中国神华

CHINA SHENHUA

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)

CONNECTED TRANSACTION
ACQUISITION OF 100% EQUITY INTEREST IN HANGJIN ENERGY

THE ACQUISITION

On 21 January 2025, the Board has considered and approved the proposed Acquisition. Pursuant to the Equity Transfer Agreement, the Company proposed to acquire 100% equity interest in Hangjin Energy held by China Energy at a consideration of RMB852.6495 million. After completion of the Acquisition, Hangjin Energy will become a wholly-owned subsidiary of the Company and will be included in the consolidated financial statements of the Company.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, China Energy is the controlling shareholder of the Company, therefore, China Energy is a connected person of the Company as defined under the Hong Kong Listing Rules. In accordance with Chapter 14A of the Hong Kong Listing Rules, the Acquisition contemplated by the Company and China Energy under the Equity Transfer Agreement constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios of the Acquisition (calculated based on Rule 14.07 of the Hong Kong Listing Rules) exceed 0.1% but all of the percentage ratios are less than 5%, the Acquisition contemplated under the Equity Transfer Agreement is therefore subject to the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but is exempt from the independent shareholders' approval requirement.

Pursuant to the Equity Transfer Agreement, China Energy will grant to the Company a call option to acquire Husiliang Coal Field, Eastern Yiminhe No.2 Well, Eastern Yiminhe Back-up Well and Eastern Yiminhe Peripheral Well (the "**Call Option**"). The grant of the Call Option to the Company constitutes a transaction under Chapter 14 of the Hong Kong Listing Rules and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Hong Kong Listing Rules. According to Rule 14.75(1) of the Hong Kong Listing Rules, on the grant of the Call Option to the Company (the exercise of which is at the discretion of the Company), only the premium will be taken into consideration for calculating the percentage ratios. As nil premium is payable on the grant of the Call Option, such grant will not constitute a notifiable transaction of the Company. The Company will comply with the applicable Hong Kong Listing Rules on any exercise of the Call Option.

Shareholders and potential investors of the Company are reminded that the Equity Transfer Agreement is pending execution by the Company and China Energy. The Company will issue further announcement upon execution of the Equity Transfer Agreement.

BACKGROUND

On 21 January 2025, the Board has considered and approved the proposed Acquisition. Pursuant to the Equity Transfer Agreement, the Company proposed to acquire 100% equity interest in Hangjin Energy held by China Energy at a consideration of RMB852.6495 million. After completion of the Acquisition, Hangjin Energy will become a wholly-owned subsidiary of the Company and will be included in the consolidated financial statements of the Company.

PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT

Parties	:	China Energy (as the transferor) The Company (as the transferee)
Target of the Acquisition	:	100% equity interest in Hangjin Energy held by China Energy
Consideration and payment for the Acquisition	:	Consideration for the Acquisition: based on the filed appraised value of the total shareholders' equity value for Hangjin Energy as at the Valuation Benchmark Date, determined through negotiation to be RMB852.6495 million. Payment method: the consideration for the Acquisition shall be paid by the Company in one lump sum within 15 business days after the Equity Transfer Agreement becomes effective.
Settlement and subsequent arrangements	:	Both parties shall jointly cooperate with Hangjin Energy to complete the industrial and commercial registration modification in respect of the Acquisition within 15 business days after the date of payment of the consideration for the Acquisition by the Company, so as to register the Company as the shareholder holding 100% equity interest in Hangjin Energy. From the date of payment of the consideration for the Acquisition by the Company, the Company will become the owner of the Target of the Acquisition, enjoy the corresponding shareholders' rights and assume the shareholders' obligations, and China Energy will no longer have any rights in respect of the Target of the Acquisition. Both parties shall jointly cooperate with Hangjin Energy and use their best efforts to expeditiously complete the separation of the Tarangaole Coal Mine's mining right into two separate mining rights: (a) the Tarangaole Coal Field's mining right (within the scope of the Acquisition) and (b) the Husiliang Coal Field's mining right (outside the scope of the Acquisition) ("**Separation of the Mining Right**"): (i) Upon the completion of the aforesaid Separation of the Mining Right, China Energy shall be responsible for promptly registering the separated Tarangaole Coal Field's mining right under the name of Hangjin Energy;

(ii) In the event that the aforementioned Separation of the Mining Right is not completed within a short timeframe, and if the Company exercises the Call Option to acquire the Hushiliang Coal Field, China Energy shall promptly register the Tarangaole Coal Mine's mining right, which has yet been separated, under the name of Hangjin Energy after the acquisition of the Hushiliang Coal Field by the Company or its subsidiaries.

