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

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

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

(Stock Code: 01088)

DISCLOSEABLE TRANSACTION

CONTINUING CONNECTED TRANSACTIONS

ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT
ENTERING INTO FINANCIAL SERVICES AGREEMENT
AND
PROPOSED APPOINTMENT OF DIRECTOR AND SUPERVISOR

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



A letter from the Board is set out on pages 1 to 44 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 45 to 46 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 47 to 66 of this circular.

Notice convening the AGM with reply slip and form of proxy for use at the said meeting will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules.

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DEFINITIONS

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

“Abstained Directors”	Dr. Zhang Yuzhuo, Dr. Ling Wen, Mr. Han Jianguo and Mr. Chen Hongsheng, all being Directors, who had abstained from voting as Directors on the relevant board resolution(s);
“AGM”	the 2015 annual general meeting of the Company to be convened and held by the Company;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors of the Company;
“CBRC”	China Banking Regulatory Commission;
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange;
“Current Financial Services Agreement”	the Financial Services Agreement dated 22 March 2013 entered into between the Company and Shenhua Group Co;
“Current Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 22 March 2013 entered into between the Company and Shenhua Group Co;
“Current Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 22 March 2013 entered into between the Company and Shenhua Group Co;
“Director(s)”	the director(s) of the Company;
“Finance Company”	Shenhua Finance Co., Ltd. (神華財務有限公司), a limited liability company incorporated in the PRC;
“Financial Services Agreement”	the Financial Services Agreement dated 24 March 2016 entered into between the Company and Shenhua Group Co;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

DEFINITIONS

“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”	GF Capital (Hong Kong) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the general meeting under the Hong Kong Listing Rules;
“Latest Practicable Date”	22 April 2016, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;
“Members of Shenhua Group”	including Shenhua Group Co, its subsidiaries in which Shenhua Group Co holds over 51% equity interests (the “Shenhua Group Co Subsidiaries”), companies in which Shenhua Group Co and the Shenhua Group Co Subsidiaries individually or jointly hold(s) over 30% equity interests, public institution(s) or social organisation(s) with legal person(s) status under Shenhua Group Co and its subsidiaries, but excluding the Group;
“Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 24 March 2016 entered into between the Company and Shenhua Group Co;
“Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 24 March 2016 entered into between the Company and Shenhua Group Co;
“NDRC”	the National Development and Reform Commission;
“PBOC”	People’s Bank of China;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on the Shanghai Stock Exchange;
“Shareholder(s)”	the shareholder(s) of the Company;
“Shenhua Group”	collectively, Shenhua Group Co and its subsidiaries (excluding the Group);
“Shenhua Group Co”	Shenhua Group Corporation Limited, the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“Supervisory Board”	the supervisory board of the Company.

LETTER FROM THE BOARD



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

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

(Stock Code: 01088)

Executive Directors:

Zhang Yuzhuo

Ling Wen

Han Jianguo

Registered Office:

Shenhua Tower

22 Andingmen Xibinhe Road

Dongcheng District

Beijing, PRC

Non-executive Directors:

Chen Hongsheng

Independent Non-executive Directors:

Fan Hsu Lai Tai

Gong Huazhang

Guo Peizhang

29 April 2016

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

CONTINUING CONNECTED TRANSACTIONS

**ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT
ENTERING INTO FINANCIAL SERVICES AGREEMENT
AND
PROPOSED APPOINTMENT OF DIRECTOR AND SUPERVISOR**

INTRODUCTION

Reference is made to the announcements made by the Company on 24 March 2016 on entering into the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement.

LETTER FROM THE BOARD

Reference is also made to the announcement made by the Company on 24 March 2016 on the proposed appointment of director and supervisor.

The purpose of this circular is to provide you with further information in relation to the above matters and the recommendation from the Independent Board Committee and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions.

ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT

Background

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

Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and finance activities. Shenhua Group Co is the controlling shareholder of the Company. As at the date hereof, Shenhua Group Co holds 73.06% interest in the Company.

As disclosed in the announcement dated 22 March 2013, and the circular dated 9 April 2013, the Company has entered into the Current Mutual Coal Supply Agreement with Shenhua Group Co on 22 March 2013 to provide for the mutual supply of coal between the Group and the Shenhua Group, the term of which will expire on 31 December 2016.

The Company has entered into a new Mutual Coal Supply Agreement with Shenhua Group Co on 24 March 2016. Pursuant to the Mutual Coal Supply Agreement, the Group has agreed to supply coal to the Shenhua Group and the Shenhua Group has agreed to supply coal to the Group. The Mutual Coal Supply Agreement will be effective from 1 January 2017.

Mutual Coal Supply Agreement

Date

24 March 2016

Parties

The Company and Shenhua Group Co

LETTER FROM THE BOARD

Details of the transaction

Pursuant to the Mutual Coal Supply Agreement:

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

Term and termination

The Mutual Coal Supply Agreement is conditional on the Company's compliance with all announcement and/or Independent Shareholders' approval and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules in respect of the Mutual Coal Supply Agreement, and is effective from 1 January 2017 and will expire on 31 December 2019.

Price determination

The supply price under the 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 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 中國煤炭市場網 (www.cctd.com.cn) organised by China Coal Transportation & Sale Society (《中國煤炭運銷協會》) in the PRC as determined by both parties at arm's length negotiation; (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 (if any). Considering that the Shenhua Group (including the Group) is the largest and most technologically advanced coal enterprise in China, and is the largest coal dealer in the world, there are certain types of coal that other coal enterprises do not produce or sell. Therefore, for certain types of coal, the Company may not be able to obtain price quotation of one or more other enterprises with comparable quality, quantity and location. If the Company can obtain any price quotation(s) of one or more other enterprises with comparable quality, quantity and location, the Company will obtain such price quotation(s), and will adopt the most favourable price obtained;

LETTER FROM THE BOARD

- (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 estimated transportation fees.

Proposed annual caps and past transactions

The Company proposes that the annual caps of the Mutual Coal Supply Agreement for the years ending 31 December 2017, 31 December 2018 and 31 December 2019, 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 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016.

The aggregate transaction amounts under the Current Mutual Coal Supply Agreement are within the existing annual caps.

Supply of coal by the Group to the Shenhua Group

- (1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 5,633.00	Approximately 4,188.00	Approximately 274.00

- (2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
25,500.00	30,300.00	34,800.00	11,300.00	13,500.00	16,000.00

LETTER FROM THE BOARD

Supply of coal by the Shenhua Group to the Group

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount</i> <i>(RMB million)</i>	<i>Aggregate transaction amount</i> <i>(RMB million)</i>	<i>Aggregate transaction amount</i> <i>(RMB million)</i>
Approximately 6,517.00	Approximately 2,017.00	Approximately 221.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap</i> <i>(RMB million)</i>	<i>Annual cap</i> <i>(RMB million)</i>	<i>Annual cap</i> <i>(RMB million)</i>	<i>Proposed annual cap</i> <i>(RMB million)</i>	<i>Proposed annual cap</i> <i>(RMB million)</i>	<i>Proposed annual cap</i> <i>(RMB million)</i>
24,400.00	31,800.00	38,400.00	9,400.00	11,400.00	13,500.00

The terms of the Mutual Coal Supply Agreement have been reached after arm's length negotiation between the Company and Shenhua Group Co.

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

- (a) coal price has continuously declined during recent years. In the week of 22 March 2013 (i.e. the date on which the Current Mutual Coal Supply Agreement was entered into), the Bohai Bay Thermal Coal Price Index was RMB618 per tonne, and in the week of the Latest Practicable Date, the Bohai Bay Thermal Coal Price Index was RMB389 per tonne. Affected by the declining coal price and the difficult operation and market environment, the historical transaction amounts under the same category for the years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016 were at a relatively low level;
- (b) it is estimated that the quantity of the coal to be supplied by the Group to the Shenhua Group will maintain relatively steady for the year ending 31 December 2017 as compared to the year ending 31 December 2016. On such basis, and considering that coal price has substantially declined, the Company substantially reduces the annual cap for year ending 31 December 2016 and designate it as the proposed annual cap for the year ending 31 December 2017. It is further estimated by the Company that the quantity of the coal to be supplied by the Group to the Shenhua Group will

LETTER FROM THE BOARD

increase by 10% year-on-year for the next three years, and therefore the Company proposes a 10% increase for each of the annual caps for the years ending 31 December 2018 and 31 December 2019 respectively;

- (c) the Bohai Bay Thermal Coal Price Index was RMB718 per tonne on 10 September 2010 when it was first published, and then continued to go up and reached the peak, RMB853 per tonne, on 26 October 2011. During recent years, the Bohai Bay Thermal Coal Price Index has continuously dropped. In the week of the Latest Practicable Date, the Bohai Bay Thermal Coal Price Index was RMB 389 per tonne and was at a historical low.

The chart of the historical changes of the Bohai Bay Thermal Coal Price Index since January 2011 is set out below:



Looking ahead, China's economy will continue to retain its upward trend in the long run, and coal will remain as one of the most important fundamental energy resources. The efforts made at the state level to improve orderly competition and reduce excessive coal production capacity will provide favourable conditions for the coal industry to achieve sustainable and robust development and improvements, and improve the operation environment of coal enterprises. Therefore, the Company estimates that it is possible that coal prices may gradually rise during the next three years based on the current situation;

LETTER FROM THE BOARD

- (d) after discussing with Shenhua Group Co, with the national policies concerning coal production capacity reduction being pursued, the production volume of coal will decline, and the price is expected to rise gradually. The State Council of the PRC promulgated *Opinions on Reducing Excessive Coal Production Capacity to Promote the Development of Coal Mining Enterprises* (Guo Fa [2016] No. 7) on 1 February 2016, which requires coal mining enterprises to reduce around 500 million tonnes of coal production capacity by closing coal mines and consolidating around 500 million tonnes of coal production capacity by merging coal mines in the next three to five years from 2016. The Opinions also encourage large-scale coal mining enterprises to conduct mergers and reorganisations with small- and medium-sized enterprises and develop a batch of large-scale coal enterprise groups. There is also an aim to increase the production scale of every single coal mining enterprise to 3 million tonnes per year in the next three years. NDRC, the Ministry of Human Resources and Social Security, the National Energy Administration and the State Administration of Coal Mine Safety also issued *Notices on Further Standardising and Improving the Order of Coal Production and Business*, which requires coal mines nationwide to organise production according to 276 working days from 2016. In accordance with the Notices, the new capacity is the current capacity multiplied by 0.84 (276 days divided by the originally provided 330 working days). Through mergers and consolidations and reduction of excessive production capacity, the market expects that the number of coal enterprises will reduce from approximately 6,000 to approximately 3,000 during the next five years. As the largest and most technologically advanced coal enterprise in China, the Shenhua Group (including the Group) will gain greater market competitiveness. Therefore, with the upturn in China's economy, the operation environment of coal and coal related enterprises is expected to be improved. It is estimated that the quantity of the coal to be supplied by the Group to the Shenhua Group will gradually increase by 10% year-on-year for the next three years, and the Group's coal production capacity can fully satisfy the demands of the Shenhua Group and other customers simultaneously; and
- (e) the Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. However, same as the actual implementation of the continuing connected transactions of the Company previously, the Group and the Shenhua Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the Shenhua Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

LETTER FROM THE BOARD

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

- (a) coal price has continuously declined during recent years. In the week of 22 March 2013 (i.e. the date on which the Current Mutual Coal Supply Agreement was entered into), the Bohai Bay Thermal Coal Price Index was RMB618 per tonne, and in the week of the Latest Practicable Date, the Bohai Bay Thermal Coal Price Index was RMB389 per tonne. Affected by the declining coal price and the difficult operation and market environment, the historical transaction amounts under the same category for the years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016 were at a relatively low level;
- (b) it is estimated that the quantity of the coal to be supplied by the Shenhua Group to the Group will maintain relatively steady for the year ending 31 December 2017, as compared to the year ending 31 December 2016. On such basis, and considering that coal price has substantially declined, the Company substantially reduces the annual cap for year ending 31 December 2016 and designate it as the proposed annual cap for the years ending 31 December 2017. It is further estimated that the quantity of the coal to be supplied by the Shenhua Group to the Group will increase by 10% year-on-year for the next three years, and therefore the Company proposes a 10% increase for annual caps for the years ending 31 December 2018 and 31 December 2019 respectively;
- (c) The Bohai Bay Thermal Coal Price Index was RMB718 per tonne on 10 September 2010 when it was first published, and then continued to go up and reached the peak, RMB853 per tonne, on 26 October 2011. During recent years, the Bohai Bay Thermal Coal Price Index has continuously dropped. In the week of the Latest Practicable Date, the Bohai Bay Thermal Coal Price Index was RMB389 per tonne and was at a historical low. Looking ahead, China's economy will continue to retain its upward trend in the long run, and coal will remain as one of the most important fundamental energy resources. The efforts made at the state level to improve orderly competition and reduce excessive coal production capacity will provide favourable conditions for the coal industry to achieve sustainable and robust development and improvements, and improve the operation environment of coal enterprises. Therefore, the Company estimates that it is possible that coal prices may gradually rise during the next three years based on the current situation;

