the subsidiaries of the Group for approval and confirmation. The connected transaction groups and finance departments also monitor the pricing through the system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price; and (iv) the Company’s internal control and risk management departments conduct regular internal assessments on the internal control measures of the Company on an annual basis.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As such, we consider the effective implementation of the internal control system will provide an additional layer of comfort to ensure fair pricing for transactions under the New Mutual Coal Supply Agreement. Having considered the above factors, including the results from our review of the Coal Sample Transactions and the internal control mechanisms adopted by the Group as outlined above, we are of the view that the terms of the New Mutual Coal Supply Agreement are on normal commercial terms and are fair and reasonable.

### 5. Proposed annual caps under the New Mutual Coal Supply Agreement

#### *Supply of coal by the Group to China Energy Group*

The following tables sets out (i) the actual historical transaction amounts and the existing annual caps in respect of supply of coal by the Group to China Energy Group; and (ii) the proposed annual caps for the three years ending 31 December 2026:

	For the year ended/ending 31 December		
	2021	2022	2023
	(Note 1)		
	(RMB million)		
<b>Historical transaction amount</b>	96,776	94,195	22,593
<b>Existing annual cap</b>	99,000	99,000	99,000
<b>Utilisation</b>	97.8%	95.1%	22.8%

*Note 1:* Historical transaction amount and utilisation for FY2023 is for the three months ended 31 March 2023.

	For the year ending 31 December		
	2024	2025	2026
	(RMB million)		
<b>Proposed annual cap</b>	110,000	110,000	110,000

With reference to the letter from the Board in the Circular, in summary, the proposed annual caps of the New Mutual Coal Supply Agreement for the supply of coal by the Group to the China Energy Group have been set taking into account the following factors:

- (a) The overall operation of the domestic coal market is stable. Affected by the international energy situation, public health incidents, climate and other factors, the supply of coal was tight in some periods and regions, and the price of coal was volatile at high level. As at the end of 2022, the Bohai Bay Thermal Coal Index (5,500 Kcal) was RMB737/tonne, representing a year-on-year increase of RMB64/tonne, or 9.5%. As at the end of 2022, the NCEI (國煤下水動力煤價格指數) (5,500 Kcal) was RMB793/tonne, representing a year-on-year increase of RMB43/tonne, or 5.7%. The Group's commercial coal sales price (exclusive of tax) is affected by factors such as various calorific values of different coal products and the places of sales. In 2022, the average coal sales price of the Group was



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

RMB644/tonne (exclusive of tax, the same below) (2021: RMB588/tonne), representing a year-on-year increase of 9.5%. Considering factors such as the continuous improvement of the supply and demand relationship in the coal market and the promotion of coal prices to run within a reasonable range under national guidance, it is expected that the coal price center will fluctuate within a reasonable range in 2023. Regional, temporal, and variety based coal supply and demand contradictions still exist. The Group implements the same pricing policy for both internal and external customers, and it is expected that the sales prices of coal supplied by the Group to the China Energy Group will remain relatively high.

- (b) In 2022, China's national power consumption reached 8,637.2 billion kWh, representing a year-on-year increase of 3.6%. In 2022, the power generation of sizable power plants nationwide was 8,388.6 billion kWh, representing a year-on-year increase of 2.2%. Among them, thermal power generated 5,853.1 billion kWh, representing a year-on-year increase of 0.9%, and accounting for 69.8% of the national total, which means coal power is still the main source of electricity supply in China at present. Taking into account uncertain factors such as economic growth, foreign trade exports, weather, and wind and solar resources, China Electricity Council predicts that the total electricity consumption in society will increase by about 6% year-on-year in 2023. The overall balance of electricity supply and demand in the country is tight, with some regions experiencing tight electricity supply and demand during peak periods. As the world's largest thermal power company, by the end of 2021, China Energy Group's thermal power installed capacity has reached 194 GW, accounting for about 16% of the country's total; in 2022, 5.71 million kilowatts of cutting-edge clean coal power units have been put into operation. A number of coal-fired power generation projects still under construction, and the demand for coal will continue to go up in the future. At the same time, the NDRC requires coal enterprises to step up their guarantees on coal for power generation and heat supply. The Group's coal sales will further tilt towards thermal coal. Thus it is estimated that the coal supply for China Energy Group will continue to be on the rise.
- (c) In 2021 and 2022, the actual amounts of coal supplied by the Group to China Energy Group were close to the annual caps. In order to implement the country's energy supply guarantee plans and continue to consolidate the advantages of integrated industrial chain operations, the Group's total coal sales in 2022 was at 417.8 million tonnes. The planned coal sales in 2023 is at 435.8 million tonnes, representing a year-on-year increase of 4.3% as compared to that of the year 2022. Assuming that the increase of amount of coal supplied by the Group to China Energy Group will be on par with such increase, and the supply price would mirror, basically, that of the 2022, it is estimated that in 2023, the Group will sell approximately RMB98.2 billion of coal to China Energy Group. It is estimated that from 2024 to 2026, the amount of coal sold to the China Energy Group will remain the same as that in 2023, with slight fluctuations. The annual transaction amount is about RMB98.2 billion. Taking into account a built-in 15% buffer, the coal supply annual caps from 2024 to 2026 for the Group's supply to China Energy Group is RMB110 billion.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As disclosed in the table above, the actual transacted amount for FY2022 was approximately RMB94,195 million, representing approximately 95.1% of annual cap of RMB99,000 million. We further note from the table above that as at 31 March 2023, the utilisation rate of the annual cap for the year ending 31 December 2023 (“FY2023”) was approximately 22.8%.

We note the annual cap for year ending 31 December 2024 (“FY2024”) of RMB110,000 million represents a growth of approximately 16.8% and 11.1% respectively compared to the actual transacted amount in FY2022 and the annual cap for FY2023. In ascertaining the fairness and reasonableness of the annual for FY2024, we have reviewed the following factors:

*(i) Average price of coal*

We have discussed and understand from the Management that although coal sales price increased in FY2022, it is expected to remain high though will be relatively stable in FY2023 and FY2024. We have reviewed 2021 Annual Report and 2022 Annual Report, and we note that average coal sales price increased by approximately 43.4% to approximately RMB588/tonne (exclusive of tax) in FY2021. Growth rate slowed to approximately 9.5% in FY2022, with an average of RMB644/tonne (exclusive of tax) reported.

We have also discussed and understand from the Management that the Bohai Bay Thermal Coal Index (“**Bohai Index**”) which provides indicative pricing for thermal coal transported from major ports located in Bohai Bay, and as quoted in the letter of the Board of the Circular, would serve as a meaningful indicator for the sales price of coal due to it being one of the key thermal coal indexes in the PRC. As such, we have also reviewed the Bohai Index movements over the recent six months prior to the date of announcement of the Transactions. We consider the use of six months review period to be fair due to the fact that it reflects the indicative current market pricing of coal. Based on our review, the Bohai Index averaged an approximate RMB735/tonne (inclusive of tax), or approximately RMB650/tonne (exclusive of tax) for the relevant review period. This is similar to the average coal sales price reported by the Company for FY2022. We have further discussed and noted from the Management that the Group’s average coal sales price between January and March 2023 was approximately RMB621/tonne (exclusive of tax) as compared to approximately RMB624/tonne (exclusive of tax) for the same period in 2022.

In view of the above, we consider the assumption of the coal prices remaining stable in FY2024 is in line with recent data and records and therefore is not unreasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*(ii) Coal sales volume*

We have discussed and understand from the Management that China Energy Group will continue to maintain its demand for coal in FY2024 as compared to FY2023. Based on the disclosures in the 2021 Annual report, the Group's business target for FY2022 in terms of coal sales volume is approximately 403 million tonnes. We have reviewed the 2022 Annual Report which disclosed that the Group has reported total sales of coal volume for FY2022 of approximately 417.8 million tonnes. We note that the sales volume in FY2022 exceeded the projection by approximately 3.7% and the Group currently anticipates a growth of approximately 4.3% in FY2023. We understand the anticipated growth rate was estimated based on the Group's internal projection.

Given the fact that the actual attained coal sales volume for FY2022 exceeded the previously estimated FY2022 coal sales volume and the disclosed expected growth rate for FY2023, we consider the Group's use of 4.3% as an assumption for the purpose of estimating the proposed annual cap for FY2024 to be not excessive.

*(iii) Buffer*

We note that the Company has also applied a buffer of 15% when estimating the annual cap for FY2024. We concur with the Management that a buffer of 15% is fair and reasonable in light of possible unanticipated fluctuations in business needs.

Based on all the factors discussed above, we are of the view that the annual cap for FY2024 to be fair and reasonable.

We note that the Company assumed the proposed annual caps for year ending 31 December 2025 ("**FY2025**") and year ending 31 December 2026 ("**FY2026**") to be the same as that for FY2024. As discussed above, coal sales volume and coal sales price are the two key inputs when estimating the proposed annual cap. Based on the disclosures in the annual report for year ended 31 December 2020 ("**2020 Annual Report**"), the 2021 Annual Report and the 2022 Annual Report, we noted that the maximum annual growth rates of coal sales volume in the last three financial years once amounted to approximately +8.0%, as such, we consider not including a growth rate to the annual cap for FY2025 and FY2026 to be prudent.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Supply of coal by China Energy Group to the Group*

The following tables sets out (i) the actual historical transaction amounts and the existing annual caps in respect of supply of coal by China Energy Group to the Group; and (ii) the proposed annual caps for the three years ending 31 December 2026:

	For the year ended/ending 31 December		
	2021	2022	2023
			(Note 1)
	(RMB million)		
<b>Historical transaction amount</b>	14,019	9,831	2,145
<b>Existing annual cap</b>	20,000	29,000	29,000
<b>Utilisation</b>	70.1%	33.9%	7.4%

*Note 1:* Historical transaction amount and utilisation for FY2023 is for the three months ended 31 March 2023.