Call option	:	China Energy grants the Company an option to acquire the Husiliang Coal Field (呼斯梁井田), Eastern Yiminhe No.2 Well (敏東二井) (exploration license number: T15000020160810100531 53), Eastern Yiminhe Back-up Well (敏東後備井) (exploration license number: T15000020081110100191 05) and Eastern Yiminhe Peripheral Well (敏東外圍井) (exploration license number: T15000020080710100114 86) owned by China Energy Group. Specifically, the Company, upon fulfilling the requisite decision-making and disclosure procedures for the connected transactions/related party transactions, shall have the right, either by itself or through its subsidiaries, to acquire the aforementioned assets at the filed appraisal value (based on the valuation conducted by an independent appraisal firm jointly appointed by both parties). Unless the Company expressly waives the right to acquire in writing, neither China Energy nor its subsidiaries shall transfer the Husiliang Coal Field, Eastern Yiminhe No.2 Well, Eastern Yiminhe Back-up Well and Eastern Yiminhe Peripheral Well to any third party. The Company may in its absolute discretion decide whether or not to exercise the aforementioned Call Option and will comply with the applicable Hong Kong Listing Rules in the event of any exercise of the Call Option.
Arrangements for transitional period	:	The profit and loss of Hangjin Energy during the transitional period shall be enjoyed or borne by the Company. During the transitional period, Hangjin Energy shall not provide loans, guarantees or have incur non-operating capital transactions with China Energy and its controlled enterprises (other than the Company and its controlling subsidiaries) without written consent of both parties.
Performance commitment	:	With reference to the filed Valuation Report, China Energy commits that, Hangjin Energy's net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss for the period from September to December 2024 and for the years from 2025 to 2029, as audited in accordance with the Accounting Standards for Business Enterprises, shall be no less than RMB383.1027 million (based on the valuation using the income approach adopted in the Valuation Report).

If the cumulative net profit realised by Hangjin Energy during the commitment period fails to reach the cumulative committed net profit, China Energy shall compensate the Company in cash and the specific amount of compensation shall be calculated as follows:

(1) Performance compensation amount during the commitment period = (cumulative committed net profit during the commitment period – cumulative net profit realised during the commitment period) ÷ cumulative committed net profit during the commitment period × consideration of the Transaction;

(2) The cumulative net profit realised during the commitment period shall be determined by a special audit report for the commitment period issued by an audit institution qualified in securities and futures business and mutually recognised by both parties to the Transaction.

If the aforementioned performance commitments are not met, China Energy shall perform the above performance compensation obligations within 15 business days after the issuance of the special audit report for the aforementioned commitment period.

Other principal terms :

(1) Undertaking by China Energy: the mining right transfer payment (礦業權出讓價款)[1] for the Tarangaole Coal Field, which is levied on Hangjin Energy in arrears by the mineral resources department in accordance with relevant PRC laws and regulations and not reflected in the Valuation Report, shall be borne by China Energy. Additionally, the mining right transfer payment for the Yannan Mine, Zhani River Strip Mine and Eastern Yiminhe No. 1 Coal Mine, which may still be required to be made to the mineral resources department in the future in accordance with relevant PRC laws and regulations, shall also be borne by China Energy.

(2) In view of the fact that the Valuation Report did not take into account the insurance claim proceeds expected to be received by Hangjin Energy as a result of the "927" Event, such insurance claim proceeds shall belong to China Energy, and shall be paid to China Energy by Hangjin Energy after receipt.

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[1] The Ministry of Finance, Ministry of Natural Resources, and State Taxation Administration of the PRC issued the Notice on the "Measures for the Collection of Mining Right Transfer Income" (Cai Zhong [2023] No. 10) (《礦業權出讓收益徵收辦法》的通知(財綜[2023]10號)), which stipulates that mineral right transfer income/mining right transfer payment is the fee collected by the state from mineral rights holders for the paid use of state-owned resources, based on the state's ownership of natural resources and in accordance with the law.