LETTER FROM THE BOARD

- (d) the Company estimates that during the next three years, following the increase of installed capacity of coal-fired generation units of the Group, its demand for coal of the Shenhua Group will gradually increase. The Group's coal-fired power generation projects which are under construction include Guohua Shandong Shouguang Power Plant Project and Shenwan Energy Company Anqing Second Phase Expansion Project, etc. The Company estimates that these projects will complete construction and commence operation during the next three years. In addition, several coal-fired power generation projects of the Group have completed construction and commenced operation in 2015, including Shenfu Hongshan Heating and Power Plant Second Phase Project, Shendong Power Company Chongqing Wanzhou Port and Power Integrated Project, etc. The Company estimates that the demand of these projects for coal of the Shenhua Group will gradually increase. Therefore, the Company estimates that the quantity of the coal to be supplied by the Shenhua Group to the Group will increase by 10% year-on-year for the next three years; and
- (e) the Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. However, same as the actual implementation of the continuing connected transactions previously, the Group and the Shenhua Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the Shenhua Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

Implementation agreements and payments

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 Mutual Coal Supply Agreement with Shenhua Group Co and each subsidiary of Shenhua Group Co. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Mutual Coal Supply Agreement, and as such, they do not constitute new categories of connected transactions. Any such implementation agreement will stay within the bounds of the Mutual Coal Supply Agreement and the annual caps.

All payments made pursuant to the Mutual Coal Supply Agreement and its implementation agreements will be in cash.

LETTER FROM THE BOARD

Reasons for Entering into the Mutual Coal Supply Agreement and their Benefits to the Company

The Group continues to sell thermal coals of various calorific values to a number of power plants, coal-to-liquid and coal-based chemical subsidiaries owned by the Shenhua Group. In return, the Group receives payment for the supply of coal as in any other ordinary commercial transactions. The Shenhua Group also continues to supply the Group with thermal coals of various calorific values for the purposes of coal blending and re-sale. The Group sells and purchases different types of coal and also same types of coal to and from the Shenhua Group. The reason for this is that 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. These continuing connected transactions ensure that the Group and the Shenhua Group receive a reliable supply of high quality coal. These continuing connected transactions also reduce business risks and costs, which ultimately benefits the operations of the Company.

Hong Kong Listing Rules Implications

Shenhua Group Co holds 73.06% interest in the Company, and is the controlling shareholder of the Company. As such, Shenhua Group Co is a connected person of the Company under the Hong Kong Listing Rules, and the 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 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 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 Current Mutual Coal Supply Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the 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 consider that the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

LETTER FROM THE BOARD

ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT

Background

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

Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and financing activities. Shenhua Group Co is the controlling shareholder of the Company. As at the date hereof, Shenhua Group Co holds 73.06% interest in the Company.

As disclosed in the announcement dated 22 March 2013 and the circular dated 9 April 2013, the Company has entered into the Current Mutual Supplies and Services Agreement with Shenhua Group Co on 22 March 2013 to provide for the mutual supply of products and services between the Group and the Shenhua Group, the term of which will expire on 31 December 2016.

The Company has entered into a new Mutual Supplies and Services Agreement with Shenhua Group Co on 24 March 2016. Pursuant to the Mutual Supplies and Services Agreement, the Group has agreed to supply products and provide services to the Shenhua Group and the Shenhua Group has agreed to supply products and provide services to the Group. The Mutual Supplies and Services Agreement will be effective from 1 January 2017.

Mutual Supplies and Services Agreement

Date

24 March 2016

Parties

The Company and Shenhua Group Co

LETTER FROM THE BOARD

Mutual Supplies and Services

Pursuant to the Mutual Supplies and Services Agreement:

- (a) the Group has agreed to supply products and provide services to the Shenhua Group, including:
 - (i) production: alternative power generation and other related or similar services;
 - (ii) production supplies: chemical products, production equipment and spare parts, office products and other related or similar product supplies or services;
 - (iii) ancillary production services: rail transportation, hardware and software equipment and related services, information technology services, logistics and support services, training and other related or similar services; and
 - (iv) administrative services: various daily administrative services and other ancillary production services to the headquarter of the Shenhua Group Co (exclusive of financial management and services).

- (b) the Shenhua Group has agreed to supply products and provide services to the Group, including:
 - (i) production supplies: oil products, and other related or similar production supplies and services;
 - (ii) ancillary production services: construction, logistics and support services, tendering services, technical consulting and other related or similar services; and
 - (iii) administrative services: social security and pension management services and staff data recording services.

Term and termination

The Mutual Supplies and Services Agreement is conditional on the Company's compliance with all announcement and/or Independent Shareholders' approval and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules in respect of the Mutual Supplies and Services Agreement, and is effective from 1 January 2017 and will expire on 31 December 2019.

LETTER FROM THE BOARD

Price determination

The pricing of the products and services provided under the 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: 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 this Agreement is the market price; and
- (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 this 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 or 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) Alternative power generation: price prescribed by NDRC or other related government authorities;
- (e) Hardware and software equipment and related services: market price (including tender and bidding price);

LETTER FROM THE BOARD

- (f) Chemical products: market price;
- (g) Production equipment and spare parts, office products: market price;
- (h) Tendering services: price prescribed by 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 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%);
- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%); and
- (m) Various daily administrative services to the headquarters of Shenhua Group Co (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 Mutual Supplies and Services Agreement for the years ending 31 December 2017, 31 December 2018 and 31 December 2019, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the two years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016.

The aggregate transaction amounts under the Current Mutual Supplies and Services Agreement are within the existing annual caps.

LETTER FROM THE BOARD

Supply of products and provision of services by the Group to the Shenhua Group

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 8,060.00	Approximately 6,470.00	Approximately 505.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
16,300.00	19,200.00	22,300.00	11,800.00	11,200.00	11,900.00

Supply of products and provision of services by the Shenhua Group to the Group

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 4,941.00	Approximately 3,729.00	Approximately 171.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
12,400.00	12,400.00	12,400.00	8,800.00	8,800.00	8,800.00

LETTER FROM THE BOARD

The terms of the Mutual Supplies and Services Agreement have been reached after arm's length negotiation between the Company and Shenhua Group Co.

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

- (a) prices of raw materials and crude oil have continuously declined during recent years. For example, between January 2014 and February 2016, Brent oil spot price has dropped by approximately 63%. Affected by the declining prices of raw materials and crude oil, and the difficult operation and market environment, the historical transaction amounts under the same category for the years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016 were at a relatively low level. It is estimated that the quantity of the products and services to be supplied by the Group to the Shenhua Group will maintain relatively steady for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 as compared to the year ending 31 December 2016. On such basis, and considering that prices of raw materials and crude oil have substantially declined, the Company substantially reduces the annual cap for the year ending 31 December 2016 and designate it as the proposed annual caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019;
- (b) the estimated growth in the prices of the raw materials, crude oil and services during the next three years ending 31 December 2019. Currently, the prices of international and domestic raw materials and crude oil remain sluggish, while the labour costs in China show a steadily uptrend. The directors and senior management of the Company have extensive experience in industry and enterprise management, and have undergone multiple economic cycles. Recently, the prices of the raw materials and crude oil have shown an uptrend. For example, between January 2016 and the Latest Practicable Date, Brent oil spot price has risen by approximately 60%, the Platts 62% Fe Iron Ore Index has risen by approximately 65% and National Cement Index has risen by approximately 3%. Therefore, the Company is of the view that there is a possibility that the prices of raw materials, crude oil and services are on an uptrend in the next three years;
- (c) after discussing with Shenhua Group Co, with the national policies concerning coal production capacity reduction being pursued, the production volume of coal will decline, and the price is expected to rise gradually. In addition, with the upturn in China's economy, the operation environment of coal and coal related enterprises is expected to be improved. It is estimated that the quantity of the products and services to be supplied by the Group to the Shenhua Group may gradually increase in the next three years; and

LETTER FROM THE BOARD

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

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

- (a) prices of raw materials and crude oil have continuously declined during recent years. For example, between 2014 and February 2016, Brent oil spot price has dropped by approximately 63%. Affected by the declining prices of raw materials and crude oil, and the difficult operation and market environment, the historical transaction amounts under the same category for the years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016 were at a relatively low level. It is estimated that the quantity of the products and services to be supplied by the Shenhua Group to the Group will maintain relatively steady for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 as compared to the year ending 31 December 2016. On such basis, and considering that prices of raw materials and crude oil have substantially declined, the Company substantially reduces the annual caps for the year ending 31 December 2016 and designate it as the proposed annual caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019;
- (b) the estimated growth in the prices of the raw materials, crude oil and services during the next three years ending 31 December 2019. Currently, the prices of international and domestic raw materials and crude oil remain sluggish, while the labour costs in China show a steadily uptrend. The directors and senior management of the Company have extensive experience in industry and enterprise management, and have undergone multiple economic cycles. Recently, the prices of the raw materials and crude oil have shown an uptrend. For example, between January 2016 and the Latest Practicable Date, Brent oil spot price has risen by approximately 60%, the Platts 62% Fe Iron Ore Index has risen by approximately 65% and National Cement Index has risen by approximately 3%. Therefore, the Company is of the view that there is a possibility that the prices of raw materials, crude oil and services are on an uptrend in the next three years;

LETTER FROM THE BOARD

- (c) the Company estimates that the business of the Group will expand during the next three years. The Group's projects which are under construction include Guohua Shandong Shouguang Power Plant Project, Shenwan Energy Company Anqing Second Phase Expansion Project, and Huangda Railway, etc. The Company estimates that these projects will complete construction and commence operation during the next three years, therefore the quantity of the products and services to be supplied by the Shenhua Group to the Group may gradually increase; and
- (d) the Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. However, same as the actual implementation of the continuing connected transactions previously, the Group and the Shenhua Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the Shenhua Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

The types of various products or services under the Mutual Supplies and Services Agreement are different, and the Company voluntarily aggregates them. The estimated transaction amount for any single type of product or service is low and is not material to the Group.

Implementation agreements and payments

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 Mutual Supplies and Services Agreement with Shenhua Group Co and each subsidiary of Shenhua Group Co. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of products and provision of services as contemplated by the 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 Mutual Supplies and Services Agreement and the annual caps.

All payments made pursuant to the Mutual Supplies and Services Agreement and its implementation agreements will be in cash.

LETTER FROM THE BOARD

Reasons for Entering into the Mutual Supplies and Services Agreement and their Benefits to the Company

As disclosed in the Prospectus, the Shenhua Group retained certain assets and businesses which are necessary for and beneficial to the business development of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's length basis after the listing of the Company. In addition, the Group provides certain goods and services to the Shenhua Group on an arm's length basis to support the businesses retained by the Shenhua Group. Due to the long-term co-operation relationship between the Company and the Shenhua Group and the advantages, good reputation and gigantic scale of the Shenhua Group in various aspects, the above-mentioned continuing connected transactions ensure that the Group and Shenhua Group receive a reliable supply of high quality products and services which ultimately benefit the normal production and operations of the Company. The Board is of the opinion that the entering into such transactions on an continuing basis is essential to the continuation of the Group's business and will be beneficial to the Group as the transactions under the Mutual Supplies and Services Agreement facilitate and will facilitate the business operation and growth of the Group and reduce the unnecessary risks which might be incurred during the course of operation.

Hong Kong Listing Rules Implications

Shenhua Group Co holds 73.06% interest in the Company, and is the controlling shareholder of the Company. As such, Shenhua Group Co is a connected person of the Company under the Hong Kong Listing Rules, and the 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 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 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 enquiries, there is no other transaction (other than those carried out pursuant to the Current Mutual Supplies and Services Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the 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 consider that the terms, proposed annual caps of and the transactions contemplated under the Mutual Supplies and Services Agreement 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.