	For the year ending 31 December		
	2024	2025	2026
	(RMB million)		
<b>Proposed annual cap</b>	27,000	27,000	27,000

With reference to the letter from the Board in the Circular, in summary, the proposed annual caps of the New Mutual Coal Supply Agreement for the supply of coal by the China Energy Group to the Group have been set taking into account the following factors:

- (a) The domestic coal market is generally stable. Yet under the influence of the international energy situation, social public health events, climate and other factors, supply in some regions has been tight during certain periods of time, with coal prices fluctuating at a high level. In 2022, the Bohai Bay Thermal Coal Index (5,500 Kcal) was RMB737/tonne, representing a year-on-year increase of RMB64/tonne, or 9.5%. At the end of 2022, the NCEI (國煤下水動力煤價格指數) (5,500 Kcal) was RMB793/tonne, representing a year-on-year increase of RMB43/tonne, or 5.7%.

The commercial coal purchased by the Group includes commercial coal with different calorific value, and the purchase price varies with the calorific value. In 2022, the average purchase price (excluding tax, same as follows) of the Group's outsourced coal was RMB641/tonne, which is 36.7% higher than that of the first half of 2021 which was RMB469/tonne, as was used to determine the annual caps of continuing connected transactions from 2021 to 2023 back in 2021. It is expected that the price of coal purchased by the Group from China Energy Group will remain at a relatively high level.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (b) In 2022, the Group's installed capacity of coal-fired generators increased by 2,340 MW for the year. The total coal consumption of the power generation business in 2022 was 84.4 million tonnes, representing an increase of 13 million tonnes or 18.2% compared with 2021. At present, the Group also have coal-fired power generation projects of 10 GW under construction and planning. Considering the geographical location of the Group's power plants and the convenience and economy of purchasing coal, and helping the Group continue to obtain reliable and quality-assured coal supplies, coal purchases from China Energy Group by the Group may thus increase.
- (c) It is expected that in 2023, the Group's commercial coal production will reach 309.4 million tonnes, with a year-on-year decrease of 4 million tonnes, and coal sales to reach 435.8 million tonnes, with a year-on-year increase of 18 million tonnes, leading to an increase of 22 million tonnes in terms of annual external purchases of coal. China Energy Group is an important source for additional coal purchased by the Group. At the same time, with the development of power generation and coal chemical business, the coal purchase volume from China Energy Group may also increase. It is estimated that the Group's spending on coal purchases from China Energy Group in 2023 can be controlled under RMB27 billion (factored in a built-in buffer of 15%). It is estimated that the amount of coal procurement expenditure from 2024 to 2026 will essentially mirror that of 2023. It is suggested that the annual caps of coal purchased by the Group from China Energy Group will be at RMB27 billion from 2024 to 2026, which is RMB2 billion lower than the annual caps for transactions in 2022 and 2023.

As disclosed in the table above, the actual transacted amount for FY2022 was approximately RMB9,831 million, representing approximately 33.9% of annual cap for FY2022 of RMB29,000 million. We note that the utilisation rate of the annual cap for FY2021 was approximately 70.1%. As at 31 March 2023, the Company has utilised approximately 7.4% of the annual cap for FY2023. We have discussed and noted from the Management that the recent utilisation rates was particularly low and dollar value transacted decreased by approximately 29.9% in FY2022 as compared to FY2021 due to the decrease in total purchased coal volume of the Group by approximately 40.1% in FY2022 as a result of NDRC's requests on coal enterprises to step up their guarantees on coal for power generation and heat supply and the decrease in supply of purchased coal available to the Group and the market in general.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We note the annual cap for FY2024 represents an increase of approximately 174.6% and a decrease of approximately 6.9% compared to the actual transacted amount in FY2022 and the annual cap for FY2023. In ascertaining the fairness and reasonableness of the annual for FY2024, we have reviewed the following factors:

*(i) Coal sales and purchase volume*

As disclosed in the section headed “3. Background of and reasons for the New Mutual Coal Supply Agreement and New Mutual Supplies and Services Agreement – (i) Mutual Coal Supply Agreement” above, the key reasons for entering into the Mutual Coal Supply Agreement is for both the Group and China Energy Group to ride on each other’s resources, if and where necessary, particularly considering the distance between coal mines, power plants, coal to liquid and coal based chemical plants where purchasing coal from nearby mines owned by the other party may sometimes be more convenient and beneficial for business needs. In addition, the Mutual Coal Supply Agreement was also intended to ensure each party would be able to purchase required coal supply from the other if and where necessary should there be a need to fulfill shortfall between demand and supply.

As disclosed in section above, based on the 2022 Annual Report, volume of coal purchased in total by the Group declined by approximately 40.1% mainly due to NDRC’s requests on coal enterprises to step up their guarantees on coal for power generation and heat supply and as such, there has been a decrease in the supply of purchased coal available to the Group and the market in general. We have discussed and understand from the Company that this trend is likely to continue into FY2024 onwards. Despite this, and given the expected total sales volume growth in FY2024 as discussed in section headed “5. Proposed annual caps under the New Mutual Coal Supply Agreement, Supply of coal by the Group to China Energy Group, (ii) Coal sales volume” above, it is expected that the Group would still have a need to, among other things, purchase coal from other suppliers should there be a need to fulfill shortfall between its own demand and supply.

In this respect, we understand that the Group would normally produce its own coal for commercial sales and would purchase coal to fulfill the difference between coal produced and demand from customers based on need. As disclosed in the 2022 Annual Report, the Group produced 313.4 million tonnes of coal in FY2022 and sold 417.8 million tonnes of coal and accordingly, the Company purchased around 104.4 million tonnes coal to fulfill the shortfall for FY2022. As stated in the letter from the Board in the Circular, the Group’s commercial coal production will reach 309.4 million tonnes in 2023 whilst coal sales is expected to reach 435.8 million tonnes, implying the total coal purchase by the Group in FY2023 to be 126.4 million tonnes. We understand in estimating the annual cap for FY2024, the Company has assumed the expected shortfall to be similar to that of FY2023 and given the Group had actually purchased approximately 104.4 million tonnes in FY2022 with an expected additional purchase of coal of only approximately 22 million tonnes, we consider this assumption to be not without basis.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*(ii) Average purchase cost of coal*

We have discussed and understand from the Management that cost of coal purchased is a crucial input to the determination of annual cap in this category of transaction.

As discussed in the previous section headed “5. Proposed annual caps under the New Mutual Coal Supply Agreement – Supply of coal by the Group to China Energy Group – (i) Average price of coal”, the Company expects coal prices to remain relatively stable in FY2024 as compared to FY2023.

For reasons also outlined under the section above headed “5. Proposed annual caps under the New Mutual Coal Supply Agreement – Supply of coal by the Group to China Energy Group – (i) Average price of coal”, we consider this assumption to in line with market and is not unreasonable.

*(iii) Buffer*

We note that the Company has also applied a buffer of 15% when estimating the annual cap for FY2024. We concur with the Management that a buffer of 15% is fair and reasonable in light of possible unanticipated fluctuations in business needs.

Based on all the factors discussed above, we are of the view that the annual cap for FY2024 to be fair and reasonable.

We note that the Company assumed annual cap FY2025 and FY2026 to be the same as that for FY2024. As discussed above, coal sales and purchase volume and coal purchase cost are the two key inputs when estimating the annual cap. Based on the disclosures in the 2020 Annual Report, the 2021 Annual Report and the 2022 Annual Report, we noted that the maximum annual growth rate of coal sales volume for the last three financial years once amounted to approximately +8.0% and as such, we consider not including a growth rate to the annual cap for FY2025 and FY2026 to be prudent.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 6. Terms of the New Mutual Supplies and Services Agreement

Services provided

Pursuant to the New Mutual Supplies and Services Agreement:

- (a) The Group has agreed to supply products and provide services to the China Energy Group, including:
  - (i) production: power trading and other related or similar services;
  - (ii) production supplies: selling of chemical products, selling or leasing of production equipment and spare parts, office products and other related or similar products or services;
  - (iii) ancillary production services: rail, shipping and port transportation services, sales and related technical services of hardware and software equipment, information technology services, logistics and support services, training and other related or similar products and services;
  - (iv) administrative services: various daily administrative services to China Energy Group (exclusive of financial management and services).
- (b) The China Energy Group has agreed to supply products and provide services to the Group, including:
  - (i) production: power trading and other related or similar services;
  - (ii) production supplies: sales of refined oil and chemicals, sales or leases of production equipment and spare parts, office supplies and other related or similar products and services;
  - (iii) ancillary production services: shipping and port services, construction, logistics and support services, training, tendering agency services, information technology services, technical consulting and other related or similar services;
  - (iv) administrative services: social security and pension management services and staff data recording services.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Term and termination      The New Mutual Supplies and Services Agreement is conditional on the approval at the AGM, and is effective from 1 January 2024 and will expire on 31 December 2026.