(3) Given that Hangjin Energy has not yet obtained the production capacity indicators (產能指標)[2] for the Tarangaole Coal Field (2 million tonnes/year)[3], Zhani River Strip Mine (2 million tonnes/year), and Yannan Mine (600,000 tonnes/year)[4] in accordance with the relevant PRC regulations, and it is estimated in the Valuation Report that Hangjin Energy will need to pay RMB460 million for the purchase of such production capacity indicators, in the event that such estimated payment for production capacity indicators turns out being lower than the actual amount to be paid in the future, the difference shall be compensated to the Company in cash by China Energy; if such estimated payment for production capacity indicators turns out being higher than the actual amount to be paid in the future, the difference shall be compensated to China Energy in cash by the Company.

Bottom-line Commitment : After the closing date, China Energy shall continue to assist and urge Hangjin Energy to address and rectify any deficiencies identified during the due diligence process for the Transaction. Specifically:

(1) As for the issue regarding production capacity of Tarangaole Coal Field, which, as at the Valuation Benchmark Date, has yet been restored from 8 million tonnes/year back to 10 million tonnes/year, it shall fall on China Energy to resolve the same as soon as possible. In the event that such failure to restore production capacity leads to any losses being incurred by the Company or Hangjin Energy, China Energy shall provide full cash compensation to the Company or Hangjin Energy.

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2 Based on the provisions set forth in the "Notice on Implementing Measures for Reducing and Replacing Capacity and Strictly Controlling New Coal Production Capacity" (FGNY [2016] No. 1602) and the "Notice on Further Improving the Coal Production Capacity Replacement Policy, Accelerating the Release of High-Quality Production Capacity, and Promoting the Orderly Exit of Outdated Production Capacity" (FGBNY [2018] No. 151), in order to address overcapacity and phase out outdated production capacity in the coal industry, existing legally operating coal mines that seek to increase their high-quality production capacity through expansion, renovation, or technological upgrades must close and exit a certain scale of coal mines for capacity replacement. The original production capacity of the closed mines will serve as the capacity indicators. Coal mining enterprises seeking to add new high-quality production capacity must acquire these capacity indicators through purchase or internal allocation within the group.

3 The original approved capacity of the Tarangaole Coal Field was 10 million tonnes/year. In 2017, as part of efforts to address the issue of excess coal capacity, the construction scale was set at 10 million tonnes/year, but the actual production capacity was reduced to 8 million tonnes/year upon commissioning. To restore the Tarangaole Coal Field's capacity to 10 million tonnes/year, it is necessary to acquire an additional capacity indicator of 2 million tonnes/year before commissioning.

4 In June 2022, the National Mine Safety Administration approved an increase in the production capacity of the Zhani River Strip Mine from 6 million tonnes/year to 8 million tonnes/year, and of the Yannan Mine from 2.1 million tonnes/year to 2.7 million tonnes/year. To accommodate these capacity increases, it is necessary to acquire capacity indicators of 2 million tonnes/year for the Zhani River Strip Mine and 600,000 tonnes/year for the Yannan Mine.

(2) As for the issues regarding the outstanding production capacity indicators of 2 million tonnes/year for the Zhani River Strip Mine and 600,000 tonnes/year for the Yannan Mine, which have yet been allocated as at the Valuation Benchmark Date, it shall fall on China Energy to resolve the same promptly through internal allocation within China Energy Group. If the failure to implement these production capacity indicators results in any losses incurred by the Company or Hangjin Energy, China Energy shall provide full cash compensation to the Company or Hangjin Energy.

(3) In addition to the above, if the Company or Hangjin Energy incurs any losses after the closing date due to issues such as defects in land and property ownership of Hangjin Energy or its controlled subsidiaries, or failure to complete the environmental impact assessment and energy conservation review for Tarangaole Coal Field, China Energy shall provide full cash compensation to the Company or Hangjin Energy, except for any losses that have already been fully accounted for in the audit report of Hangjin Energy prepared for the purposes of the Transaction.

Commencement of the agreement : The Equity Transfer Agreement shall be concluded upon signing by the legal representatives or authorised representatives of both parties with their respective official chops affixed thereto, and shall become effective on the date on which all the following conditions have been fulfilled:

(1) The valuation result for total shareholders' equity value for Hangjin Energy has been filed with the competent state-owned assets regulatory authority or the state-funded enterprise;

(2) Both parties have obtained the necessary internal approvals and authorisations for the Acquisition;

(3) The Acquisition has been approved by the competent state-owned asset regulatory authority or the state-funded enterprise.