ENTERING INTO FINANCIAL SERVICES AGREEMENT

Background

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

Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and finance activities. Shenhua Group Co is the controlling shareholder of the Company. As at the date hereof, Shenhua Group Co holds 73.06% interest in the Company.

Finance Company is principally engaged in the provision of financial consultation services, credit appraisal and other related consultancy and agency services to Members of Shenhua Group and the Group; assistance to members in the collection and payment of transaction amount; authorised insurance agency services; provision of guarantee between members; providing entrusted loans and entrusted investments between members; provision of bill acceptance and discount services to members; provision of internal fund transfer and settlement services and corresponding settlement planning to members; accepting deposits from members; provision of loans and finance leasing to members; provision of inter-bank lending; authorised issue of bonds; underwriting of corporate bonds of members; equity investments in financial institutions; investments in negotiable securities; provision of consumer credit facilities, buyers' credit and finance leasing. As at the date hereof, the Company directly and indirectly holds 100% interest in Finance Company.

As disclosed in the announcement dated 22 March 2013 and the circular dated 9 April 2013, the Company has entered into the Current Financial Services Agreement with Shenhua Group Co on 22 March 2013 under which the Company has agreed to provide, through Finance Company, financial services to Members of Shenhua Group, and the Shenhua Group has agreed to provide, at the request of the Group and through Finance Company, entrustment loans to the Group. The term of the Current Financial Services Agreement will expire on 31 December 2016.

LETTER FROM THE BOARD

The Company has entered into a new Financial Services Agreement with Shenhua Group Co on 24 March 2016. Pursuant to the Financial Services Agreement, the Company has agreed to provide, through Finance Company, financial services to Members of Shenhua Group, and the Shenhua Group has agreed to provide, at the request of the Group and through Finance Company, entrustment loans to the Group. The Financial Services Agreement will be effective from 1 January 2017.

Financial Services Agreement

Date

24 March 2016

Parties

The Company and Shenhua Group Co

Financial Services

Pursuant to the Financial Services Agreement, the Company has agreed to provide, through Finance Company, the following financial services to Members of Shenhua Group:

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

LETTER FROM THE BOARD

- (8) granting loans, consumer credit facilities, buyer's credit and finance leasing to Members of Shenhua Group; and
- (9) underwriting corporate bonds of Members of Shenhua Group.

Pursuant to the Financial Services Agreement, Shenhua Group Co has agreed that the Shenhua Group may provide entrustment loans through Finance Company to the Group on the conditions that any such entrustment loans must be granted on normal commercial terms and with no security being given on assets of the Group.

Term and termination

The Financial Services Agreement is conditional on the Company's compliance with all announcement and/or Independent Shareholders' approval and other requirements under the Shanghai Listing Rules and the Hong Kong Listing Rules in respect of the Financial Services Agreement, and is effective from 1 January 2017 and will expire on 31 December 2019.

Price determination

- (1) Subject to compliance with the terms and conditions of the Financial Services Agreement, Finance Company shall be appointed as one of the financial institutions to provide financial services to Members of Shenhua Group. Members of Shenhua Group may obtain financial services from other financial institutions in addition to or instead of Finance Company, as it thinks fit;
- (2) the interest rates for deposits placed by Members of Shenhua Group with Finance Company under the Financial Service Agreement are negotiated on arm's length terms and with reference to the interest rate prescribed by the PBOC for the same type of deposit and interest rates charged by major commercial banks in the PRC for comparable deposits provided to Members of Shenhua Group;
- (3) the interest rates for loans granted by Finance Company to Members of Shenhua Group under the Financial Service Agreement are negotiated on arm's length terms and with reference to the interest rate prescribed by the PBOC for the same type of loan and interest rates charged by major commercial banks in the PRC for comparable loans provided to Members of Shenhua Group; and
- (4) the service fees charged by Finance Company for the provision of the financial services to Members of Shenhua Group are determined according to the fee rates fixed by the PBOC or the CBRC, and if such fixed fee rates are not available, the service fees are negotiated on arm's length taking into account the market conditions and with reference to the fee rates charged by major commercial banks for comparable services provided to Members of Shenhua Group.

LETTER FROM THE BOARD

Capital Risk Control Measures

- (1) Finance Company has implemented a periodic evaluation system and established an internal control system and risk monitoring indicators to ensure the secure operation of its fund settlement and clearance network, protect the safety of funds, and control risk exposures.
- (2) Finance Company will ensure that it is in strict compliance with the risk control indicators and risk monitoring indicators for finance companies issued by the CBRC. For risk control indicators, standard values are set, and they are the minimum requirements for finance companies. Risk control indicators include eleven indicators in total such as capital adequacy ratio, non-performing assets ratio, non-performing loans ratio, capital loss coverage ratio, loan loss coverage ratio, liquidity ratio, fixed assets ratio, short-term securities investments ratio, long-term investments ratio, inter-bank borrowing ratio and guarantee ratio. Risk monitoring indicators include five indicators in total such as deposit-to-loan ratio, credit concentration of a single client, rate of return on capital, asset profit ratio and renminbi excess reserves ratio. Pursuant to the *Interim Measures on Assessing Risk Control Indicators for Enterprise Group Finance Companies* issued by the CBRC on 29 December 2006, the detailed calculation methods and standard values for risk control indicators are set out below:

Risk Control Indicators

Capital adequacy ratio is the ratio of net capital to risk-weighted asset plus 12.5 times of market risk capital. Net capital is the difference of the sum of the calculated value of core capital and supplementary capital minus capital deduction. The capital adequacy ratio of finance companies shall not be lower than 10%.

Non-performing assets ratio is the ratio of bad credit risks asset to credit risks asset. Credit risks asset is the assets that undertakes credit risk, including loans, call loans to banks, redemptory monetary capital for sale, deposits of interbank, bond investment in bank accounts, interest receivable, other receivables and irrevocable commitment and contingent liabilities. Non-performance credit risks asset is that the five-class classification of the credit risks assets is in subordinated class, doubtful class and loss class. The non-performing assets ratio of finance companies shall not be higher than 4%.

Non-performing loans ratio is the ratio of non-performing loan to each loan. Loan is the asset formed by the monetary capital that finance companies provide to borrowers, mainly including loans, bill financing, finance lease, purchases of resale securities from non-financial institution, advance in cash and so on. Non-performing loan is the sum of loan in subordinated class, doubtful class and loss class that included in the five-class classification. The non-performing loans ratio of finance companies shall not be higher than 5%.

LETTER FROM THE BOARD

Capital loss coverage ratio is the ratio of the actual provisions for credit risks asset to the required provisions for credit risks asset. The loss coverage of credit risks asset is the reserves withdrawn by finance companies for each credit risks assets. It is not required to consider the adequacy of general coverage and special coverage when calculating asset loss coverage. Capital loss coverage ratio of finance companies shall not be lower than 100%.

Loan loss coverage ratio is the ratio of the actual provision for loans and the required provision for loans. The loan loss coverage is the coverage of loan loss withdrawn that may happen to loans by finance corporations. The loan loss coverage ratio only reflects whether the special coverage of loan loss is adequate. Loan loss coverage ratio of finance companies shall not be lower than 100%.

Liquidity ratio is the ratio of liquid assets to liquid liabilities. The liquidity ratio of finance companies shall not be less than 25%.

Fixed assets ratio is the ratio of self-owned asset to the total capital. Self-owned asset is the net value after depreciation of fixed asset, which is the difference of the original value of fixed asset minus accumulated depreciation. Total capital is the difference of the sum of calculated value of core capital and supplementary capital minus backlog part of loan loss reserves. Fixed assets ratio of finance companies shall not be higher than 20%.

Short-term securities investments ratio is the proportion of short-term securities investments to the total capital. Short-term securities investments is the portfolio investment in national debts, debentures of the central bank and bills, financial bonds, enterprise bonds, stocks, funds and others that are calculated under “short-term investments” according to the Financial Firms Accounting System (Cai Kuai [2001] No. 49). The other short-term investments calculated under “short-term investments” shall also be included in the assessment. Short-term securities investments ratio of finance companies shall not be higher than 40%.

Long-term investments ratio is the proportion of long-term investments to the total capital. Long-term investments are the investments that are calculated under “long-term investments” according to the Financial Firms Accounting System, including long-term bonds investments, long-term equity investments and other long-term investments. Long-term investments ratio of finance companies shall not be higher than 30%.

Inter-bank borrowing ratio is the proportion of interbank borrowing to the total capital. Borrowing funds are the interbank borrowings, funds sold for repurchase and other external debts of finance corporations. Inter-bank borrowing ratio of finance companies shall not be higher than 100%.

LETTER FROM THE BOARD

Guarantee ratio is the proportion of guarantee risk exposure to the total capital. Guarantee risk exposure is the balance of the deduction of cash deposit and pledged bank deposit receipt and national debt value from giving credit equivalent to loan. The calculation of guarantee percentage excludes the contingent items related to trade and transaction, such as bid bonds, performance bonds and so on. Guarantee ratio of finance companies shall not be higher than 100%.

Risk Monitoring Indicators

Deposit-to-loan ratio is the ratio of each loan to each deposit. Each deposit is the deposit taken by finance companies from each member company, including corporate deposits, margin deposits for security and the difference between entrusted funds/entrusted loans and entrusted investments.

Credit concentration of a single client is the ratio of the credit sum of the largest client to the net capital. The credit sum of the largest client is the credit balance (whether internal or external) of the client with the largest credit sum at the end of a report period. Credit is the financial support provided by finance corporations for clients, or the guarantees for the loss or expenses which may be caused in the related business activities, including loans, bill financing, finance leases, advances in cash and other internal businesses and bill acceptance, letters of guarantee, guarantees of the bond issuance, loan guarantees, asset sale with recourse, unused and irrevocable loan commitments and other external businesses.

Rate of return on capital is the ratio of after-tax profits to the average balance of the sum of ownership equity and minority equity.

Asset profit ratio is the ratio of the after-tax profits to the average balance of assets.

Renminbi excess reserves ratio is the ratio of the sum of excess reserves deposit, cash and deposit of interbank in the PBOC to the various types of deposits in Renminbi.

- (3) When Finance Company provides financial service of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of Shenhua Group, the guaranteed will be required to provide security deposit as counter-guarantee.
- (4) For bill acceptance and discount services to Members of Shenhua Group, the risk control measures adopted by Finance Company include: the loan department shall verify the authenticity of bills; the loan department shall conduct detailed due diligence on bill acceptance and discount; the risk control department shall assess compliance risk of bill acceptance and discount and monitor risk monitor ratios that may be affected by bill acceptance and discount business, such as capital adequacy ratio and liquidity ratio; application shall be made to the loan review committee for loan review.

LETTER FROM THE BOARD

- (5) For loans, consumption credits, buyer's credits and financial leasing granted by Finance Company to Members of Shenhua Group, the maximum daily balance will be capped by maximum daily balance of deposits placed by Members of Shenhua Group with Finance Company. The risk control measures adopted by Finance Company includes: loan department shall conduct detailed loan due diligence; risk control department shall assess compliance risk of loan and monitor risk monitor ratios that may be affected by loan services, such as capital adequacy ratio and liquidity ratio; application shall be made to the loan review committee for loan review.
- (6) When the loan department verifies the authenticity of bills and conducts detailed due diligence according to the provisions of *Administrative Measures on Commercial Bill Acceptance and Discount of Shenhua Finance Company Limited*, the handlers shall examine the legality, reasonability and recoverability of the paper commercial bills submitted by the clients, and place emphasis on examination of whether the bill drawing, endorsement, negotiation and guarantee comply with the *Law of the People's Republic of China on Negotiable Instruments* item by item; use certain instruments to authenticate the bills; carefully examine whether the bills' elements are clear, correct, complete and free of alterations.
- (7) When the risk control department assesses compliance risk, the risk control department shall check the Compliance Review Form and other compliance materials submitted by the loan department and give compliance comments and suggestions on the Compliance Review Form. The contents of compliance review conducted by the risk control department include whether the elements of credit business are complete, whether the applicants are qualified and whether the credit report submitted by the loan department is complete.