Price determination policy      The pricing of the products and services provided under the New Mutual Supplies and Services Agreement shall be determined in accordance with the general principles and in the order of the section below:

- (a) Government-prescribed price and government-guided price: if at any time, the government prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price.
- (b) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.
- (c) Market price: it is determined on the following methods: the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third parties for the same period when determining whether the price for any product transaction under the New Mutual Supplies and Services Agreement is the market price.
- (d) Agreed price: to be determined by adding a reasonable profit margin over a reasonable cost. The management shall consider at least two comparable deals with independent third parties for the same period when determining the reasonable profit of any product transaction under the New Mutual Supplies and Services Agreement.

In addition to the above, for certain types of product or service, specific pricing policy is adopted as follows:

- (a) Rail transportation: price prescribed by NDRC and other related government authorities.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (b) Construction: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, the market price.
- (c) Oil products: government-guided price.
- (d) Power trading: government-guided price if any; market price for the centralized bidding transaction execution; and the independent negotiated transaction shall refer to transaction price of the recent market comparable deals.
- (e) Hardware and software equipment and related services: market price (including tender and bidding price).
- (f) Chemical products: market price.
- (g) Production equipment and spare parts, office products: market price.
- (h) Tendering agency services: price prescribed by relevant rules of NDRC.
- (i) Technical consulting services: agreed price with a profit margin of approximately 10%.
- (j) Information technology services: the budget is reviewed by professional institution(s) with pricing reviewing qualification according to relevant national and industrial rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to the market customs of the information technology industry, actual standards and market price, taking into account the actual condition of the information technology construction. The parties negotiate and agree on the service price within the scope of budget.
- (k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%).
- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%).

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (m) Various daily administrative services to headquarters of China Energy (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

To ascertain the fairness and reasonableness of the terms of the New Mutual Supplies and Service Agreement, which is substantially on the same terms as the existing mutual supplies and services agreement and in particular, the pricing mechanism associated for each type of products (details of which are set out in the letter from the Board of the Circular), we have requested and the Company has provided 2 sample transactions in respect of the Group's provision of services to China Energy Group and 2 sample transactions in relation to similar services to independent third parties. Given such pricing terms of such transactions were determined with reference to government prescribed prices, the Company also provided us with the government prescribed price/government-guided price documents considered at the time of entering into the transactions. Based on our review, we noted that the service prices were in line with relevant government-prescribed price.

In addition, we also obtained 3 sample transactions in respect of the Group's acquisition of services that were determined by way of public tender. Based on our review, we noticed that for transactions where China Energy Group provided the winning bid and was confirmed as the selected service provider, the services fee offered was better than the services fees proposed by independent third parties.

The Company also provided us with three copies of contracts in respect of the mutual provision of services between the Group and China Energy Group, with services prices for such services based on agreed price. The Company further provided us with the gross profit margins of the aforesaid contracts and gross profit margins for relevant industries (as extracted from 企業績效評價標準值 (Enterprise Performance Evaluation Standard Value\*) as prepared by 國務院國資委考核分配局 (Assessment and Distribution Department of State-owned Assets Supervision and Administration Commission of the State Council\*) for the respective year). We noticed that the gross profit margins of the aforesaid contracts were in line with gross profit margins for relevant industries.

As discussed under the section headed "14. Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions" below, the Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions are fair and reasonable and no less favourable than the terms provided by any independent third party. We note that in addition to the internal control procedures such as the setting up of connected transaction group on the Group level and subsidiary levels, and the need for internal approval process to have been completed prior to entering into any transactions, for the New Mutual Supplies and Services Agreement, according to regulations and the Group's rules for procurement and sales, when the government-prescribed price or government-guided price is absent, the Company will seek to obtain information about market price through various channels, for example, considering at least two comparable transactions with independent third parties for the same period,

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

comparable transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Such price is determined by the contracting parties (i.e., the subsidiaries of the Group on the one hand and the subsidiaries of the China Energy Group on the other hand) on normal commercial terms with reference to the information obtained as mentioned above. Where tender and bidding process is necessary under applicable laws, regulations and rules, the Group and the China Energy Group shall entrust professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group or the China Energy Group shall participate fairly. For products and services with agreed prices, the supplier shall provide a cost list and the purchaser conducts comparison with the comparable average cost of similar enterprises in the neighbouring areas or the cost of the same type of products to determine the reasonable cost for ascertaining the price of the connected transaction. Once the price is executed, unilateral change is prohibited.

Having considered the above factors, we concur that the terms of the New Mutual Supplies and Services Transaction are on normal commercial terms and are fair and reasonable.

### 7. Proposed annual caps under the New Mutual Supplies and Services Agreement

#### *Provision of supplies and services by the Group to China Energy Group*

The following tables sets out (i) the actual historical transaction amounts and the existing annual caps in respect of provision of supplies and services by the Group to China Energy Group; and (ii) the proposed annual caps for the three years ending 31 December 2026:

	For the year ended/ending 31 December		
	2021	2022	2023
			(Note 1)
	(RMB million)		
<b>Historical transaction amount</b>	10,502	18,560	4,301
<b>Existing annual cap</b>	13,000	39,000	39,000
<b>Utilisation</b>	80.8%	47.6%	11.0%

*Note 1:* Historical transaction amount and utilisation for FY2023 is for the three months ended 31 March 2023.

	For the year ending 31 December		
	2024	2025	2026
	(RMB million)		
<b>Proposed annual cap</b>	35,000	35,000	35,000

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

With reference to the letter from the Board in the Circular, in summary, the proposed annual caps of the New Mutual Supplies and Services Agreement for the supply of products and provision of services by the Group to the China Energy Group have been set taking into account the following factors:

- (a) The products and services provided by the Group to China Energy Group include transportation services, power trading, information services, sales of chemicals, etc. China Energy Group is one of the Group's long-term important customers, and the two parties have a stable cooperative relationship. With the development of the Company's business and the growth of its operating income, the amount of products and services provided by the Group to China Energy Group in 2020, 2021 and 2022 was at RMB9.73 billion, RMB10.50 billion and RMB18.56 billion, respectively, with a compound annual growth rate of 38.1%.
- (b) In the future, the Group will continue to promote the reconstruction of railway capacity, the construction of dedicated coal transportation lines, and the investment and construction of information and smart industries. With the Group's continuing strengthening of its competitive edge in railway transportation and other aspects, the Group's ability to provide transportation services, information services and other services and products to China Energy Group will be continually enhanced. Considering the impact of business growth, rising prices and labour costs, the compound annual growth rate for the amounts charged by the Group for products supplied and services rendered to China Energy Group is expected to be 28% in 2023 and 2024, which is 10.1 percentage points lower than the compound annual growth rate from 2020 to 2022. It is estimated that the Group will provide products and services to China Energy Group amounting to approximately RMB30.4 billion from 2024 to 2026, and with a built-in buffer of 15%, that the annual caps for the amount charged by the Group for products supplied and services rendered to China Energy Group in 2024 to 2026 to be set at RMB35 billion, respectively, which is RMB4 billion lower than the annual caps for 2022 and 2023.

As disclosed in the table above, the actual transacted amount for FY2022 was approximately RMB18,560 million, representing approximately 47.6% of annual cap of RMB39,000 million and we further note that the Company has so far utilised approximately 11.0% of the annual cap for FY2023 mainly because the actual transacted amount of certain projects was lower than expected. We note that the utilisation rate of annual cap in FY2021 was approximately 80.8%.

We note that the annual cap for FY2024 represents an increase of approximately 88.6% as compared to the actual transacted amount in FY2022, and a decrease of approximately 10.3% as compared to the annual cap for FY2023. We have discussed and understand from the Company that the key consideration factor for the determination of the annual cap for FY2024 was with reference to the historical growth rate in actual transacted amount involving provision of supplies and services by the Group to China Energy Group and a 15% buffer to cater for unforeseeable changes to business needs.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We have discussed and understand from the Management that the demand from China Energy Group for the supply of products and provision of services by the Group under the New Mutual Supplies and Services Agreement can be reflected through the growth rate of the Company's operating income, which, with reference to the paragraphs above and as disclosed in the letter from the Board in the Circular, has reported an average annual growth rate of 38.1% throughout the years between 2020 and 2022. Despite the historical growth rate, we understand the Company has taken the prudent approach and after considering business capacity, business plans and price and labour costs, based on internal projection, the Company has adopted a growth rate of approximately 28% in estimating its proposed annual cap for FY2024. Furthermore, as stated in the paragraphs above, the Company expects it will provide products and services amounting to approximately RMB30.4 billion for each of FY2024 to FY2026 before applying a buffer of 15%. We have discussed and understand such projection was based on the Group's internal budget and relevant estimations.

Furthermore, we have also reviewed the annual report for year ended 31 December 2019, 2020 Annual Report, the 2021 Annual Report and the 2022 Annual Report and noted that the growth in the actual transacted amount for the provision of supplies and services by the Group to China Energy Group amounted to approximately 13.6%, 7.9% and 76.7% respectively for each of FY2020, FY2021 and FY2022 with an average of around 32.7% and as such, the adoption of aforesaid growth rate assumption of 28% for arriving at the proposed annual caps is considered to be conservative. We understand from the Management that the scope of services and products covered under the New Mutual Supplies and Services Agreement has been widened to cater for continued business growth in FY2024.