Liability for breach of contract : A breach of contract occurs when a party to the agreement violates any of its representations, warranties, undertakings or makes any misrepresentation, and fails to perform any of its duties and obligations under the agreement, and the party in breach shall, at the non-breaching party's request, continue to perform its obligations, take remedial measures, or pay reasonable compensation.

INFORMATION OF HANGJIN ENERGY

Hangjin Energy is a company established in the PRC with limited liability on 22 October 2005 with a registered capital of RMB2,163.1215 million, and its principal activities include the investment and construction of Tarangaole Coal Field, sales of purchased coal, coal mining at Yannan Mine and Zhani River Strip Mine and sales, and coal-electricity integrated project (coal mining at Eastern Yiminhe No.1 Coal Mine and sales, and coal-fired power generation at E' wenke Power Plant). Details of the relevant information about Tarangaole Coal Field, Yannan Mine, Zhani River Strip Mine, Eastern Yiminhe No.1 Coal Mine and E' wenke Power Plant are set out in "Major Operating Assets of Hangjin Energy" below.

As at the date of this announcement, China Energy holds 100% equity interest in Hangjin Energy. The equity interest of Hangjin Energy is clear in terms of property rights, and there being no mortgage, pledge or any other restrictions on the transfer thereof. There is no litigation, arbitration or judicial measures such as seizure or freezing, and there are no circumstances hindering the transfer of ownership. As advised by China Energy, the cost of its original investment in the Target Company is approximately RMB5,779.5545 million (including the cost of equity investment in Hangjin Energy by China Energy and the valuation of the gratuitous transfer of Tarangaole Coal Field by China Energy to Hangjin Energy). Such cost is not directly related to the determination of the consideration of the Transaction.

Major Financial Information of Hangjin Energy

The major financial indicators in the simulated consolidated financial statements of Hangjin Energy prepared in accordance with the PRC Accounting Standards for Business Enterprises for the two financial years ended 31 December 2023 and for the eight months ended 31 August 2024 are as follows:

Unit: RMB: 0'000

	As at 31 December 2022 *(Unaudited)*	**As at 31 December 2023** *(Audited)*	**As at 31 August 2024** *(Audited)*
Total assets	1,186,539.45	1,073,892.68	1,077,121.75
Net liabilities	251,648.33	441,376.42	619,099.96
	For the year ended 31 December 2022 *(Unaudited)*	**For the year ended 31 December 2023** *(Audited)*	**For the eight months ended 31 August 2024** *(Audited)*
Revenue	525,391.21	511,531.22	304,452.09
Net profit/(loss)	8,356.38	(193,612.68)	(263,750.19)
Net profit after deducting non-recurring profit and loss	6,196.31	11,187.22	3,052.00

The decrease in net profit of Hangjin Energy from a profit of RMB83.5638 million in 2022 to a loss in 2023 was mainly attributable to the discontinuation of Eastern Yiminhe No.1 Coal Mine from September 2023 to October 2024 as a result of the "927" Event, contributing to the loss incurred by the coal-electricity integrated project of Mengdong Energy and provision made for impairment of RMB1,350 million in 2023.

The loss for the eight months ended 31 August 2024 was mainly attributable to: (1) the discontinuation of Eastern Yiminhe No.1 Coal Mine from September 2023 to October 2024 as a result of the "927" Event, causing the loss in coal-electricity integrated project of Mengdong Energy; (2) the donation of RMB1,543 million made by Dayan Mining towards Inner Mongolia Ecological Comprehensive Treatment Fund in 2024 to build harmonious mining areas, fulfill social responsibilities for ecological restoration, and improve relations between the enterprise and local authorities.

Hangjin Energy has made provision for impairment of RMB4,319 million in aggregate from October 2014 to March 2023 when Tarangaole Coal Mine terminated construction, with the net liabilities by the end of August 2024.

The Eastern Yiminhe No.1 Coal Mine of the coal-electricity integrated project of Mengdong Energy has resumed production in November 2024, with hydroecological hazards remedied and production capacity gradually resuming at present. The construction of the Tarangaole Coal Field has resumed in April 2023, which completion is scheduled in 2028, with production capacity projected to be achieved by 2029. Hangjin Energy's profitability will gradually improve after the coal-electricity integrated project of Mengdong Energy's turnaround from loss into profit and the Tarangaole Coal Field being put into production.