When the risk control department examines whether the elements of credit business are complete, the elements that should be examined include credit type, credit line, term of validity, loan amount, purpose, duration, interest rate, way of guarantee, bill's credit line, handling rate for entrusted loan and whether the entrusted loan is a budget item of the Company's connected transaction, and decide whether the setting of such elements is compliant in accordance with the supervision laws and regulations including *General Provision Of Loan* (People's Bank of China Decree [1996] No. 2), the *Interim Measures for the Administration of Fixed Asset Loans* (CBRC Decree [2009] No. 2), the *Interim Measures for the Administration of Working Capital Loans* (CBRC Decree [2010] No. 1) as well as Finance Company's systems for the credit businesses.

When the risk control department examines whether the applicants are qualified, it shall place the emphasis of examination on whether the applicants are legal and validly existing member units of the Shenhua Group by checking the validity of the applicant's *Business License* and then make decisions according to the shareholding relationship between the applicant and Shenhua Group Co or the Company provided in the Compliance Review Form by the loan department, the provisions of *the Interim Measures on Assessing Risk Control Indicators for Enterprise Group Finance Companies* as well as Finance Company's systems for credit businesses.

LETTER FROM THE BOARD

When the risk control department examines the completeness of the contents of credit reports, it shall examine whether the report analyses the borrower's equity structure, production management and economic benefit, financial situation, the relationship with the banks, financing demand, situation of risks, credit standing, state of operation and management, industrial status, project context and content, preparations of project, project investment, the project's financial status and economic benefits and so forth, and verify if the contents of credit reports are consistent with the elements of credit business provided in the Compliance Review From by the loan department.

Proposed annual caps and past transactions

For the purpose of regulating the financial service cooperative relationship between the Group and Shenhua Group and satisfying the needs of continuous development of Shenhua Group, the Company proposes that the annual caps of the Financial Services Agreement for the years ending 31 December 2017, 31 December 2018 and 31 December 2019, 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 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016.

The aggregate transaction amounts under the Current Financial Services Agreement are within the existing annual caps.

Total amount of financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) provided by Finance Company to Members of Shenhua Group

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
0.00	0.00	0.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
N/A	N/A	N/A	4,290.00	4,420.00	4,550.00

LETTER FROM THE BOARD

Annual total transaction amount of bill acceptance and discount services handled by Finance Company for Members of Shenhua Group

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 1,747.00	0.00	0.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
19,500.00	26,000.00	26,000.00	10,400.00	10,400.00	10,400.00

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

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 19,062.00	Approximately 25,707.00	Approximately 22,208.00

LETTER FROM THE BOARD

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
78,000.00	91,000.00	104,000.00	52,000.00	58,500.00	65,000.00

Maximum daily balance of loans, consumption credits, buyer's credits and financial leasing (including relevant accrued interests incurred) granted by Finance Company to Members of Shenhua Group

(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount</i>	<i>Aggregate transaction amount</i>	<i>Aggregate transaction amount</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Approximately 17,454.00	Approximately 15,069.00	Approximately 14,503.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap</i>	<i>Annual cap</i>	<i>Annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>	<i>Proposed annual cap</i>
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
45,500.00	58,500.00	71,500.00	26,000.00	28,600.00	32,500.00

Total fees of agency, handling and other services charged by Finance Company for providing Members of Shenhua Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services

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(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 88.00	Approximately 62.00	Approximately 0.03

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
350.00	430.00	520.00	182.00	221.00	267.00

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

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

- (a) coal price has continuously declined during recent years. In the week of 22 March 2013 (i.e. the date on which the Current Financial Services Agreement was entered into), the Bohai Bay Thermal Coal Price Index was RMB618 per tonne, and in the week of the Latest Practicable Date, the Bohai Bay Thermal Coal Price Index was RMB389 per tonne. Affected by the declining coal price and the difficult operation and market environment, the historical transaction amounts under the same category for the years ended 31 December 2014 and 31 December 2015 and the period from 1 January 2016 to 31 January 2016 were at a relatively low level. Therefore, the annual caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 proposed by the Company are substantially lower than the annual caps for the years ended 31 December 2014, 31 December 2015 and 31 December 2016;
- (b) Looking ahead, China's economy will continue to retain its upward trend in the long run, and coal will remain as one of the most important fundamental energy resources. The efforts made at the state level to improve orderly competition and reduce excessive coal production capacity will provide favourable conditions for the coal industry to achieve sustainable and robust development and improvements, and improve the operation environment of coal enterprises;

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- (c) after discussing with Shenhua Group Co, with the national policies concerning coal production capacity reduction being pursued, the production volume of coal will decline, and the price is expected to rise gradually. In addition, with the upturn in China's economy, the operation environment of coal and coal related enterprises is expected to be improved. it is estimated that the quantity of financial services to be provided by Finance Company to the Shenhua Group will gradually increase during the next three years;
- (d) according to the needs for business development of the Shenhua Group, the Company and Shenhua Group Co has agreed that Finance Company will provide financial service of guarantee (including guarantee business within Members of business scope of financial enterprises, such as performance guarantee and quotation sharing) to Members of Shenhua Group; and
- (e) the Company is of the view that when proposing annual caps of continuing connected transactions, flexibility shall be taken into account to accommodate the maximum limits under various possibilities. However, same as the actual implementation of the continuing connected transactions previously, the Group and the Shenhua Group will conduct continuing connected transactions in strict accordance with the actual demand for transaction volume and the actual transaction price. Even if the Company sets the annual caps for continuing connected transactions, it does not mean that the Group and the Shenhua Group will transact such amounts, and the proposed annual caps are not indications for the actual transaction amounts. The Company will disclose the actual transaction amounts in each year's annual report, and the independent non-executive directors and auditors will opine on the continuing connected transaction to receive supervision of the Independent Shareholders.

More details are set out below:

For the proposed annual caps for the total amount of financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) provided by Finance Company to Members of Shenhua Group, it is considered in relation to (1) the guarantee business such as performance bonds: to further expand the scope of business and improve the service quality, Finance Company plans to explore provision of performance bonds and other guarantee business to Members of Shenhua Group. Based on the demands for performance bonds, etc. from Members of Shenhua Group and taking the risk control of such businesses into overall consideration, the annual cap is estimated to slightly increase in each year. Therefore, the proposed annual caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB390 million, RMB520 million and RMB650 million respectively; (2) quotation sharing business: quotation sharing means that Members of Shenhua Group and Finance Company share the same credit quotation in a commercial bank. Finance Company plans to provide the quotation sharing business to Members of Shenhua Group from 2017. Finance Company will apply to the commercial banks for the credit quotation sharing to be used by Members of Shenhua Group. Based on the demand for quotation sharing business from Members of Shenhua Group and taking the risk control of guarantee businesses into overall consideration, the annual cap is estimated to remain unchanged. Therefore, the proposed annual caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 is RMB3,900 million each year.

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For bill acceptance and discount services to Members of Shenhua Group, despite that the historical transaction amounts were at a relatively low level, after discussing with Shenhua Group Co and Members of Shenhua Group, it is estimated that during the next three years, the quantity of such financial services will increase to accelerate cash turnover. On the condition of strict risk control, provision of bill acceptance and discount services will increase revenues of the Group. The Company has agreed to continue to provide, through Finance Company, bill acceptance and discount services to Members of Shenhua Group. For bill acceptance and discount services to Members of Shenhua Group, considering the requirements of Shenhua Group Co, demands of Members of the Shenhua Group and availability of funds in Finance Company etc, and based on the business demands from Members of the Shenhua Group and limitations of the computerization level and staff capacity of the loan department etc., the proposed annual caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 is RMB10,400 million each year. The risk for providing bill acceptance and discount services to Members of Shenhua Group will be under control. The risk control measures adopted by Finance Company include: the loan department shall verify the authenticity of bills; the loan department shall conduct detailed due diligence on bill acceptance and discount; the risk control department shall assess compliance risk of bill acceptance and discount and monitor risk control ratios that may be affected by bill acceptance and discount business, such as capital adequacy ratio and liquidity ratio; application shall be made to the loan review committee for loan review.

For maximum daily balance (including interests accrued thereon) of deposits placed by Members of Shenhua Group with Finance Company, based on the understanding of the industry and considering that the capital scale will continue to increase following the results which are expected to be achieved from years of business structural adjustment and transformation and upgrading of the Shenhua Group, it is estimated that the annual increase rate for next three years will be 11%-12%.

For loans, consumption credits, buyer's credits and financial leasing granted by Finance Company to Members of Shenhua Group, despite that the historical transaction amounts were at a relatively low level, after discussing with Shenhua Group Co and Members of Shenhua Group, it is estimated that during the next three years, the demand of Members of Shenhua Group for such financial services will increase to satisfy their needs for short-term cash turnover. The Shenhua Group is a large state-owned enterprise under the direct management of the State-owned Assets Supervision and Administration Commission. The Shenhua Group enjoys a sound reputation in the financial market and has repeatedly issued the enterprise bond and medium-term notes since 2005. On 28 July 2015, through the examination by the Rating Council of China Chengxin International Credit Rating Co., Ltd., a member of Moody's Investors Service, the corporate credit rating of Shenhua Group Co was AAA with stable rating outlook. Taking into account the creditworthiness of Members of Shenhua Group, and on the condition of strict risk control, the Company considers that providing, through Finance Company, loans, consumption credits, buyer's credits and financial leasing to Members of Shenhua Group are comprehensive and a low-risk fund investment option

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and will generate a considerable return for the Group. Therefore, the Company has agreed to continue to provide, through Finance Company, loans, consumption credits, buyer's credits and financial leasing to Members of Shenhua Group. For maximum daily balance of loans, consumption credits, buyer's credits and financial leasing (including relevant accrued interests incurred) granted by Finance Company to Members of Shenhua Group, in 2015, the balance of this connected transaction was approximately RMB15,069 million. Considering the probably increased connected transactions such as the demand in short-term temporary turnover of capital between Shenhua Group Co and its member units, it is estimated that the actual transaction amount to be incurred in 2017 may increase by around RMB10 billion compared with that of 2015, and the annual increase rate for next three years is estimated to be over 10%. The risk for providing loans, consumption credits, buyer's credits and financial leasing to Members of Shenhua Group will be under control. The maximum daily balance will be capped at the maximum daily balance of deposits placed by Members of Shenhua Group with Finance Company. The risk control measures adopted by Finance Company includes: the loan department shall conduct detailed loan due diligence; the risk control department shall assess compliance risk of loan and monitor risk control ratios that may be affected by loan services, such as capital adequacy ratio and liquidity ratio; application shall be made to the loan review committee for loan review.

The annual cap of total fee charged by Finance Company for providing Members of Shenhua Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other services is a result of the voluntary aggregation of the estimated transaction amount of each service by the Company. For such annual cap, the highest applicable percentage ratio as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules is approximately 0.1%, and is not material to the Group.

In respect of the Shenhua Group providing, through Finance Company, entrustment loans to the Group on normal commercial terms, it would amount to a provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempted under Rule 14A.89 of the Hong Kong Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements since no security over the assets of the Group will be granted in respect of the loans. Nevertheless, the Company is required to propose and set annual caps on maximum daily balance in respect of such entrustment loans pursuant to the Shanghai Listing Rules and the Company proposes that the caps for the years ending 31 December 2017, 31 December 2018 and 31 December 2019.

Maximum daily balance of entrustment loans (including relevant accrued interests incurred) advanced by Shenhua Group to the Group through Finance Company

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(1) Historical transaction amounts

Year ended 31 December 2014	Year ended 31 December 2015	Period from 1 January 2016 to 31 January 2016
<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Approximately 2,342.00	Approximately 3,633.00	Approximately 3,588.00

(2) Proposed annual caps

Year ended 31 December 2014	Year ended 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018	Year ending 31 December 2019
<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>	<i>Proposed annual cap (RMB million)</i>
39,000.00	58,500.00	78,000.00	13,000.00	13,000.00	13,000.00

Implementation agreements and payments

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 Financial Services Agreement with Members of Shenhua Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of services as contemplated by the Financial 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 Financial Services and the annual caps.

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

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

Provision of financial services by Finance Company, which is a wholly-owned subsidiary of the Company, to Members of Shenhua Group could fully make use of the function of the internal financing platform and cash management platform within the Group, to continue the risk control and to increase the revenue of the Group. The Financial Services Agreement is therefore in line with the business operations and interests of the Group.