Considering the above, in particular the historical growth rates as described above, we consider the FY2024 annual cap to be not unreasonable.

We note that the Company assumed annual cap FY2025 and FY2026 to be the same as that for FY2024. In light of the historical growth rates reported for FY2020 to FY2022 as discussed above, we consider not including a growth rate to the annual cap for FY2025 and FY2026 to be prudent.

### ***Purchase of supplies and services by the Group from China Energy Group***

The following tables sets out (i) the actual historical transaction amounts and the existing annual caps in respect of purchase of supplies and services by the Group from China Energy Group; and (ii) the proposed annual caps for the three years ending 31 December 2026:

	<b>For the year ended/ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
			<b>(Note 1)</b>
	<b>(RMB million)</b>		
<b>Historical transaction amount</b>	6,595	7,780	1,064
<b>Existing annual cap</b>	13,000	17,000	17,000
<b>Utilisation</b>	50.7%	45.8%	6.3%

*Note 1:* Historical transaction amount and utilisation for FY2023 is for the three months ended 31 March 2023.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ending 31 December

2024                      2025                      2026

*(RMB million)*

<b>Proposed annual cap</b>	17,000	17,000	17,000
----------------------------	--------	--------	--------

With reference to the letter from the Board in the Circular, in summary, the proposed annual caps of the New Mutual Supplies and Services Agreement for the supply of products and provision of services by China Energy Group to the Group have been set taking into account the following factors:

- (a) The products and services provided by China Energy Group to the Group include engineering construction services, technical consulting services, sales of refined oil products, sales or lease of production equipment and spare parts, etc. In view of the long-term cooperative relationship between the Group and China Energy Group, China Energy Group has business advantages, good reputation and can provide the Group with production materials and auxiliary services at fair and reasonable prices. In 2020, 2021 and 2022, the amount of products and services provided to the Group by China Energy Group was at RMB3.27 billion, RMB6.60 billion and RMB7.78 billion, respectively, with a compound annual growth rate of 54.2%.
  
- (b) During the “14th Five-Year Plan” period, the Group will continue to promote the construction of green mines, green transportation, green power stations, and green chemicals, accelerate the clean and efficient mining and utilisation of coal, build clean and efficient coal-fired power generation units, and strengthen heating, energy saving, and flexibility transformation and promote the development of high-end, diversified and low-carbon coal chemical industry. It is expected to increase the purchase of products and services such as engineering construction services, material supply and technical services from the China Energy Group. Considering the impact of business growth, rising prices and labor costs, the compound annual growth rate is expected to reach approximately 35% in 2023 and 2024, which is 19.2 percentage points lower than the compound annual growth rate from 2020 to 2022. It is estimated that products and services purchased by the Group from China Energy Group amounted to around RMB14.2 billion from 2024 to 2026. In addition, from 2024 to 2026, promotion of construction of major projects such as Baotou Coal Chemical Coal-to-Olefins Phase II, Xinjie No. 1 Well and No. 2 Well, will continue, and the amount of connected transactions may thus increase by approximately RMB1 billion per year. It is estimated that from 2024 to 2026, the annual amount of products and services purchased by the Group from China Energy Group will be about RMB15.2 billion, and a built-in buffer of 15%. It is recommended that the annual caps for the products and services purchased by the Group from China Energy Group in 2024 to 2026 to be set at RMB17 billion, respectively, which is to remain the same to that of 2022 and 2023.

As disclosed in the table above, the actual transacted amount for FY2022 was approximately RMB7,780 million, representing approximately 45.8% of annual cap of RMB17,000 million. We further note the Company has utilised approximately 6.3% of annual cap set for FY2023. We note that the utilisation rate of the annual cap in FY2021 was approximately 50.7%.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We note that the annual cap for FY2024 represents an increase of approximately 118.5% as compared with the actual transacted amount in FY2022 and is the same as compared to the annual cap for FY2023. We have discussed and understand from the Company that the key consideration factor for the determination of the annual cap for FY2024 was with reference to the historical growth rate in actual transacted amount involving purchase of supplies and services by the Group from China Energy Group and a 15% buffer to cater for unforeseeable changes to business needs.

We have discussed and understand from the Management that the demand by the Group for products and services from China Energy Group under the New Mutual Supplies and Services Agreement can be reflected through the growth rate of the historical transacted amounts relevant to products and services provided by China Energy Group to the Group, which, with reference to the paragraphs above and as disclosed in the letter from the Board in the Circular, has reported a compounded growth rate of 54.2% through the years between 2020 and 2022. Despite the historical growth rate, we understand the Group has taken the prudent approach and after considering the Group's business plans for FY2024 to FY2026 and based on internal projection, the Group has adopted a growth rate of approximately 35% in estimating its proposed annual cap for FY2024, which is lower than the historical average. Furthermore, as stated in the paragraphs above, the Group expects that it will purchase around RMB15.2 billion of products and services from the China Energy Group in view of the progress of construction of its major projects between FY2024 and FY2026 before applying a buffer of 15%. We have discussed and understand such projection was based on the Group's internal budget and relevant estimations.

In this respect, we have also reviewed the annual report for year ended 31 December 2019, 2020 Annual Report, the 2021 Annual Report and the 2022 Annual Report and noted that the growth in the actual transacted amount for the provision of supplies and services by the Group to China Energy Group was approximately 3.8%, 101.7% and 18.0% respectively for each of FY2020, FY2021 and FY2022. We understand from the Management that the scope of services and products covered under Mutual Supplies and Services Agreement has been widened to cater for possible business growth. Furthermore, we have discussed and understand from the Company that the Company has plans to expand its power infrastructure projects in provinces including Hunan, Guangdong and Jiangxi etc., and railway and coal mine related upgrade and capital investment costs, and accordingly it is expected that the supplies and services to be purchased by the Group will also substantially increase from FY2024 onwards.

Considering the above, in particular the historical growth rates as described above, we consider the FY2024 proposed annual cap to be not unreasonable.

We note that the Company proposed annual caps for each of FY2025 and FY2026 to be the same as that for FY2024. In light of the historical growth rates reported for FY2020 to FY2022 as discussed above, we consider not including a growth rate to the annual cap for FY2025 and FY2026 to be prudent.



### **8. Background on the New Finance Agreement**

As disclosed in the letter from the Board of the Circular, pursuant to the Financial Services Agreement entered into between the Company and the Finance Company on 26 March 2021, the Finance Company agreed to provide financial services, including but not limited to, the Deposit Services, to Members of the Group. Based on our understanding from the Management, the Finance Company has been providing financial services, including that of Deposit Services to Members of the Group since listing. The Financial Services Agreement will expire on 31 December 2023. As disclosed in the announcement dated 23 September 2022, and the circular dated 30 September 2022, the Company and the Finance Company have entered into the Supplemental Agreement to the Financial Services Agreement on 23 September 2022, to amend annual caps in respect of daily balance (including interests accrued thereon) of deposits placed by Members of the Group for the years ending 31 December 2022 and 31 December 2023, and price determination and capital risk control measures clauses of the Financial Services Agreement.

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

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

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

According to the Letter from the Board of the Circular, the Finance Company is a major non-banking financial institution under the supervision of the national financial regulatory agency and its services are provided subject to compliance with the relevant rules and operational requirements promulgated by the national financial regulatory agency and PBOC. Further details of the Finance Company's background and regulatory requirements are set out in the sections headed "9. Information on the Finance Company" below.

In light of (i) the long-established existing cooperation relationship between the Group and the China Energy Group and the stable business relationship Members of the Group has maintained with the Finance Company; and (ii) that Members of the Group can utilize the services of the Finance Company on a voluntary, non-exclusive basis and is not obliged to engage the Finance Company for any particular service and, the Finance Company represents an additional, reliable and stable source of financial services for Members of the Group to choose from, which in turn serves to enhance flexibility for Members of the Group's capital management, we agree with the Directors and consider the Deposit Services contemplated under the New Financial Services Agreement to be in the interests of the Company and the Shareholders.

### **9. Information on the Finance Company**

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

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

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As at 31 December 2022, the Finance Company had a registered capital of RMB12,500 million based on the information provided by the Finance Company and with reference to its latest audited management account, had a capital adequacy ratio of approximately 12.5%, which is not lower than the requirement promulgated by the national financial regulatory agency.

### 10. Regulatory environment of the Finance Company

The Finance Company is a major domestic non-banking financial institution providing financial services to Members of the Group and is subject to compliance with relevant rules and regulations as promulgated by the national financial regulatory agency including compliance with the 《企業集團財務公司管理辦法》 (Administrative Measures for the Group Finance Companies) (the “**Administrative Measures**”) which is to regulate the operation of group finance companies and reduce the possible financial risk, and other regulations promulgated by the PBOC and the CBIRC.