Major Operating Assets of Hangjin Energy

Hangjin Energy and its subsidiaries have, under their ownership, one coal mine under construction (Tarangaole Coal Field) and three coal mines in production (Yannan Mine, Zhani River Strip Mine, Eastern Yiminhe No.1 Coal Mine) and E' wenke Power Plant's 2×600MW coal-power generating units. Among which, Eastern Yiminhe No.1 Coal Mine and E' wenke Power Plant are coal-electricity integrated projects. The details of which are as follows:

Coal mine under construction

Tarangaole Coal Field spans an area of 227.25 square kilometres and contains non-caking coal and long flame coal, with an average calorific value of raw coal of 4,904 Kcal, and with a resource of 2.054 billion tonnes under the assessment and utilisation standard, a recoverable reserve of 1.050 billion tonnes under the assessment and utilisation standard, a permit-stated production capacity of 10 million tonnes/year, and a service life of 77.76 years. The total investment in construction amounts to RMB7.511 billion, of which RMB3.760 billion has been invested as at the Valuation Benchmark Date. Construction of the Tarangaole Coal Field has resumed in April 2023 and is expected to be completed by 2028, with production capacity projected to be achieved by 2029.

The corresponding mining license of the Tarangaole Coal Field was registered in the name of the former Shenhua Group Corporation Limited, the predecessor of China Energy. The following table sets out the specific information on the license. The mining license includes the Tarangaole Coal Field and the Husiliang Coal Field. On 4 January 2025, China Energy and Hangjin Energy entered into the Gratuitous Transfer Agreement (the "**Gratuitous Transfer Agreement**"), pursuant to which China Energy shall transfer the intangible assets related to the exploration, utilisation, earnings, and management rights of the coal resources in the Tarangaole Coal Field to Hangjin Energy at nil consideration ("**Tarangaole Coal Field Transfer**"). Tarangaole Coal Field Transfer is subject to approval from the competent authorities in charge of mineral resources, and the arrangements for the transfer registration are detailed in the "Principal Terms of the Equity Transfer Agreement – Settlement and subsequent arrangements" in this announcement.

Taking into account the following circumstances, the Board believes that the fact that the mining right for the Tarangaole Coal Field (within the scope of the Acquisition) has not been registered in the name of Hangjin Energy will not have a significant adverse impact on Hangjin Energy's production and operations:

(1) Hangjin Energy is the entity authorised by the National Development and Reform Commission to develop and construct the Tarangaole Coal Mine. Additionally, the People's Government of Ordos City has publicly confirmed that Hangjin Energy is the development entity for the Tarangaole Coal Mine (as stated in the "Reply Letter from the People's Government of Ordos City Regarding Proposal No. 044 of the Second Session of the Fourth People's Congress" dated 8 October 2019: "Tarangaole Coal Mine is the first coal mine developed and constructed in Hangjin Banner, with Shenhua Hangjin Energy Company Limited (the former name of Hangjin Energy), a subsidiary of China Energy, as the development entity").

(2) If the mining right for Tarangaole Coal Field is temporarily not registered under the name of Hangjin Energy due to delays in completing the Separation of the Mining Right, the Equity Transfer Agreement provides that the Company has the option to acquire the Husiliang Coal Field. Once the Company or its subsidiaries acquire the Husiliang Coal Field, China Energy will promptly transfer and register the mining right for Tarangaole Coal Mine under Hangjin Energy's name. The Company will also work closely with China Energy to liaise with relevant governmental departments to ensure that the construction, mining, and operations at the Tarangaole Coal Field are not affected by the pending registration change.

(3) China Energy has committed in the Gratuitous Transfer Agreement, and will reaffirm this commitment in the Equity Transfer Agreement, that, prior to the transfer and registration of the mining right for Tarangaole Coal Field under the name of Hangjin Energy, it will ensure the continuous and stable construction, mining, and operation of Tarangaole Coal Field by Hangjin Energy.

Mining license number	C1000002012061110126071
Mining right owner	Shenhua Group Corporation Limited
Name of mine	Shenhua Group Corporation Limited Tarangaole Coal Mine (Note)
Economic type	Limited liability company
Mining minerals	Coal
Mining method	Underground mining
Production scale	10 million tonnes/year
Mining area	345.5272 square kilometres (Note)
Validity period	From 27 June 2012 to 27 June 2042

Note: Pursuant to the Approval of the Overall Plans for Tarangaole Mine Area in Ordos, Inner Mongolia by National Development and Reform Commission (《國家發展和改革委關於內蒙古鄂爾多斯塔然高勒礦區總體規劃的批覆》) (Fa Gai Neng Yuan [2007] No. 1388), Tarangaole Coal Mine includes the Tarangaole Coal Field of 10 million tonnes/year (Mining area of 227.25 square kilometres), and Husiliang Coal Field of 4 million tonnes/year (Mining area of 118.28 square kilometres). Husiliang Coal Field was not included in the scope of the Transaction as the conditions for value appraisal were not presently met.