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Hong Kong Listing Rules Implications

Shenhua Group Co holds 73.06% interest in the Company, and is the controlling shareholder of the Company. As such, Shenhua Group Co is a connected person of the Company under the Hong Kong Listing Rules, and the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Financial 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 Financial 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 loans, consumption credits, buyer's credits and financial leasing granted by Finance Company to Members of Shenhua Group under the Financial Services Agreement, as one or more of the applicable percentage ratios exceed 5% but all such percentage ratios are less than 25% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, it also constitutes a discloseable transaction of the Company under Chapter 14 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 Current Financial Services Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the 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.

General Information

The Directors consider that the terms, proposed annual caps of and the transactions contemplated under the Financial Services Agreement 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.

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 transactions are fair and reasonable and no less favourable than the terms provided by any independent 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 connected transactions agreements are conducted on a non-exclusive basis.

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- (2) The Company has adopted internal control rules such as *Connected Transaction Decision Making System, Connected Transaction Management Measures and Connected Transaction Application and Reporting Rules*.

Connected Transaction Decision Making System of China Shenhua Energy Company Limited

Connected Transaction Decision Making System (the “Decision Making System”) contains seventeen articles. The Decision Making System defines the meaning of “connected person” and “connected transaction”. It specifies the situations subject to reporting and examination and the principles to be followed when conducting connected transactions. Abstention measures to be taken when executing the connected transaction contract are also included. The Decision Making System also specifies the powers and duties of the Company’s audit committee, board and directors, general meeting of shareholders and its shareholders. The Decision Making System also contains matters such as abstention mechanism when conflict of interest arises, voting procedures of general meetings of shareholders, and so on. Rules in the system are consistent with the connected transactions rules under the Shanghai Listing Rules and the Hong Kong Listing Rules.

Connected Transaction Management Measures of China Shenhua Energy Company Limited

Connected Transaction Management Measures (the “Management Measures”) consist of thirty articles divided into ten chapters. The Management Measures define the configuration of the connected transaction leading group and the scope of official duties of the company leadership and related departments. The measures also specify the duties of branches and subsidiaries when conducting connected transactions. Rules related to information collection and management are also contained in the Management Measures. The legal department of the Company is responsible for information collection and management and related parties are obliged to provide such information actively and without delay. As to connected transactions which have been disclosed, the Management Measures spell out the key of management is to ensure the annual transaction amounts are within the annual caps with detailed management procedures included. As to new connected transactions, disclosure, examination and approval are necessary before the transactions take place. Detailed management procedures are also included. The Management Measures also contain matters related to self-assessment and supervisory review process.

Connected Transaction Application and Reporting Rules of China Shenhua Energy Company Limited

Connected Transaction Application and Reporting Rules (the “Application and Reporting Rules”) are divided into five parts. Subsidiaries of the Company are required to specify the reason for the transaction, the reason of conducting a connected transaction and offer basic information of connected persons. Furthermore, pricing policy of the connected transaction and measures taken to ensure the fairness of the transaction also require explanations. Applicants are asked to clarify

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when they have signed the contracts, cleared and issued the notes, and finish the application and reporting process within the required time. According to the Application and Reporting Rules, all of the continuing connected transactions shall be conducted within the annual caps. Besides, the applicable scope and the related documents to be submitted are also provided in the Application and Reporting Rules.

- (3) Under the leadership of the Board, the Company has set up a connected transaction leading group headed by the Chief Financial Officer. This connected transaction leading group is responsible for formulating and overseeing the internal control systems for the connected transactions, negotiating and signing various connected transaction agreements, 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 reviewing the Group's internal control systems for the connected transactions and offering proposals for modification, 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 the connected transaction group headed by a senior manager responsible for finance. Specific personnel are 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 this circular to set the price for each transaction. (i) For the Mutual Coal Supply Agreement, specific personnel seek to obtain information about spot market price of coal through various channels; (ii) For the Mutual Supplies and Services Agreement, according to the Group's internal rules and regulations 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, 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 Shenhua 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 Shenhua Group shall entrust professional tender and bidding companies to organise tender and bidding procedures, and the subsidiaries of the Group and the Shenhua 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; (iii) For the

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Financial Services Agreement, specific personnel shall obtain interest rates and fee rates prescribed by the PBOC or the CRBC and seek to obtain interests rates and fee rates charged by major commercial banks provided to Members of Shenhua Group. Once the price is executed, unilateral change is prohibited. The Company's connected transaction leading group reviews the pricing of continuing connected transactions periodically to ensure every transaction is priced strictly according to the pricing principles and policies for the continuing connected transaction disclosed in this circular.

- (5) The Group has adopted the ERP system. When specific personnel recommend pricing of continuing connected transactions, they shall submit the same to the ERP 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 ERP system and ensure that the implementation price of continuing connected transactions is consistent with the agreed price.
- (6) Under the leadership of the connected transaction leading group, 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 contracts, the financial departments control 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 financial 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 (i) whether the actual transaction amount incurred are within the annual caps as approved at the general meeting; (ii) whether the continuing connected transactions are conducted pursuant to the agreements; and (iii) whether the terms of the continuing connected transactions are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Shareholders of the Company as a whole.

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- (9) The Supervisory Board supervises the matters relating to the continuing connected transactions. It reviews the annual financial reports and interim financial reports which consist of the implementation of the continuing connected transactions on an annual basis. It also reviews 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 Committee reviews the annual reports, annual financial reports, interim reports and the interim financial 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 actual transaction amount incurred are within the annual caps.
- (11) The external auditor of the Company conducts interim and year-end audit for each financial year, issues its opinions and letters to the Board in relation to the implementation of the pricing policies and whether the actual connected transaction amount incurred is within the annual caps during the preceding year pursuant to the Hong Kong Listing Rules and submits the same to the Stock Exchange.

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.

PROPOSED APPOINTMENT OF DIRECTOR AND SUPERVISOR

In accordance with the articles of association of the Company, the Company Law and applicable laws and regulations of the PRC, the Board proposes the appointments of Dr. Li Dong as an executive director of the third session of the Board and Mr. Zhao Jibin as a non-executive director of the third session of the Board.

In accordance with the articles of association of the Company, the Company Law and applicable laws and regulations, the Supervisory Board proposes the appointment of Mr. Zhou Dayu as a shareholder representative supervisor of the third session of the Supervisory Board. Mr. Tang Ning, a current shareholder representative supervisor, will cease to serve as a supervisor of the third session of the Supervisory Board.

The proposed appointments of director and supervisor are subject to the approval of the Shareholders of the Company by way of ordinary resolution(s) at AGM.

LETTER FROM THE BOARD

BACKGROUND OF THE CANDIDATES FOR DIRECTORS

Dr. Li Dong

Dr. Li Dong, born in January 1960, Chinese, a senior engineer with professorship. Dr. Li has extensive experience in Chinese coal business administration. In 2005, he obtained his master degree in business administration at China Europe International Business School and a doctorate degree at Liaoning Technical University in 2005.

Dr. Li has been serving as a senior vice president of the Company since May 2011, a deputy general manager of Shenhua Group Corporation Limited since August 2006 and the chief legal adviser of Shenhua Group Corporation Limited since December 2011.

Prior to the foregoing, Dr. Li had successively held the post of the assistant chief engineer of Shenhua Group Corporation Limited, the chairman of Shenhua Group Zhunge'er Energy Co., Limited and the director of the President's Office of Shenhua Group Corporation Limited, etc..

Save as disclosed above, Dr. Li has not held any directorship in other listed companies in the past three years.

Save as disclosed above, Dr. Li has no relationship with any directors, members of the senior management or substantial or controlling shareholders of the Company. As at the date of this circular, Dr. Li does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Upon approval of Dr. Li's appointment by the shareholders of the Company, Dr. Li will enter into a service contract with the Company for a term till the expiry of the tenure of the third session of the Board commencing from the date of appointment. Pursuant to the articles of association of the Company, Dr. Li will be elected and appointed at a general meeting of the Company and may be re-elected at a general meeting of the Company.

Dr. Li's annual remuneration package will be determined by shareholders at a general meeting pursuant to the articles of association of the Company and with reference to recommendations of the remuneration committee of the Board in accordance with its terms of reference, taking into account, among other matters, his duties and responsibilities.

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

LETTER FROM THE BOARD

Mr. Zhao Jibin

Mr. Zhao Jibin, born in July 1952, Chinese, a senior engineer. Mr. Zhao has extensive experience in business administration and railway transportation administration. In 2000, he obtained a master degree at Changchun Institute of Optics and Fine Mechanics.

Mr. Zhao has been an outside director of Shenhua Group Corporation Limited since April 2015 and an outside director of China National Building Material Group Corporation since December 2014. Mr. Zhao had served as a deputy general manager of China Mobile Communications Corporation from May 2008 to June 2013 and an independent non-executive director of China South Locomotive and Rolling Stock Corporation Limited from December 2007 to June 2014.

Prior to the foregoing, Mr. Zhao had successively held the posts as the master of Changchun Railway Station, director of Changchun Railway Sub-bureau, director of Hohhot Railway Bureau and Zhengzhou Railway Bureau, the chairman of China Tietong Telecommunications Corporation, a member of the ninth and tenth National People's Congress, an honorary professor of Beijing Jiaotong University and Changchun University of Science and Technology.

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

Save as disclosed above, Mr. Zhao has no relationship with any directors, members of the senior management or substantial or controlling shareholders of the Company. As at the date of this circular, Mr. Zhao does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

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

Mr. Zhao's annual remuneration package will be determined by shareholders at a general meeting pursuant to the articles of association of the Company and with reference to recommendations of the remuneration committee of the Board in accordance with its terms of reference, taking into account, among other matters, his duties and responsibilities.

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

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BACKGROUND OF THE CANDIDATE FOR SUPERVISOR

Mr. Zhou Dayu

Mr. Zhou Dayu, born in October 1965, Chinese, a deputy researcher. Mr. Zhou obtained a bachelor's degree in economic management at Peking University in 1986 and a bachelor's degree in international finance at Peking University in 2001.

Mr. Zhou has been the general manager of the Capital Operation Department of the Company since March 2016, and the general manager of the Capital Operation Department of Shenhua Group Corporation Limited since March 2016.

Mr. Zhou had been the general manager of the Business Administration Department of the Company from November 2009 to March 2016, and the general manager of the Business Administration Department of Shenhua Group Corporation Limited from November 2009 to March 2016.

Prior to the foregoing, Mr. Zhou had successively held the post of the general manager of the Planning Department and a deputy director of the Policy and Law Research Office of Shenhua Group Corporation Limited.

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

Save as disclosed above, Mr. Zhou has no relationship with any directors, members of the senior management or substantial or controlling shareholders of the Company. As at the date of this circular, Mr. Zhou does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

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

Mr. Zhou's annual remuneration package will be determined by shareholders at a general meeting pursuant to the articles of association of the Company and with reference to recommendations of the remuneration committee of the Board in accordance with its terms of reference, taking into account, among other matters, his duties and responsibilities.

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

LETTER FROM THE BOARD

THE ANNUAL GENERAL MEETING

An AGM will be convened and held for the purpose of, *inter alia*, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), the Mutual Coal Supply Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (2) by the Independent Shareholders, and by way of ordinary resolution(s), the Mutual Supplies and Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (3) by the Independent Shareholders, and by way of ordinary resolution(s), the Financial Services Agreement, the terms, the proposed annual caps and the transactions contemplated thereunder;
- (4) by the Shareholders, and by way of ordinary resolution(s) (by cumulative voting method), election of Dr. Li Dong and Mr. Zhao Jibin as directors of the third session of the Board:
 - (i) to elect Dr. Li Dong as an executive director of the Company;
 - (ii) to elect Mr. Zhao Jibin as a non-executive director of the Company;
- (5) by the Shareholders, and by way of ordinary resolution(s) (by cumulative voting method), election of Mr. Zhou Dayu as a shareholder representative supervisor of the third session of the Supervisory Board.

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

Pursuant to the Hong Kong Listing Rules, Shenhua Group Co and its associates will abstain from voting on all resolutions relating to the continuing connected transactions to be proposed, considered and voted on at the AGM. As of the Latest Practicable Date, Shenhua Group Co and its associates hold in aggregate 14,530,574,452 shares of the Company, which amounts to approximately 73.06% 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 Shenhua Group Co and its associates) with a material interest in the continuing connected transactions to be proposed, considered and approved at the AGM required to abstain from voting at the AGM, and there is no connected person of the Company, Shareholder and their respective associates with a material interest in the other matters to be proposed, considered and approved at the AGM required to be abstain from voting at the AGM.