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

		The Finance Company	
		As at 31 December 2022	As at 31 December 2021
Capital adequacy ratio	Not lower than the regulatory requirement	12.5%	15.65%
Non-performing asset ratio	Not higher than 4%	0%	0%
Impaired loan ratio	Not higher than 5%	0%	0%
Current ratio	Not lower than 25%	28.3%	37.36%
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.06%	0.07%

As shown in the table above, we note that all applicable ratios of the Finance Company are in compliance with the regulatory requirements. As confirmed by the Finance Company, the CBIRC has not taken any disciplinary actions, or imposed penalties or fines on the Finance Company since its incorporation. We have further discussed and confirmed with the Company that, the Company is not aware of any record of non-compliance with the relevant rules and regulations by the Finance Company during the past three years.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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

In addition, we have also discussed with the Company and noted from the letter from the Board of the Circular that, China Energy has provided undertaking (the "**Undertaking**") in the Finance Company Capital Increase Agreement that, in case of an emergency where Finance Company has difficulties making payments, China Energy shall, in accordance with the actual needs to address payment difficulties, satisfy the payment needs of Finance Company through various channels including, among others, the increase of capital and the provision of liquidity support to Finance Company in conformity with laws, regulations and internal regulations such as the articles of association of Finance Company.

### **11. Details of the Deposit Services under the New Financial Services Agreement**

Pursuant to the New Financial Services Agreement, the Finance Company will provide the following regulatory authorities approved domestic and foreign currency financial services to Members of the Group:

- (i) provision of non-financing letters of guarantee services to Members of the Group;
- (ii) bill acceptance and discount services to Members of the Group;
- (iii) taking deposits from Members of the Group;
- (iv) granting loans, consumption credit and buyer's credit loans to Members of the Group;

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (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;
- (vii) internal settlement and settlement planning services between Members of the Group;
- (viii) provision of comprehensive credit limits to Members of the Group, including loans, bill acceptance and discount services;
- (ix) provision of financial training and consultation services;
- (x) provision of other financial services with regulatory approval (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;
- (xi) provision of foreign exchange deposits, foreign exchange loans, and approved international business to Members of the Group in accordance with approvals by the regulatory authorities.

Both parties agree that, on the premise that the Finance Company would obtain the approval of relevant regulatory authorities in the future, the Finance Company may provide services such as foreign exchange settlement services to Members of the Group. Please refer to the letter from the Board of the Circular for more details on the terms of the New Financial Services Agreement.

The New Financial Services Agreement shall come into force upon approval by the AGM and shall be effective from 1 January 2024 and will expire on 31 December 2026.

### ***Price determination***

In terms of deposits and loans or similar services provided by the Finance Company to Members of the Group, subject to compliance with the relevant rules and regulations of PBOC, CBIRC and other relevant regulatory authorities and relevant requirements:

- (a) The interest rates for deposits placed by Members of the Group with the Finance Company shall be no less than the benchmark deposit rate for the corresponding period announced by the PBOC and no less than the interest rate paid by major commercial banks in the PRC for comparable deposits services provided to Members of the Group and shall be negotiated in normal commercial terms;

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (b) The interest rates for loans granted by the Finance Company to Members of the Group shall be no more than the benchmark loan interest rate for the corresponding period announced 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 the Finance Company for deposits placed by Members of the Group, the Finance Company will pay close attention to the benchmark interest rate of the PBOC on a regular basis and ascertain the deposit interest rates of major commercial banks (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 the Finance Company shall be no less than the interest rate paid by major commercial banks for comparable deposits services provided to Members of the Group. Furthermore, price determination of deposits interest rate offered by the Finance Company will be under strict supervision and the Company will enforce relevant internal approval procedures.

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

We have also discussed with and understand from the Management that in practice, the deposit rate offered by the major commercial banks may be higher or lower than the benchmark rate stipulated by the PBOC. As such, we consider the price determination process outlined for the Deposit Services to be fair and reasonable and in the interests of the Group as a whole in view of the fact that the interest rates offered for the Deposit Services must be no less than not only the interest rate paid by major commercial banks but also the corresponding benchmark rate stipulated by the PBOC.

In addition, based on the Group's internal pricing policies as discussed under the section headed "13. Internal approval procedures for the price determination process relating to the Deposit Services" below, the Group has adopted certain internal approval procedures for price determination in respect of the transactions (including the Deposit Services) contemplated under the New Financial Services Agreement, including, in particular, (i) finance department of the Company will monitor the benchmark deposit rates publicized by PBOC on a monthly basis, and conduct business inquiries periodically and publicly with major commercial banks in the PRC and the Finance Company, primarily focusing on factors relating to interest rates for deposits, scale, term, service fee and preconditions; and (ii) a fund balance meeting of the Company, chaired by the chief accountant of the Company with the attendance of audit, legal, finance and other related departments, will be convened on a monthly basis by the Company, to review the deposits placed with the Finance Company by Members of the Group, to keep

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

abreast of the loans granted by Finance Company in a timely manner and to reasonably formulate recommendations on deposit and financing arrangements of the Company for the next month, which shall also be reported to the management of the Company. In this regard, we also discussed with the Company's finance department and understood that relevant staffs of finance department are aware of the internal approval procedures for price determination in respect of the Deposit Services under the New Financial Services Agreement (in particular the procedures in respect of monitoring on market price level) and have been complying with such procedures when handling Deposit Services under the existing Financial Services Agreement.

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

### 12. Proposed annual caps for the Deposit Services

The following tables sets out (i) the historical actual amount and existing annual caps of maximum daily balance (including accrued interest thereon) of deposit placed by Members of the Group with the Finance Company pursuant to the Deposit Services under the Existing Financial Services Agreement; and (ii) the proposed annual caps for the three years ending 31 December 2026:

	For the year ended/ending 31 December		
	2021	2022	2023
			(Note 1)
	(RMB million)		
<b>Highest daily balance</b>	27,439	72,316	68,651
<b>Existing annual cap</b>	27,900	75,000	75,000
<b>Utilisation</b>	98.3%	96.4%	91.5%

*Note 1:* Historical transaction amount and utilisation for FY2023 is for the three months ended 31 March 2023

	For the year ending 31 December		
	2024	2025	2026
	(RMB million)		
<b>Proposed annual cap</b>	75,000	75,000	75,000



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

With reference to the letter from the Board of the Circular, in summary, and among other things, the proposed annual caps of the Deposit Services under the New Financial Services Agreement have been set taking into account of factors including:

- (a) As for the Company's business operations and the situation concerning its monetary funds, as compared with when the Company's reviewed and approved the revision of the annual caps of the daily deposit balance (including the accrued interest incurred) of the Members of the Group on 28 October 2022 at the first extraordinary general meeting of the Company in 2022, no major changes has occurred. As of 31 December 2020, 31 December 2021 and 31 December 2022, the Group's monetary funds were approximately RMB127.5 billion, RMB162.9 billion and RMB170.5 billion, respectively, and the scale of monetary funds has grown steadily by the year. With the growth of the Group's operating scale and the continuous increase of the currency held, the demand of the Members of the Group for the deposit services provided by the Finance Company has also grown steadily. With reference to the deposits of similar large-scale energy listed companies in connected financial companies, the amount of connected transactions of the Group in 2022, the utilisation rate of its annual caps, and future business development, it is recommended that the annual caps of the daily deposit balance (including the accrued interest incurred) of the Members of the Group are to be set at a daily maximum of RMB75 billion from 2024 to 2026, which remains unchanged as compared with that of the 2022 and 2023 annual caps set under the Supplemental Agreement to the Financial Services Agreement. The ratio of the annual caps of the daily deposit balance (including the accrued interest incurred) of the Members of the Group to the balance of monetary funds at the end of 2022 is 44%, which is significantly lower than the average level of similar energy listed companies.
- (b) The Finance Company has a long-standing history in terms of relationship with the Group, and has played an important supporting role in the development of the Group. The Finance Company was formerly known as Shenhua Finance Co., Ltd., and before the capital increase and name change in 2020, it has been operating in an integrated manner with the Group, and has formed a long-term and stable business partnership in terms of deposits and loans, settlements, and bills. The Finance Company can proactively get in close contact with the Members of the Group, understand their financial needs and operating conditions, and provide unique, timely and comprehensive financial services to meet the changing needs of the Members of the Group for financial services, which will help the Group achieve good cash flow management and improve capital efficiency and will meet the needs of the Group's business development and operation management.
- (c) Members of the Group make deposits in the Finance Company, which is conducive to effectively improving the investment income of the Company. The Company and the Finance Company will regularly monitor the changes in the benchmark deposit rates announced by PBOC, learn about the deposit rates of major commercial banks, and ensure that the deposit interest rates in the Finance Company are not lower than the benchmark deposit rates announced by the PBOC for the same period and not lower than the deposit rates of the same type of deposit service provided by major commercial banks to Members of the Group, which is beneficial for the Group to obtain a deposit interest income not lower than that of a major commercial bank. In addition, the Company, as an important shareholder of the Finance Company, directly and indirectly holds 40% of the shares of the Finance Company, and can share the return on investment brought about by the increase in the business scale and operating profit of the Finance Company.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As discussed in the letter from the Board of the Circular, in determining the proposed annual caps for the three years ending 31 December 2026, the Company has considered, among other things, utilisation rate of existing annual caps, growth in the level of monetary capital held by the Group and the historically stable cooperative business relationship with the Finance Company.

We note that the utilisation rates of the annual cap for FY2021 and FY2022 were approximately 98.3% and 96.4% respectively. We note that the Company's proposed annual cap for each of FY2024, FY2025 and FY2026 of RMB75,000 million is the same as the existing annual cap for each of FY2022 and FY2023.