Coal mines in production

As at the date of this announcement, Hangjin Energy and its subsidiaries own three coal mines in production, with details as follows:

No.	Name of mine	Coal type	Calorific value of raw coal *(kcal/kg)*	Assessment and utilisation standard (Chinese Standard) Coal resources *(100 million tonnes)*	Recoverable reserve *(100 million tonnes)*	Approved production capacity *(0'000 tonnes/year)*	Remaining service life *(year)*
1	Yannan Mine	Lignite	2,920	4.24	2.47	270	20.16
2	Zhani River Strip Mine	Long flame coal	3,060	1.88	1.05	800	12.12
3	Eastern Yiminhe No.1 Coal Mine	Lignite, long flame coal	3,180	11.75	6.85	500	99.33
	Total	**–**	**–**	**17.87**	**10.37**	**1,570**	**–**

The registration details of the mining rights of the above coal mines in production are as follows:

	Yannan Mine	Zhani River Strip Mine	Eastern Yiminhe No.1 Coal Mine
Mining license number	C1000002011061140113392	C1000002017081110145300	C1000002015071110139418
Mining right owner	Dayan Mining	Dayan Mining	Dayan Mining
Name of mine	No. 3 Coal Mine of Dayan Mining	Zhani River Strip Mine of Dayan Mining	Eastern Yiminhe No. 1 Coal Mine of Dayan Mining
Economic type	Limited liability company	Limited liability company	Limited liability company
Mining minerals	Coal	Coal	Coal
Mining method	Underground mining	Open-pit mining	Underground mining
Designed production scale	2.7 million tonnes/year	8 million tonnes/year	5 million tonnes/year
Mining area	28.5455 square kilometres	8.7536 square kilometres	49.0468 square kilometres
Validity period	From 8 April 2008 to 31 July 2028	From 17 August 2017 to 17 August 2047	From 30 July 2015 to 30 July 2045

E' wenke Power Plant's 2×600MW Coal-power Generating Units

Mengdong Energy holds Electric Power Business Licence No. 1020513-00102 in respect of E' wenke Power Plant's 2×600MW coal-power generating units, with its license category being power generation, which is valid until 25 December 2033. The main production indicators of E' wenke Power Plant for 2022, 2023 and from January to August 2024 are as follows:

Items	**From January to August 2024**	**2023**	**2022**
Power generation (Unit: 100 million kWh)	36.84	60.36	59.59
On-grid power generation (Unit: 100 million kWh)	33.30	54.22	53.32
Utilisation hours (Unit: hour)	3,070	5,030	4,966

Valuation and Pricing of the Target of the Acquisition

Basic Information of the Valuation

The asset appraisal institution for the Transaction was China United Assets. As at the Valuation Benchmark Date, being 31 August 2024, the parent company's net liabilities of Hangjin Energy amounted to RMB4,254.4870 million with an appraised value was RMB852.6495 million. Such valuation results have been filed pursuant to the requirements of state-owned asset supervision and administration.

The appreciation of the appraised value was mainly the appreciation of the appraised value of Tarangaole Coal Mine. Construction of the Tarangaole Coal Field was suspended during the period from October 2014 to March 2023, which prompted Hangjin Energy to make a provision for asset impairment of RMB4.319 billion. The construction of the Tarangaole Coal Field, which is part of the Transaction, has resumed in April 2023, which completion is scheduled in 2028, with production capacity projected to be achieved by 2029. As the present value of net income of mining right was calculated by using the discounted cash flow method based on the resource quantities, production scale, existing technology level of mining and mineral processing and expected market prices of products at the Valuation Benchmark Date, the valuation of the total shareholders' equity value for Hangjin Energy had significantly increased compared to its accounting carrying value.