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

LETTER FROM THE BOARD

RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that the terms, the proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement and proposed appointment of director and supervisor 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 continuing connected transactions and proposed appointment of director and supervisor. Of the Directors attending the board meetings, the Abstained Directors were considered to have material interests by virtue of being employed by Shenhua Group Co, and had thus abstained from voting on the board resolutions in respect of the continuing connected transactions.

Accordingly, the Board recommends that the Shareholders vote in favour of all resolution(s) in relation to the above matters to be proposed at the AGM.

GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to above continuing connected transactions.

Having considered the advices given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion that the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services 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. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all resolution(s) in relation to the continuing connected transactions to be proposed at the AGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 45 to 46, the letter from the Independent Financial Adviser set out on pages 47 to 66 and the other information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Huang Qing
Secretary to the Board of Directors



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

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

(Stock Code: 01088)

To the Independent Shareholders

29 April 2016

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

CONTINUING CONNECTED TRANSACTIONS

ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT
AND
ENTERING INTO FINANCIAL SERVICES AGREEMENT

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services 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 47 to 66 of this circular, we are of the opinion that the terms, proposed annual caps of and the transactions contemplated under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services 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 Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement and the Financial Services Agreement to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Fan Hsu Lai Tai

Independent Non-executive

Director

Gong Huazhang

Independent Non-executive

Director

Guo Peizhang

Independent Non-executive

Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in connection with the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement, and the Financial Services Agreement (including the proposed annual caps thereunder), which have been prepared for inclusion in this circular.



29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

29 April 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE TRANSACTION

CONTINUING CONNECTED TRANSACTIONS

ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT, ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT AND ENTERING INTO FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the continuing connected transactions (the “**Continuing Connected Transactions**”) under the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement, and the Financial Services Agreement (collectively, the “**Renewed CCT Agreements**”) and the proposed annual caps thereunder (the “**Annual Caps**”) for each of the three years ending 31 December 2017, 2018 and 2019, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular of the Company dated 29 April 2016 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the Current Mutual Coal Supply Agreement, the Current Mutual Supplies and Services Agreement, and the Current Financial Services Agreement (collectively, the “**Current CCT Agreements**”) will expire on 31 December 2016. In view of the continued development of the Group based on estimates of demand and operating conditions, the Company has, on 24 March 2016, entered into the Renewed CCT Agreements with Shenhua Group Co. As at the Latest Practicable Date, Shenhua Group Co holds 73.06% interest in the Company, and is the controlling shareholder of the Company. As such, Shenhua Group Co is a connected person of the Company under the Hong Kong Listing Rules. In turn, the transactions contemplated under the Renewed CCT Agreements (including the Annual Caps thereunder) constitute non-exempt continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules since one or more applicable percentage ratios (as defined in Rule 14A.06 under the Hong Kong Listing Rules) in respect of each of the said transactions exceed 5% and, hence, are subject to the reporting, announcement and the Independent Shareholders’ approval requirements. In respect of Shenhua Group Co providing, through Finance Company, entrustment loans to the Group on normal commercial terms without security over the assets 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.89 of the Hong Kong Listing Rules from all reporting, announcement and independent shareholders’ approval requirements. In respect of loans, consumption credit, buyer’s credit and financial leasing granted by Finance Company to Members of Shenhua Group under the Financial Services Agreement, as one or more of the applicable percentage ratios exceeds 5% but all such percentage ratios are less than 25% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, it also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

In the last two years, we did not have any engagement with the Group as an independent financial adviser. As at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties that could reasonably be regarded as relevant to the independence of us. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the Continuing Connected Transactions (including the Annual Caps).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects as at the date of the Circular. We have also relied on our discussion with management of the Company regarding the Group and the respective terms of the Continuing Connected Transactions (including the Annual Caps thereunder), including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Shenhua Group or their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Continuing Connected Transactions (including the Annual Caps), we have taken the following principal factors and reasons into consideration:

1. Background of and reasons for the Continuing Connected Transactions

(i) *The Mutual Coal Supply Agreement*

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, and railway, port and ship transportation, and coal-to-olefins and other coal related chemical processing business.

Shenhua Group is principally engaged in the coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and finance activities. Shenhua Group Co is the controlling shareholder of the Company. As at the Latest Practicable Date, Shenhua Group Co holds 73.06% interest in the Company.

As part of the restructuring in connection with the initial public offering of the Company in 2005, Shenhua Group transferred substantially all of its businesses including, inter alia, its coal production and sales operations and power generation operations, to the Group. Shenhua Group retained certain coal assets and businesses relating to coal mines and power generation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After completion of the restructuring, the Group continues to sell thermal coals of various calorific values to a number of power plants, coal-to-liquid and coal-based chemical subsidiaries owned by the Shenhua Group. In return, the Group receives payment for the supply of coal as in any other ordinary commercial transaction. The Shenhua Group also continues to supply the Group with thermal coals of various calorific values for the purpose of coal blending and re-sale. In view of ensuring a steady, quality-assured provision of coal for the Company and Shenhua Group and to reduce business risks and costs which ultimately benefit the operation of the Company, the Mutual Coal Supply Agreement has been entered into between the Company and Shenhua Group Co to govern and continue the aforementioned coal supply for the three years ending 31 December 2019.

(ii) *The Mutual Supplies and Services Agreement*

As stated in the Letter from the Board, the Shenhua Group retained certain assets and businesses which are supplemental and necessary to the business of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on arm's length basis after the listing of the Company in 2005. In addition, the Group provides certain goods and services to the Shenhua Group on arm's length basis to support the business retained by the Shenhua Group. In view of ensuring a steady, quality-assured provision of products and services for the Group and the Shenhua Group, the Mutual Supplies and Services Agreement has been entered into between the Company and Shenhua Group Co to govern and continue the aforementioned provision of production materials and ancillary services for the three years ending 31 December 2019.

(iii) *The Financial Services Agreement*

As stated in the Letter from the Board, provision of financial services by the Finance Company to the Members of Shenhua Group could fully leverage on its functions as an internal financing platform and capital management platform, further control risk and increase income of the Group. In light of this, the Financial Services Agreement has been entered into between the Company and Shenhua Group Co to govern and continue the provision of financial services to the Shenhua Group for the three years ending 31 December 2019.

Having regard to the principal business and operations of the Group and the reasons for and benefits of the entering into the Continuing Connected Transactions above, we concur with the Directors' view that the entering into the Continuing Connected Transactions is commercially justifiable and is in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Renewed CCT Agreements

(i) *The Mutual Coal Supply Agreement*

Pursuant to the Mutual Coal Supply Agreement, the Group and the Shenhua Group mutually sell and supply thermal coal of various calorific values. The unit price of the coal to be supplied under the Mutual Coal Supply Agreement shall be determined by the Group and the Shenhua Group Co through arm's length negotiation with reference to various factors, including (i) the national industrial policy as well as industry and market conditions in the PRC; (ii) the specified guidelines issued by NDRC setting out the coal purchase prices (if any); (iii) 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; and (iv) the quality, quantity and the estimated transportation fees of the coal, and in any event the transaction terms shall be no less favourable than the terms provided by/to third parties. Details of each of the pricing mechanism are set out in the Letter from the Board.

Upon our due diligence review, we have obtained and compared sample transaction records of the Group's coal supplied/purchased to/from the Shenhua Group and independent third party customers/suppliers. These samples were gathered from historical records during the year ended 31 December 2015, which we consider as representative samples of comparable quantity and nature for the purpose of reviewing the pricing mechanism and key terms in respect of the mutual coal supply transactions between the Group and the Shenhua Group. We note from our review that (i) the pricing mechanism in the Group's sales/procurement of coal to/from Shenhua Group was similar to that of independent third party customers/suppliers; and (ii) the key terms (in terms of unit price per tonne, and settlement period) of sample comparable transactions entered into between the Group and the Shenhua Group were comparable to those entered into between the Group and independent third party customers and suppliers.

(ii) *The Mutual Supplies and Services Agreement*

In accordance with the Mutual Supplies and Services Agreement, the Group and the Shenhua Group will mutually provide products, ancillary production services and administrative services to each other, while the Group will also provide production services to the Shenhua Group. The pricing of the products and services will be principally based on either (i) government-prescribed price and government-guided price; (ii) tender and bidding price; (iii) market price; or (iv) agreed price. Details of each of the pricing mechanism and the relevant pricing mechanism to be adopted for each type of the services and products are set out in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon our due diligence review, we have obtained and compared sample transaction records of the provision/procurement of certain products and ancillary services to/from Shenhua Group and independent third party customers/suppliers. To the extent where transaction record with independent third party customers/suppliers are not available, transaction record between members of the Group was chosen since as advised by the management of the Company, certain procurement functions are centralised to specific members of the Group. These samples were gathered from historical records during the year ended 31 December 2015, which we consider as representative samples of comparable quantity and nature for the purpose of reviewing the pricing mechanism and terms in respect of the mutual provision of supplies and ancillary services transactions between the Group and the Shenhua Group. We note from our review that the key terms (in terms of unit price, and settlement period) in sales/procurement of products and ancillary services to/from Shenhua Group were comparable to those of independent third party customers/suppliers and where applicable, the intra-group transactions of the Group.

(iii) The Financial Services Agreement

In accordance with the Financial Services Agreement, the Company provides related financial services to Shenhua Group through Finance Company. The pricing policy of the Financial Services Agreement is as follows:

Deposit service: the deposit rates prescribed by the PBOC from time to time for the same type of deposit;

Loan service: the lending rates prescribed by the PBOC from time to time for the same type of loan;

Other financial services: the fee rates fixed by the PBOC or the CBRC.

In addition to the above, the interest rates or fee rates shall be determined by reference to the rates offered or charged by major commercial banks in the PRC for offering comparable deposit, loans or services to the Members of Shenhua Group. Details of the pricing policy are set out in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the fairness and reasonableness of the terms under the Financial Services Agreement, we have reviewed samples of loan agreements entered into between the Finance Company and Members of Shenhua Group during the year ended 31 December 2015, which we consider as representative samples of comparable quantity and nature for the purpose of reviewing the pricing mechanism in respect of the financial services provided by the Finance Company to the Shenhua Group. We have also reviewed representative samples of the Finance Company's summary table of the deposits from Members of Shenhua Group. Upon comparison, we note that the pricing mechanism for the said loan and deposit interest rates were determined according to the then lending rate/deposit rate prescribed by the PBOC.

The Company confirms that the terms of the Renewed CCT Agreements, save as those pricing terms which become more specific to comply with the requirements under the guidance letter of the Hong Kong Stock Exchange (HKEx-GL73-14), are substantially the same as those stipulated under the Current CCT Agreements. Upon our discussion with the management of the Company regarding the internal control mechanism in ensuring the transactions contemplated under the Renewed CCT Agreements will be transacted at pricing basis stipulated thereunder, we have reviewed the internal control measures regarding the management of connected transactions and understand that the Company has a connected transaction team under the direct supervision of the chief financial officer, which is responsible for the management and monitoring of connected transactions; and internal control policies are in place which properly delineates the responsibilities of the Company, its subsidiaries and branches in the course of managing the Group's continuing connected transactions. Such team has also established routine examinations, reporting systems and accountability systems in the subsidiaries and branches of the Company. Besides, it was stated in the annual reports of the Company for the years ended 31 December 2014 and 2015 that based on their work performed, the auditors of the Company have confirmed that the transactions under the Current CCT Agreements (i) had been approved by the Board; (ii) had been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) the actual transaction amount did not exceed the respective annual caps for the years ended 31 December 2014 and 2015 as approved by the Hong Kong Stock Exchange and the then Independent Shareholders. As such, we are of the view that there are appropriate and sufficient measures in place to govern the conduct of the relevant continuing connected transactions.