In assessing the fairness and reasonableness of the proposed annual cap for FY2024, we have carried out the following independent analyses:

- (i) As discussed in the paragraph above, we note that the utilisation rate of the annual caps amounted to approximately 98.3% for FY2021 and approximately 96.4% for FY2022;
- (ii) We note from the 2021 Annual Report and the 2022 Annual Report that, the Group reported total balances of cash and cash equivalent, time deposits with original maturity over three months and restricted bank deposits ("**Total Cash Position**") of approximately RMB127,457 million, RMB162,886 million and RMB170,503 million as at 31 December 2020, 2021 and 2022 respectively, representing percentage increases from prior year of approximately 27.8% in 2021 and approximately 4.7% in 2022;
- (iii) We note that the proposed annual cap of RMB75,000 million represents only approximately 46.0% and 44.0% of Total Cash Position of the Group as at 31 December 2021 and 2022 respectively. Shareholders should also note that the proposed annual cap represents a flexibility, and not an obligation, for the Group to deposit funds with the Financed Company at market rates or better while enjoying services from a provider that is familiar with its business need.
- (iv) As disclosed in the letter from the Board of the Circular, proposed annual cap of RMB75,000 million represents approximately 44.0% of the Total Cash Position which is below the average percentage reported by other A+H dual listed energy companies (the "**Comparables**"). We have obtained the list of the Comparables identified by the Company and discussed the selection criteria and result with the Management. Table below sets out the list of Comparables which we would consider as exhaustive, fair and representative based on the selection criteria which are A+H dual listed companies engaged in the energy related business.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

**Table**

Company Name	Stock code (A share)	Stock code (H share)	Annual cap (deposit services) for year ending 31 December				Cash Balance as at 31 December 2022	Comparable Ratio as at 31 December 2022 (based on the latest published annual cap between 2023 to 2026 )
			(Note 1)				(Note 2)	(Note 3)
			2023	2024	2025	2026		
			RMB' millions				RMB'	
							millions	
CGN Power Co., Ltd.	003816.SZ	1816.HK	35,000	36,500	39,000	44,500	14,840.8	235.8% to 299.8%
Sinopec Oilfield Service Corporation	600871.SH	1033.HK	3,500.0	3,500.0	N/A	N/A	1,838.2	190.4%
China Petroleum & Chemical Corporation	600028.SH	0386.HK	80,000.0	80,000.0	N/A	N/A	145,052.0	55.2%
PetroChina Company Limited	601857.SH	0857.HK	55,000.0	N/A	N/A	N/A	225,049.0	24.4%
China Oilfield Services Limited	601808.SH	2883.HK	1,800.0	1,800.0	1,800.0	1,800.0	4,121.3	43.7%
Datang International Power Generation Co., Ltd. (“Datang”)	601991.SH	0991.HK	18,000.0	18,000.0	18,000.0	N/A	10,141.6	177.5%
Huadian Power International Corporation Limited (“Huadian”)	600027.SH	1071.HK	9,000.0	9,000.0	N/A	N/A	6,282.4	143.3%
Huaneng Power International, Inc. (“Huaneng”)	600011.SH	0902.HK	20,000.0	20,000.0	N/A	N/A	17,175.6	116.4%
							Average for all Comparables	123.3% to 131.3%
							Average for 3 Comparables engaged in power generation/ coal trading	145.7%
The Company								44.0%

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*Notes:*

1. The annual caps of the Comparables are based on the respective published continuing connected transaction announcement.
2. Cash balance of the Comparables is extracted from the respective annual results announcement for year ended 31 December 2022 and consists of closing balances for cash and cash equivalent or bank balances and cash, time deposits classified as current assets (if any), restricted deposits or restricted cash (if any) (“**Cash Balance**”).
3. The Comparable Ratios are calculated as a percentage of the latest disclosed annual cap between 2023 and 2026 over the cash and cash equivalent balance as at 31 December 2022.
4. Based on the announcement published by China Oilfield Services Limited (stock code: 2883) – the annual cap for year ending 31 December 2023 represents the period from 8 May 2023 to 31 December 2023 and the annual cap for year ending 31 December 2026 represents the period from 1 January 2026 to 7 May 2026.

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

- (v) We note that the Company reported a total comprehensive income attributable to equity holders of the Company of approximately RMB72.903 million for FY2022, representing an year-on-year increase of approximately 41.8% from FY2021. In light of the clear improvement in results and given the continued increase in Total Cash Position as discussed above, we consider the proposed annual cap for FY2024 to be prudent.

In light of the above, and given the proposed annual caps for FY2025 and FY2026 is expected to be the same as that for FY2024, we consider the Company’s proposed annual caps the three years ending FY2026 to be prudent.

### **13. Internal approval procedures for the price determination process relating to the Deposit Services**

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 the 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.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (2) **Real-time monitoring on market price level.** In light of the funding requirements, finance department of the Company will monitor the benchmark deposit rates publicized by the PBOC on a monthly basis, and conducts business inquiries periodically and publicly with major commercial banks in the PRC and the 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 the Finance Company by Members of the Group, to keep abreast of the loans granted by the 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 shall be conducted by relevant review departments of the Company.

As also disclosed in the letter from the Board of the Circular, the Company has also adopted capital risk control mechanism and measures in relation to the New Financial Services Agreement including, but not limited to, that Members of the Group are entitled to review the Finance Company's audited annual financial report for the latest financial year, risk indicators and other necessary information, as well as the latest and valid financial license and business license and the Company has the right to examine the operation status and financial position of the Finance Company on a regular or non-regular basis. Please refer to the paragraphs headed "Capital risk control mechanism and measures in relation to the New Financial Services Agreement" in the letter from the Board for the full details of the capital risk control mechanism and measures.

### **14. Procedures and Internal Control System for Pricing and Terms of the Continuing Connected Transactions**

The Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the continuing connected transactions are fair and reasonable and no less favourable than the terms provided by any third party, so as to ensure that they serve the interests of the Company and its Shareholders as a whole. Such procedures and internal control measures mainly include:

- (1) The transactions contemplated under the continuing connected transactions agreements are conducted on a non-exclusive basis.
- (2) The Company has adopted internal control rules such as its connected transaction decision making system and its connected transaction management measures.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Connected Transaction Decision Making System of China Shenhua Energy Company Limited*

Connected Transaction Decision Making System of China Shenhua Energy Company Limited (the “**Decision Making System**”) contains seventeen articles. The Decision Making System defines the meaning of “connected person” and “connected transaction”, specifies the situations subject to disclosure and approval and the principles to abide by when conducting connected transactions, abstention measures to be taken when executing the connected transaction agreements, the powers conferred on the Board, the general meeting of the Shareholders and the Shareholders. The Decision Making System also contains matters such as abstention mechanism when conflict of interest arises, voting procedures of general meetings of Shareholders, etc. The aforementioned rules are consistent with the requirements in relation to connected transactions under the Shanghai Listing Rules and the Hong Kong Listing Rules.

### *Connected Transaction Management Measures of the China Shenhua Energy Company Limited*

Connected Transaction Management Measures of China Shenhua Energy Company Limited (the “**Management Measures**”) consist of thirty six articles divided into nine chapters. The Management Measures define the manner of constitution of the connected transactions group and the scope of responsibilities of the Company’s management and respective departments, confirming duties of branches and subsidiaries when conducting connected transactions. Rules are also prescribed by the Management Measures for information collection, identification and management in respect of connected persons, confirming the system governing the responsibilities of connected persons on timely, voluntary reporting. As for continuing connected transactions, the Management Measures confirms that the key of management thereof is to ensure that continuing connected transactions do not exceed the annual caps, with detailed management procedures included. As for non-continuing connected transactions, prior approval and disclosure (where necessary) are necessary before conducting the transactions, with management procedures also being included. What also being regulated by the Management Measures are matters pertaining to the supervising and reviewing of branches and subsidiaries.

- (3) Under the leadership of the Board, the Company has set up a connected transaction group headed by the chief accountant. The connected transaction group is responsible for managing the daily affairs of the Company’s connected transactions guiding, supervising and inspecting the management of connected transactions of its subsidiaries, and regularly monitoring and reviewing the implementation of connected transactions (including but not limited to the implementation of agreed pricing policies and transaction amounts etc.), regularly organising the training of connected transactions across the Group and periodically conducting supervision and inspection of the connected transactions.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (4) Each subsidiary of the Group has established a connected transaction group, and having arranged specialists to be in charge of the pricing of the continuing connected transactions, with such specialists being required to strictly observe the pricing principles and policies for the continuing connected transaction as disclosed in this circular to set the price for each transaction. (i) For the New Mutual Coal Supply Agreement, such specialist shall obtain information about spot market price of coal through various channels; (ii) As far as the New Mutual Supplies and Services Agreement is concerned, according to the Group's rules and regulations for procurement and sales, in the absence of applicable government-prescribed price or government-guided price, the Company will seek to obtain information about market price through various channels, for example, by referring to prices of the Company's comparable transactions with independent third parties (at least two or more) for the same period, comparable transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Such price is determined by the contracting parties (i.e., the subsidiaries of the Group on the one hand and the subsidiaries of the China Energy Group on the other hand) on normal commercial terms with reference to the information obtained as mentioned above. Where tender and bidding process is necessary under applicable laws, regulations and rules, the Group and the China Energy Group shall engage professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group or the China Energy Group shall participate fairly. For products and services with prices to be agreed upon, the supplier shall provide the cost list and the purchaser compares the comparable average cost of similar enterprises in the adjacent areas or the costs of similar products to ascertain the reasonable cost and thereby confirming the price of the connected transaction. Once executed, unilateral change to the price is prohibited. The Company's connected transaction group regularly reviews the pricing of continuing connected transactions.
- (5) The Group has adopted the legal management and other system. After pricing of the continuing connected transactions are being proposed by specialists, they shall submit the same to the system for the connected transaction groups and finance departments of the subsidiaries of the Group to determine the pricing. The connected transaction groups and finance departments also monitor the pricing through the system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price.
- (6) The Company's internal control and risk management departments conduct regular internal assessments on the internal control measures of the Company on an annual basis, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Further, the legal departments conduct prudent review of the connected transaction agreements, the financial departments manage pricing of the connected transactions and the contract implementation departments monitor the transaction amounts in a timely manner.



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (7) The Company implements connected transactions in accordance with the internal control process, and requires all of the subsidiaries to submit implementation reports of connected transactions on a monthly basis. The Company consolidates, reviews, sums up and analyses the data, and monitors whether the transaction amounts are within the annual caps, and recommends improvement measures for any issues identified.
- (8) The Board reviews the implementation of the continuing connected transactions on an annual basis and reviews the periodic reports which consist of the implementation of the continuing connected transactions on a half-yearly basis on matters mainly including: whether the Company and relevant connected person performed the continuing connected transaction agreement during the relevant period; whether the actual transaction amount incurred are within the annual caps as approved at the general meeting. The independent non-executive Directors report to the general meeting of the Company on an annual basis on their performance of duties. Such reports include opinions on the continuing connected transactions as to (i) whether the transactions are entered into within the ordinary course of business of the Group; (ii) whether being conducted on normal commercial terms or better; and (iii) whether conduct of the transactions pursuant to the agreements are on terms that are fair and reasonable, and in the interests of the Shareholders of the Company as a whole.
- (9) The Supervisory Committee supervises the matters relating to the continuing connected transactions. It reviews the annual reports and interim reports which consist of the implementation of the continuing connected transactions on an annual basis. It also opines on the domestic and overseas compliance of the connected transactions, whether the prices are fair and reasonable and whether there are any acts which are detrimental to the interests of the Company and the Shareholders.
- (10) The Audit and Risk Committee of the Board reviews the annual reports, and interim reports which consist of the implementation of the continuing connected transactions and opine on the connected transactions during the relevant periods on matters mainly including the fairness of the connected transactions and whether the transaction amount incurred are within the annual caps.
- (11) The external auditor of the Company conducts year-end audit for each financial year, issues its opinions and letters to the Board in relation to whether the continuing connected transactions are (i) conducted in accordance with the pricing policy of the Group in all material aspects, (ii) any non-compliance with the agreements for the relevant transactions in all material aspects, and (iii) whether annual caps are exceeded pursuant to the Hong Kong Listing Rules and submits the same to the Hong Kong Stock Exchange.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

The Company has also taken necessary and additional measures to strengthen the reporting and documentation system of the Company and its subsidiaries including:

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

As stated in the letter from the Board of the Circular, the Company undertakes that, in the event that it is necessary to adjust the annual caps under the continuing connected transaction agreements for any reasons, arrangements will be made in advance and the relevant requirements of the Hong Kong Listing Rules will be strictly complied with.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

By implementing the above internal control measures and procedures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing of each transaction will be conducted in strict accordance with the various pricing principles and policies of continuing connected transactions as disclosed in the Circular on normal commercial terms or better, and will be fair and reasonable to the Company and the Shareholders as a whole.

We consider the above measures to be reasonable for the Company to assess the then prevailing market terms of the products and services provided/purchased under the New Mutual Coal Supply Agreement and the New Supplies and Services Agreement. Together with the “Capital risk control mechanism and measures in relation to the New Financial Services Agreement” set out in the letter from the Board of the Circular, we are also of the view that the Company have demonstrated the Group’s practices of getting access to market information and having regular assessment on the terms of the Deposit Services under the New Financial Services Agreement so as to make sure that its terms will be no less favourable to the Group than those prevailing in the market for similar transactions.

### **15. Connected transaction**

#### ***15.1 Background to the Existing Non-Competition Agreement***

As disclosed in the letter from the Board of the Circular and the sections above, the main business of the Company 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 on the other hand have various industrial sectors including coal, thermal power, new energy, hydropower, transportation, chemical, technology and environmental protection and finance, and are principally engaged in the coal production, power generation, transportation and coal based chemical processing as well as investment and finance activities.

The Company was established on 8 November 2004 and as part of the restructuring in connection with the global offering of the Company in 2005, China Energy Group transferred to the Company substantially all of its coal production and sales operations, railroad and port transportation and power generation operations, as well as mining rights related to our coal operations and other related assets, liabilities and interests. China Energy Group retained the ownership of, and continues to operate assets and liabilities relating to, the remaining businesses and operations, including the coal liquefaction, coal- based chemical processing business, investment, and finance business as well as limited coal production and power generation assets (the “**Retained Businesses**”). On 24 May 2005, China Energy Group and the Company entered into the Existing Non-Competition Agreement.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Pursuant to the Existing Non-Competition Agreement, China Energy has undertaken that other than the Retained Businesses, it will not, and shall procure that any other company in which it is a substantial shareholder (as defined in the Hong Kong Listing Rules) will not compete with the Company, directly or indirectly, whether on its own or jointly with another entity by participating in or providing any support to, any activities or business which directly or indirectly competes with our core businesses, whether inside or outside the PRC. In addition, China Energy has also undertaken to:

- (a) if China Energy becomes aware of a business opportunity which directly or indirectly competes, or may lead to competition, with core business of the Company, it or any of its subsidiaries will notify the Company of such business opportunity immediately upon becoming aware of it. China Energy is also obliged to use its best efforts to procure that such opportunity is first offered to the Company upon terms which are fair and reasonable. China Energy shall also use its best endeavours to procure that companies in which it holds an interest as a substantial shareholder comply with this provision. Independent non-executive Directors of the Company will decide whether to take up such business opportunity; and
- (b) the Company has been granted by China Energy for the duration of the Existing Non-Competition Agreement:
  - (i) options (the “**Options**”) to purchase on the basis of valuations conducted by an independent valuer jointly appointed by China Energy and the Company, subject to any relevant laws and applicable listing rules and existing third party pre-emption rights:
    - (a) any interest in the Retained Businesses which directly or indirectly competes or is likely to compete with core businesses of the Company and which is retained by China Energy as part of the restructuring; and
    - (b) any interest in any business of China Energy resulting from the business opportunity referred to above which has been offered to, but has not been purchased or taken up by the Company and has been retained by China Energy or its affiliates;
  - (ii) pre-emptive rights (the “**Pre-emptive Rights**”) to purchase on no less favourable terms, if China Energy or any of its affiliates intends to transfer, sell, lease or license to any third party: (1) any interest in the Retained Businesses which directly or indirectly competes with or is likely to compete with core businesses of the Company; (2) any interest in any business of China Energy resulting from the business opportunity referred to above, which has been offered to, but has not been purchased or taken up by the Company and has been retained by China Energy or any of its subsidiaries or affiliates; and

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (iii) an option to acquire the interest held by China Energy in its coal liquefaction and coal-based chemical processing business, on terms and at a price which is fair and reasonable; and a pre-emptive right to purchase such interest from China Energy on terms no less favourable than those offered to any third party. On the exercise of this option or the pre-emptive right, China Energy shall transfer such interest into the Company or its nominated subsidiary.

In relation to the pre-emptive rights described in paragraph (b)(ii) above, China Energy must notify the Company before the transfer of its relevant interest to a third party. It is further provided that such notice must set out full terms of the proposed transfer and any information which may reasonably be required by the Company in order to make a decision as to whether ought to exercise the pre-emptive rights.

Based on the 2014 Non-Competition Undertakings, the Company confirmed that for the fourteen assets that China Energy Group promised to divest and inject into the Company under the Existing Non-Competition Agreement, the Company will commence acquisition before 30 June 2019. Details of the 14 assets and the Existing Non-Competition Agreement were set out in the circular of the Company dated 12 March 2018 (the “**2018 Circular**”), and the letter from the Board of the Circular.

As at the Latest Practicable Date, the Company has acquired assets No. 10-12 and none of the other assets has been injected into the Company.

### ***15.2 Background to the Supplemental Agreement***

On 1 March 2018, China Energy and the Company has entered into the Supplemental Agreement to the Existing Non-Competition Agreement. Pursuant to the Supplemental Agreement, the parties agree to continue to perform the Non-Competition Agreement. The Company will be the coal platform and will be responsible for the integration of the new coal business of the China Energy Group in future. China Energy will continue to grant the Company the Option and Pre-emptive Rights, and the Company will also be responsible for the development, construction and subsequent management of these businesses. Additionally, under the Supplemental Agreement, among other things, the Company and China Energy agreed that the definition for Retained Business under the Existing Non-Competition Agreement shall refer to (1) businesses retained by China Energy Group as a result of reorganization for the listing purpose, which directly or indirectly compete with the core businesses of the Company, i.e. assets other than the conventional power generation business in assets No. 1–9, No. 13 and 14 which were confirmed in 2014 Non-Competition Undertakings; and (2) unlisted businesses obtained by China Energy Group as a result of the Merger of Group Companies which directly or indirectly compete with the core businesses of the Company, i.e. unlisted businesses held by legacy Guodian Group which directly or indirectly compete with the core businesses of the Company (excluding the relevant assets that Guodian Group Co undertook to inject into Inner Mongolia Pingzhuang Energy Co., Ltd. in 2007).