Having considered the above, we concur with the Directors' view that: (i) the transactions contemplated under the Renewed CCT Agreements are entered into on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the transactions contemplated under the Renewed CCT Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. The Annual Caps

Set out below are the actual historical amounts in respect of the existing continuing connected transactions entered into pursuant to the Current CCT Agreements for each of the two years ended 31 December 2015 and for the one month ended 31 January 2016 and the existing annual caps:

<i>(approximately RMB million)</i>	Actual historical amounts		For the one month ended 31 January
	For the year ended 31 December		ended 31 January
	2014	2015	2016
Supply of Coal			
From the Group to Shenhua Group	5,633	4,188	274
From Shenhua Group to the Group	6,517	2,017	221
Provision of Products and Ancillary Services			
From the Group to Shenhua Group	8,060	6,470	505
From Shenhua Group to the Group	4,941	3,729	171
Financial Services			
Amount of guarantee provided by Finance Company to or for the benefit of Members of Shenhua Group	0	0	0
Annual total transaction amount of bill acceptance and discount services	1,747	0	0
Maximum daily balance of deposit (including interests accrued thereon)	19,062	25,707	22,208
Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including relevant accrued interests incurred)	17,454	15,069	14,503
Annual total fee charged for consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan and other services	88	62	0.03

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

<i>(RMB million)</i>	Existing annual caps		
	For the year ended/ending 31 December		
	2014	2015	2016
Supply of Coal			
From the Group to the Shenhua Group	25,500	30,300	34,800
From the Shenhua Group to the Group	24,400	31,800	38,400
Provision of Products and Ancillary Services			
From the Group to the Shenhua Group	16,300	19,200	22,300
From the Shenhua Group to the Group	12,400	12,400	12,400
Financial Services			
Amount of guarantee provided by Finance			
Company to or for the benefit of			
Members of Shenhua Group	N/A	N/A	N/A
Annual total transaction amount of bill			
acceptance and discount services	19,500	26,000	26,000
Maximum daily balance of deposit			
(including interests accrued thereon)	78,000	91,000	104,000
Maximum daily balance of loans, consumption			
credit, buyer's credit and financial leasing			
(including relevant accrued interests incurred)	45,500	58,500	71,500
Annual total fee charged for consultation,			
agency, settlement, transfer, investment,			
lease finance, letter of credit, online			
banking, entrusted loan and other services	350	430	520

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon comparison, we note that the actual historical amounts for the transactions contemplated under the Current CCT Agreements were substantially lower than their corresponding annual caps during the two years ended 31 December 2015. As discussed with the management of the Company, we understand that such differences were mainly due to the factors such as the slowdown in domestic macroeconomic growth, structural reform in the energy sector and overcapacity in the coal industry. With the oversupply issue dampening the coal market, coal companies suffered massive losses while production was reduced or suspended at a number of coal mines in China. In the first half of 2015, national raw coal output decreased by 5.8% to 1.789 billion tonnes year-on-year. Given the macroeconomic situation and the economic structure adjustment, main sectors in the downstream coal industry remained lacklustre and coal consumption continued to shrink. In the first half of 2015, China's sales volume of coal amounted to 1.62 billion tonnes, representing a year-on-year decrease of 8.1%. Given these unfavourable market factors, coal sales of the Company in the first half of 2015 amounted to 177.8 million tonnes (first half of 2014: 234.6 million tonnes), representing a year-on-year decrease of 24.2%. The weighted average sales price of coal in the first half of 2015 was RMB316.0 per tonne, representing a year-on-year decrease of 14.2% when compared to RMB368.4 per tonne during the first half of 2014. Therefore, the actual historical amounts with the Shenhua Group fell short with the then estimated level in determining the existing annual caps for the two years ended 31 December 2015.

When assessing the reasonableness of the Annual Caps, we have discussed with the management of the Company the basis and assumptions underlying the projection of the Annual Caps. The table below sets out the respective Annual Caps under each of the Renewed CCT Agreements for the three years ending 31 December 2017, 2018 and 2019:

<i>(RMB million)</i>	For the year ending 31 December		
	2017	2018	2019
Supply of Coal			
From the Group to Shenhua Group	11,300	13,500	16,000
From Shenhua Group to the Group	9,400	11,400	13,500
Provision of Products and Ancillary Services			
From the Group to Shenhua Group	11,800	11,200	11,900
From Shenhua Group to the Group	8,800	8,800	8,800

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

<i>(RMB million)</i>	For the year ending 31 December		
	2017	2018	2019
Financial Services			
Amount of guarantee provided by Finance			
Company to or for the benefit of			
Members of Shenhua Group	4,290	4,420	4,550
Annual total transaction amount of bill			
acceptance and discount services	10,400	10,400	10,400
Maximum daily balance of deposit			
(including interests accrued thereon)	52,000	58,500	65,000
Maximum daily balance of loans, consumption			
credit, buyer's credit and financial leasing			
(including relevant accrued interests incurred)	26,000	28,600	32,500
Annual total fee charged for consultation,			
agency, settlement, transfer, investment,			
lease finance, letter of credit, online			
banking, entrusted loan and other services	182	221	267

We understand from the Company that the Annual Caps under the Renewed CCT Agreements are determined after taking into account the following factors:

(i) The Mutual Coal Supply Agreement

The relevant Annual Caps of the Mutual Coal Supply Agreement for the supply and procurement of coal by the Group to/from the Shenhua Group have been set after taking into account the following factors: (a) the relatively low level of historical transaction amounts with the Shenhua Group under the continuously declining coal price and difficult operation and market environment during recent years; (b) the management's expectation on the possible rebound of coal price in the next three years given the economic prospects of China and coal as the key fundamental source of energy; (c) the Shenhua Group's expectation on its demand for coal of the Group in anticipation of possible recovery in coal industry; and (d) the increase of the Group's installed capacity of coal-fired generation units due to additional completed power generation projects in 2015 and those which are expected to be completed during the next three years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the relevant Annual Caps of the Mutual Coal Supply Agreement based on the following:

Historical transaction amounts with the Shenhua Group

With reference to the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”), the revenue of the Group for the year ended 31 December 2015 decreased by approximately 30% as compared to 2014, while the coal sales volume of the Company recorded a year-on-year reduction of approximately 17.9%. Based on our discussion with the management of the Company and review of the estimated coal demand of the Shenhua Group and the Group with each other for the three years ending 31 December 2019, we understand that given the challenging coal market conditions, the Group has revised down the expected sales and purchase amount of coal with Shenhua Group (which derives each of the proposed annual caps for the Group’s sales/purchase amount of coal) for the year ending 31 December 2017 with reference to the actual historical amount of coal with the Shenhua Group for the two years ended 31 December 2015 of approximately RMB4,188 million and RMB2,017 million (2014: approximately RMB5,633 million/RMB6,517 million) as compared to the relevant existing annual caps for the three years ending 31 December 2016.

We note that relevant Annual Caps of the Mutual Coal Supply Agreement for the three years ending 31 December 2019 are substantially lower than those of 2016. Each of the cap amounts of (i) RMB11,300 million on sales of coal to Shenhua Group and (ii) RMB9,400 million on purchase of coal from Shenhua Group for the year ending 31 December 2017 represents a reduction of approximately 67.5% and 75.5% respectively, as compared to those of 2016. We also note that the relevant Annual Caps of the Mutual Coal Supply Agreement for the year ending 31 December 2017 represent compound annual growth rates of approximately 64.3% and 115.9% respectively as compared to their historical sales/procurement transaction amounts for the year ended 31 December 2015, followed by annual growth rate of approximately 18.4% to 19.0% during 2018 and 2019. In estimating the annual caps with such growth rates, we understand that the management of the Company has built in a moderate buffer taking into account the volatility of coal price and possible recovery of the coal industry in the PRC which we consider justifiable. Similar to any kinds of commodities, the price of coal is subject to influence of various market factors and is volatile in nature. We have reviewed the Qinhuangdao Port Exit Price for Shangxi Excellent Mix Coal (Q5500K), one of the important references for the coal price in China, for the period from January 2005 to March 2016 and notice that, such coal price index has been fluctuating volatily during the said period. The index started surging from its lower-end of approximately RMB405 per tonne during mid-2005 and reached almost RMB1,000 per tonne in mid-2008, followed by a plunge to RMB510 per tonne in late 2008 and rebound to RMB860 per tonne in late 2011 and eventually reached the 10-year record-low of RMB351 per tonne in November 2015.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the historical volatility of coal price and the recent record-low of coal price, any possible rebound in coal price and pick up of the Group's business activity in the future may substantially drive up the transaction amounts between the Group and the Shenhua Group, we consider the buffer built-in in the relevant Annual Caps to be justifiable in the view that this could avoid any undesired disruption on daily business operation between the Group and the Shenhua Group.

Outlook of the economy and coal industry in the PRC

With reference to a non-commissioned research report issued by GF Securities (Hong Kong) Brokerage Limited on 7 March 2016, China's overall coal consumption had been declining consecutively during 2014 and 2015 and it is expected that coal demand will still decline by more than 2% in 2016. Nevertheless, based on the 2016 government work report given recently by Premier Li Keqiang, it is the target for China to maintain annual GDP growth above 6.5% during the 13th Five Year Plan period, while the target for 2016 is 6.5% to 7%.

In recent years, the coal industry in China has been under the influence of various factors, in particular, the overcapacity in production of coal. The Bohai Bay Thermal Coal Price Index (5,500 kcal) has substantially declined since 2011, reaching RMB385 per tonne as of 2 March 2016 and representing a decrease of approximately 54.9% as compared to the record-high of RMB853 per tonne during November 2011 since its first publication in October 2010. The reduction of overcapacity in the steel and coal sectors is identified as a focus of government policies in the report. The concentration rate of the domestic coal industry has been low, and policies have already been issued to consolidate the industry so that the annual output of all coal companies would each exceed 3 million tonnes which are expected to consolidate the production capacity, eliminate backward production capacity and ramp up financial support for coal companies in China. The series of related policies recently introduced reflect the government's commitment to and confidence in implementing supply-side reform in industries plagued by overcapacity. Also, according to the Opinions of the State Council on Resolving the Overcapacity Problem of the Coal Industry to Realize Development by Extricating the Coal Industry from Difficulties (國務院關於煤炭行業化解過剩產能實現脫困發展的意見) issued by the State Council on 1 February 2016, China will also aim to shut down 500 million tonnes of surplus production capacity of coal within the next three to five years. The Ministry of Land and Resources also announced that the approval for applications on land for new coal mining projects will be suspended for the next three years. Such policies are expected to help eliminating the overcapacity, stabilising the poor market conditions and enhance the prospect of coal industry in China in mid to long term.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Additional installed capacity of the Group's coal-fired generation units

We have reviewed the Company's annual reports since 2010 and noted that, as of 31 December 2015, the total installed capacity of the coal-fired power generators amounted to 52,257MW, representing an increase of approximately 7,780MW or 17.5% year-on-year. The installed capacity of the coal-fired power generators of the Group has generally been increasing in recent years from 26,637MW as of 31 December 2010, amid the downturn in the coal industry of the PRC. Moreover, several coal-fired power generation projects have completed construction and commenced operation in 2015 and a number of coal-fired power generation projects under construction are expected to commence operations during the next three years. Upon our enquiry, we understand from the management that such coal-fired power generation projects are expected to increase the Group's demand of coal by approximately RMB2 billion per year under the relevant Annual Cap. Therefore, the Group's procurement of coal from the Shenhua Group is expected to increase along with the installed capacity of the coal-fired power generators of the Group.

Having considered that (i) the management of the Company has re-adjusted down the expected sales and purchase amount of coal with the Shenhua Group (which derives each of the proposed annual caps for the Group's sales/purchase amount of coal) for the year ending 31 December 2017 to better reflect the estimated transaction amount with the Shenhua Group; and (ii) moderate growth rates and buffer have been built-in when determining the relevant Annual Caps for the three years ending 31 December 2019 under the Mutual Coal Supply Agreement due to the accommodation of any possible rebound in coal price and pick up of the demand in the future and therefore avoiding any undesired disruption on daily business operation between the Group and the Shenhua Group, we consider the relevant Annual Caps under the Mutual Coal Supply Agreement for the three years ending 31 December 2019 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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(ii) *The Mutual Supplies and Services Agreement*

The proposed annual caps of the Mutual Supplies and Services Agreement for supply/procurement of products and ancillary services by the Group to/from the Shenhua Group have been set taking into account the following factors: (a) the historical aggregate transaction amounts for the two years ended 31 December 2015 and for the month ended 31 January 2016 which were affected by the declining resources price, fuel prices and difficult operation and market environment; (b) the management's expectation on the possible increment on prices of raw materials, crude oil and services given the economic prospect of China; (c) the Shenhua Group's expectation on its demand for products and services of the Group in anticipation of possible improvement in coal industry; and (d) the increase of the Group's installed capacity of coal-fired generation units due to additional completed power generation projects in which are expected to be completed during the next three years.