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Article 4 of the Supplemental Agreement to the Existing Non-Competition Agreement stipulates that within 5 years after the Merger of the Group Companies, the Company will seize the opportune moment to exercise the right of preferential transaction, option and the right of first refusal to acquire the assets involved in the Retained Businesses.

Details of the Supplemental Agreement are set out in the 2018 Circular.

We have reviewed the 2018 Circular and noted that the changes were implemented in response to, among other things, acquisition of the assets No. 10-12 as disclosed in the paragraphs above and the joint venture agreement entered into between the Company and GD Power Development Co., Ltd. in 2018.

### ***15.3 Background and reasons for the Supplemental Agreement II***

We have discussed and understand that both the China Energy Group and the Group have been focusing its businesses in the areas defined under the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement since the entering into of the respective agreements. We have confirmed and understand from the Management that there have been no non-compliances to either of the agreements.

The Company has been actively coordinating with and urging China Energy and monitoring the compliance with relevant non-competition undertakings by China Energy, as well as continuously paying attention to and promoting the comprehensive review and inspection of the Retained Businesses set out in the Supplemental Agreement to the Existing Non-Competition Agreement. Within the time limit of performance of the Supplemental Agreement to the Existing Non-competition Agreement, certain preliminary work has been carried out by China Energy and the Company, while the injection of relevant assets has not commenced, the reasons for which are as follows:

- (1) Given the high coal price with relatively severe volatility in recent years, coal trading enterprises generally set the coal price at a high level. On a prudent basis, taking into account the volatility risk of future coal price and subject to the continuous supervision on the operation of relevant coal assets, the Company considered integration effect comprehensively, firmly protected its Shareholders' interests, exercised stringent control over the acquisition price of assets and suspended preliminary work for certain assets with high premium risk.
- (2) Certain Retained Businesses have yet to meet the criteria for injection to the Company due to ownership issues such as incomplete or defective title or risk factors such as pending issues and legal disputes, which are not estimated to be effectively resolved in the near future due to certain objective factors such as jurisdiction policies and the complicated equity relationships. The Company has been continuously monitoring the progress of the abovementioned issues and will commence the preliminary work as and when appropriate upon the establishment of clear solutions.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (3) Certain Retained Businesses have yet to meet the criteria for injection to the Company due to the uncertainties on profitability prospect and the potential dilution effect on the earnings level of the Company's Shareholders resulting from the assets injection for the reasons such as the significant price volatility of bulk commodity or the uncertain timetable for substantive put-into-production.

The Company has been actively promoting the acquisition of coal resource to safeguard the continuance of coal resource of the Company and strengthen its integrated operation infrastructure and capability. Taking into account the low availability and high price of coal resource from external markets, the Company continuously takes the injection of relevant existing coal assets from China Energy Group as an important approach to resource acquisition. Therefore, the Company proposed to reserve the right of first refusal on the relevant assets in order to increase the resource inventory for its core coal business at reasonable prices as and when appropriate to enhance its sustainability.

In order to further promote the resolving of the non-competition issues of China Energy Group in the Company's business areas such as coal and power generation, the Company and China Energy Group proposed to enter into the Supplemental Agreement II to the Existing Non-Competition Agreement to amend the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement.

As disclosed in the letter from the Board of the Circular, the Supplemental Agreement II to the Existing Non-Competition Agreement supplements the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement as follows:

1. the parties agree that save as otherwise agreed by the Supplemental Agreement II to the Existing Non-Competition Agreement, the parties shall continue with the performance of the Existing Non-Competition Agreement and Supplemental Agreement to the Existing Non-Competition Agreement.
2. Within 5 years after the expiration of the period as stipulated by Article 4 of the Supplemental Agreement to the Existing Non-Competition Agreement, the Company will seize the opportune moment to exercise the right of preferential transaction, option and the right of first refusal to acquire the assets involved in the Retained Businesses.

Amendments to the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing Non-Competition Agreement are decisions made based on the basis of objective conditions of the assets of the relevant Retained Businesses of China Energy Group, which are conducive to resolving the potential competition issue, and do not prejudice the interests of the Company and other Shareholders, do not affect the independence of the Company, and do not have a material impact on the current and future financial position and operating results of the Company. Accordingly, the Company proposed to amend the Existing Non-Competition Agreement and the Supplemental Agreement to the Existing



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Non-Competition Agreement. Pursuant to the Supplemental Agreement II to the Existing Non-Competition Agreement, the period for the Company to seize the opportune moment to exercise the right of preferential transaction, option and the right of first refusal to acquire the assets involved in the Retained Businesses is extended to 27 August 2028.

We have reviewed and discussed the proposed amendments as discussed above with the Management and concur that the amendments under the Supplemental Agreement II are targeted to ensure both the Group and the China Energy Group would not breach the legal requirement in the PRC and the Existing Non-Competition Agreement while all rights of the Group are reserved. As such, we consider the entering into of the Supplemental Agreement II, including the terms therein, fair and reasonable.

### OPINION AND RECOMMENDATION

Having considered the principal factors and reasons set out above we are of the view that the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement and the Deposit Services under the New Financial Services Agreement are entered into in the ordinary and usual course of business of the Group and, the terms of the New Mutual Coal Supply Agreement, the New Mutual Supplies and Services Agreement and the Deposit Services under the New Financial Services Agreement (and their respective proposed annual caps) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole are concerned. We also consider the entering into of the Supplemental Agreement II to the Existing Non-Competition Agreement, though not in the ordinary and usual course of business of the Company, are in the interests of the Company and the Shareholders as a whole, and the terms of the Supplemental Agreement II to the Existing Non-Competition Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the AGM to approve the Transactions.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Lyan Tam**  
*Director*

*Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.*

**1. RESPONSIBILITY STATEMENT**

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

**2. DIRECTORS' INTERESTS IN SHARES**

As at the Latest Practicable Date:

- 2.1 none of the Directors, chief executive, supervisors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange;
- 2.2 none of the Directors, supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

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

#### Interests in the Shares of the Company

No.	Name of Shareholders	Capacity	H Shares/ A Shares	Nature of interest	Number of H Shares/ A Shares held	Percentage of H Shares/ A Shares over total issued	Percentage of total issued share capital of the Company
						H Shares/ A Shares respectively	
1	China Energy	Beneficial owner	A Shares	N/A	13,812,709,196	83.76	69.52
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	193,904,316	5.74	0.98
				Short Position	78,500	0.00	0.00

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

### 4. EXPERTS

- 4.1 The following are the qualifications of the professional advisers who have given the Company opinion or provided advice referred to or contained in this circular:

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

- 4.2 As at the Latest Practicable Date, the abovementioned professional adviser has no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.
- 4.3 The abovementioned professional adviser has given and have not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.
- 4.4 As at the Latest Practicable Date, the abovementioned professional adviser did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, 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 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

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

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

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

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed upon a show of hands, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

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

## 8. DIRECTORS' INTERESTS

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

Name	Name of company	Positions	Commencement of term of office
Jia Jinzhong	China Energy	Senior business officer	July 2021
Yang Rongming	China Energy	First-level business director of Coal and Transportation Industry Management Department	March 2023

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

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

**9. DOCUMENTS ON DISPLAY**

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

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

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

## **SECURITIES REPURCHASE MANDATE**

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

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

### **Registered Capital**

As at the Latest Practicable Date, the registered capital of the Company was RMB19,868,519,955 comprising 3,377,482,000 H Shares with a nominal value of RMB1.00 each and 16,491,037,955 A Shares with a nominal value of RMB1.00 each. In 2022, the Group did not repurchase, sell or redeem any securities of the Company under the Hong Kong Listing Rules.

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

Subject to the passing of the relevant special resolution(s) set out in the notice of AGM, the special resolution(s) approving the grant to the Board of the H Share Repurchase Mandate in the A Shareholders' Class Meeting and H Shareholders' Class Meeting respectively, the Board will be granted the H Share Repurchase Mandate until the earlier of (a) the conclusion of the annual general meeting for 2023; 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 2022). 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>2022</b>		
May	26.35	23.45
June	27.50	22.50
July	22.85	21.70
August	25.75	21.45
September	26.05	22.70
October	23.95	20.65
November	24.00	21.15
December	23.40	22.30
<b>2023</b>		
January	25.10	22.80
February	24.30	23.10
March	25.75	24.00
April	26.00	24.20
May (up to the Latest Practicable Date)	28.35	25.90

**H SHARES REPURCHASED BY THE COMPANY**

In 2022, the Group did not repurchase, sell or redeem any securities of the Company under the Hong Kong Listing Rules.

**DISCLOSURE OF INTERESTS**

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

As at the Latest Practicable Date, China Energy, whose interest in the Company is notifiable under Part XV (Disclosure of Interests) of the SFO, held directly approximately 69.52% of the Company's total registered capital. In the event that the Directors exercised in full the power to repurchase H Shares in accordance with the terms of the H Share Repurchase Mandate proposed at the AGM, A Shareholders' Class Meeting and H Shareholders' Class

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

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

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