In assessing the relevant Annual Caps of the Mutual Supplies and Services Agreement for the three years ending 31 December 2019, we note that they are substantially lower than those of 2016. Each of the cap amounts of (i) RMB11,800 million on provision of products and ancillary services to the Shenhua Group and (ii) RMB8,800 million on procurement of products and ancillary services from the Shenhua Group for the year ending 31 December 2017 represents a reduction of approximately 47.1% and 29.0% respectively, as compared to those of 2016. We also note that the relevant Annual Caps of the Mutual Supplies and Services Agreement for the year ending 31 December 2017 represent compound annual growth rates of approximately 35.1% and 53.6% respectively as compared to their historical sales/procurement transaction amounts for the year ended 31 December 2015, followed by annual growth rate of approximately -5.1% to 6.3% during 2018 and 2019. In estimating the annual caps with such growth rates, we understand that the management of the Company has built in a moderate buffer for provision of products and services to the Shenhua Group. We have reviewed the historical crude oil price and noticed that oil market, similar to the coal market, was volatile in recent years. There was a substantial fall in crude oil price since mid-2014 with Brent crude oil price falling from around USD110 per barrel in June 2014 to less than USD30 per barrel by January 2016. Based on the statistics published by the National Bureau of Statistic of China, the annual Purchasing Price Indices for Industrial Producers (Fuel and Power) has been fluctuating between 89.2 and 120.6 during the period from 2008 to 2014. For procurement of products and services from the Shenhua Group, reference has been made to approximately 5% of the revenue of the Group for the year ended 31 December 2015, as compared to historical transaction amounts which accounted for approximately 2% of the corresponding revenue of the year for 2014 and 2015. Upon our enquiry, we understand from the management that as the procurement of products and services would be closely related to the business activity level of the Group and is also expected to increase along with the power projects of the Group to be completed during the next three years. Any possible rebound in oil price, raw material costs and pick up of the

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Group's business activities in the future may substantially drive up the transaction amounts between the Group and the Shenhua Group, and therefore we consider the both of the buffer to be justifiable in the view that this could avoid any undesired disruption on daily business operation between the Group and the Shenhua Group.

As mentioned in the 2015 Annual Report, with the increasing proportion of non-fossil energy in power generation and the decreasing power utilisation hours of coal-fired generators in China, the power output dispatch of the Company in 2015 reached 210.45 billion kWh, representing a year-on-year reduction of 3.6%. Based on our discussion with the management of the Company and review of the estimated demand of the Shenhua Group and the Group with each other for the three years ending 31 December 2019, taking into account the underperforming coal business and the changing energy structure in China which may affect the business of the Group and the Shenhua Group and therefore the related products and ancillary services, the Group has revised down the expected transaction amounts of products and ancillary services with the Shenhua Group (which derives each of the proposed annual caps for the Group's provision/procurement of products and ancillary services to/from the Shenhua Group) for the year ending 31 December 2017 with reference to the actual historical amounts of products and ancillary services with the Shenhua Group for the two years ended 31 December 2015 of approximately RMB6,470 million and RMB3,778 million (2014: approximately RMB8,060 million/RMB4,941 million).

Having considered that (i) the management of the Company has re-adjusted down the expected sales and purchase amount of products and ancillary services with the Shenhua Group (which derives each of the proposed annual caps for the Group's provision/procurement of products and ancillary services to/from the Shenhua Group) for the year ending 31 December 2017 to better reflect the estimated transaction amount with the Shenhua Group; and (ii) moderate growth rates and buffer have been built-in when determining the relevant Annual Caps for the three years ending 31 December 2019 under the Mutual Supplies and Services Agreement due to the accommodation of any surprising growth on the demand or raw material price and labour cost in the future and therefore avoiding any undesired disruption on daily business operation between the Group and the Shenhua Group, especially under the circumstances as mentioned under the subsection headed "Outlook of the economy and coal industry in the PRC" and "Additional installed capacity of the Group's coal-fired generation units" above, we consider the relevant Annual Caps under the Mutual Supplies and Services Agreement for the three years ending 31 December 2019 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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(iii) *The Financial Services Agreement*

The relevant Annual Caps of the Financial Services Agreement have been set taking into account the following factors, among others: (a) the relatively low level of historical aggregate transaction amounts for the two years ended 31 December 2015 and for the month ended 31 January 2016 which were affected by declining coal price and difficult operation and market environment; (b) the outlook of the economy and coal industry in the PRC; and (c) the guarantees services, bills and acceptance services and loans, consumption credit, buyers' credit and financial leasing services agreed to be provided to Members of Shenhua Group according to the needs for business development of the Shenhua Group.

We note that the relevant Annual Caps of the Financial Services Agreement for the three years ending 31 December 2019 are substantially lower than those of 2016. The relevant Annual Caps under the Financial Services Agreement for the year ending 31 December 2017 generally decreased by a range of approximately 50-83% as compared to those of 2016. Based on our discussion with the management of the Company and our review on the Group's estimated demands for each of the financial services from the Shenhua Group for the three years ending 31 December 2019, we understand that with the decrease in the expected business activities of the Shenhua Group, the Group has revised down the expected transaction amount of various financial services to be provided to Shenhua Group through the Finance Company (which derives each of the proposed annual caps for the Group's provision of loan and financial services to the Shenhua Group) for the year ending 31 December 2017 with reference to the actual historical amounts with the Shenhua Group for the two years ended 31 December 2015.

We also note that the relevant Annual Caps of the Financial Services Agreement for the year ending 31 December 2017 represent compound annual growth rates of approximately 31.4% to 71.3% respectively, where available, as compared to their historical transaction amounts for the year ended 31 December 2015, followed by annual growth rate of nil to approximately 21.1% during 2018 and 2019. In estimating the annual caps with such growth rates, we understand that the management of the Company has built in moderate buffer. Such buffer is considered to be justifiable given that (i) the business activities of Members of Shenhua Group are sensitive to coal market conditions including the coal price and demand in China; (ii) the historical volatility of coal price and potential rebound in coal price as previously discussed; and (iii) the transactions contemplated under the Financial Services Agreement (save for deposit services) are of revenue in nature which would be beneficial to the Group under sound risk control measures. As further advised by the management of the Company, besides the estimated demand from each business unit of the Shenhua Group, reference was also made to the expected macroeconomic condition and development trend of coal industry in China, the relevant rules and regulations of regulatory authorities, the internal policies and development plan of the Shenhua Group in determining the relevant Annual Caps for loans,

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bill acceptance and discount services. For deposit service, we understand that the relevant Annual Cap for the year ending 31 December 2017 has been made reference to the cash position of the Shenhua Group which were relatively stable in recent years and therefore is substantially lower than the then expected cap for 2016. The management of the Company expects the cash balance of the Shenhua Group would further increase in the future upon the industry reform and the development of the Shenhua Group's overseas business. For the financial advisory fee with other general financial services, there is downward adjustment in the relevant Annual Cap for 2017 having considered the fee level of the financial advisory services, market condition of the coal industry, funding needs of the Shenhua Group and the fact that the Shenhua Group has delegated the rights to its members to finance by their own and therefore the issue of debt by the Shenhua Group shall decrease. Upon 2018, the management of the Company expects the Shenhua Group will continue to issue debt alongside with its business development and therefore would increase the estimated financial advisory fee income to be charged by the Finance Company.

Having considered that (i) the management of the Company has re-adjusted down the expected transaction amount of various financial services with the Shenhua Group (which derives each of the proposed annual caps for the Group's provision of loan and financial services to the Shenhua Group) for the year ending 31 December 2017 to better reflect the estimated transaction amount with the Shenhua Group; (ii) moderate growth rates and buffer have been built-in when determining the relevant Annual Caps for the three years ending 31 December 2019 under the Financial Services Agreement due to the accommodation of any possible rebound in the market and business development of the Shenhua Group which will lead to increase in the demand on various financial services from the Shenhua Group, especially under the circumstances as mentioned under the subsection headed "Outlook of the economy and coal industry in the PRC" above; and (iii) various capital risk control measures, which we consider to be sufficient after the review of such measures and given a counterparty with sound credit rating, will be in place to safeguard to credit risk exposure of the Group, e.g. the Finance Company will strictly comply with the risk control and monitoring indicators for finance companies issued by the CBRC, principal will be required to provide security deposit, with amount as determined by the Finance Company in accordance with its credit assessment on the Members of Shenhua Group which may be less than the guarantee amount, as counter-guarantee for guarantee services to be offered to Members of Shenhua Group with guarantee ratio not exceeding 100% in accordance with the relevant regulations issued by CBRC, and the loans, consumption credit, buyer's credit and financial leasing granted by Finance Company to Members of Shenhua Group will be capped by maximum daily balance of deposits placed by Members of Shenhua Group with Finance Company, we consider the relevant Annual Caps under the Financial Services Agreement for the three years ending 31 December 2019 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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4. Measures to ensure compliance with the Hong Kong Listing Rules

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Hong Kong Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 - (iv) have exceeded the Annual Caps;
- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b);
- (d) the Company must promptly notify the Hong Kong Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

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In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms and the Annual Caps not being exceeded, we are of the view that appropriate measures should be in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having taken into account the above principal reasons and factors, we consider that the terms of the Renewed CCT Agreements (including the Annual Caps thereunder) are fair and reasonable so far as the Independent Shareholders are concerned and that the Continuing Connected Transactions contemplated under the Renewed CCT Agreements (including the Annual Caps thereunder) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and also recommend the Independent Shareholders to, vote in favour of the relevant resolutions to approve the Renewed CCT Agreements (including the Annual Caps thereunder).

Yours faithfully,

For and on behalf of

GF Capital (Hong Kong) Limited

Danny Wan

Harry Yu

Managing Director

Director

Note: Mr. Danny Wan and Mr. Harry Yu are licenced persons registered with the SFC and responsible officers of GF Capital (Hong Kong) Limited to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Both of them have over 20 years of experience in the corporate finance industry, and have participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS IN SHARES

As at the Latest Practicable Date:

- 2.1 none of the Directors, chief executive, supervisors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2015 (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 share/ domestic share	Nature of interest	Number of H shares/domestic shares held	Percentage of H shares/domestic shares over total issued H shares/ domestic shares respectively %	Percentage of total issued share capital of the Company %
1	Shenhua Group Corporation	Beneficial owner	Domestic shares	N/A	14,530,574,452	88.11	73.06
2	JPMorgan Chase & Co.	Beneficial owner; Investment manager; Trustee (other than a bare trustee); Custodian-corporation/ Approved lending agent	H shares	Long position	258,406,008	7.60	1.30
				Short position	8,707,462	0.25	0.04
				Shares available for lending	113,180,928	3.33	0.57
3	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholders	H shares	Long position	278,248,138	8.19	1.40
				Short position	6,941,000	0.20	0.03

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

4. EXPERT

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

Name**Qualifications**

GF Capital (Hong Kong) Limited

A corporation licensed to carry out 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

4.2 As at the Latest Practicable Date, the Independent Financial 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 Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they respectively appear.

4.4 As at the Latest Practicable Date, the Independent Financial 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 2015, 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. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2015 (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 be so demanded, a declaration by the chairman that a resolution has on show of hands been carried, unanimously, or carried by, a particular majority, or lost, 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 favour 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 Shenhua Group Co or its subsidiaries:

	Name of company	Position held	Commencement of term of office
Directors			
Zhang Yuzhuo	Shenhua Group Co	Chairman	May 2014
Ling Wen	Shenhua Group Co	Director General Manager	April 2010 May 2014
Han Jianguo	Shenhua Group Co	Director Deputy General Manager Chief Information Officer	July 2014 August 2003 March 2009
Chen Hongsheng	Shenhua Group Co	External Director	February 2012

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

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

- 9.1 the Mutual Coal Supply Agreement;
- 9.2 the Mutual Supplies and Services Agreement;
- 9.3 the Financial Services Agreement;
- 9.4 the letter from the Independent Board Committee as set out in this circular;
- 9.5 the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- 9.6 the written consents of the experts referred to in 4.1 of this Appendix; and
- 9.7 the service contracts entered into by and between the Company and Directors.