Pricing of the Acquisition

Based on the above valuation results, the transfer price of 100% equity interest in Hangjin Energy was RMB852.6495 million as determined by both parties of the Transaction through negotiation. For relevant agreements in respect of the transfer income and the purchase fee of the production capacity index, etc. involved in the assumptions of the valuation, see "Principal Terms of the Equity Transfer Agreement – Other Principal Terms" in this announcement. In summary, the pricing of the Acquisition, based on the valuation results, and the pricing is fair.

The valuation was, in principle, conducted by adopting the asset-based approach and income approach. Having taken into account the applicability of the appraisal methodology and the purpose of such appraisal, China United Assets ultimately selected the valuation results of asset-based approach as the final valuation conclusion. Since the asset-based approach (which involved the use of discounted cash flow method for the valuation of certain assets) and the income approach were adopted for the valuation, the valuation constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules ("**Hangjin Energy Profit Forecast**"), and the Company has fully complied with Rule 14.60A of the Hong Kong Listing Rules. The principal assumptions of Hangjin Energy Profit Forecast were set out in Appendix I. KPMG Huazhen LLP, the Company's reporting accountant, has issued a report on the calculation of the discounted future cash flow contained in the Valuation Report. The report from KPMG Huazhen LLP was set out in Appendix II. The Board also confirmed that Hangjin Energy Profit Forecast was made after due and careful enquiry, and the Board's letter regarding this forecast was set out in Appendix III.

The following are the qualifications of the experts who have given the Company opinion or provided advice referred to or contained in this announcement:

Name	**Qualification**
KPMG Huazhen LLP	Certified Public Accountants Registered in the People's Republic of China
China United Assets	A qualified independent appraisal institution in the PRC

As at the date of this announcement, the abovementioned experts have no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

The abovementioned experts have given and have not withdrawn their written consent to the issue of this announcement with the inclusion of its letter of advice/report and references to its name in the form and context in which they respectively appear.

REASONS FOR AND BENEFITS OF THE ACQUISITION

1. Fulfill the non-competition undertakings and reduce competition issues

   In April 2023, the Company entered into the Supplemental Agreement II to the Non-competition Agreement with China Energy, pursuant to which, the Company is entitled to acquire certain assets of China Energy that are in competition with the Company's business, including the Target of the Acquisition. The Transaction is an important initiative for the Company and China Energy to fulfill the non-competition undertakings, which is conducive to further reducing competition. It is also a positive response to the capital market's support and encouragement for listed companies to enhance investment value through mergers and acquisitions.

2. Improve the Company's resource reserves and strengthen the regional competitiveness

The Transaction involves coal reserves of 3.841 billion tonnes and recoverable reserves of 2.087 billion tonnes, representing 11.40% and 13.59% of the Company's coal reserves and recoverable reserves as at the end of June 2024 respectively, the Company's coal resource reserves will increase significantly to approximately 37.53 billion tonnes of coal reserves and 17.45 billion tonnes of recoverable reserves based on the reserves as at the end of June 2024. Following the completion of the Transaction, the Company's coal production capacity will increase by a total of 25.70 million tonnes/year (including 10 million tonnes/year of capacity under construction), and its installed capacity for coal-fired power generation units will increase by 1,200MW. Once the Tarangaole Coal Field achieves full production in 2029, the Target Company's revenue and profitability are expected to increase significantly.

The Transaction will better support the positioning of the Company as a platform for the integration of the coal business of China Energy, increase the future supply of the coal resources of the Company in upstream of west Inner Mongolia, improve the energy supply capabilities of the Company in east Inner Mongolia, and reinforce the Company's competitiveness in Inner Mongolia.

3. Consolidate advantages of integrated operation and enhance the Company's long-term profitability

The Tahan Railway under the operation of China Energy Baoshen Railway Group Co., Ltd. (國能包神鐵路集團有限責任公司), a subsidiary of the Company, is the major outward transportation channel for the Tarangaole Coal Mine. It will effectively increase the shipping volume of the Tahan Railway and downstream railway after the Tarangaole Coal Field is constructed and put into production. Yannan Mine, Zhani River Strip Mine and Eastern Yiminhe No.1 Coal Mine, which are adjacent to the coal mines under China Energy Baorixile Energy Co., Ltd. (國能寶日希勒能源有限公司), a subsidiary of the Company, thus facilitating the implementation of integrated and collaborative management. Mengdong Energy, a subsidiary of Hangjin Energy, has an edge in integrated coal and power operation. The Transaction will further reinforce the integrated operation model of the Company, strengthen integrated operational advantages, and enhance the Company's long-term revenue scale and profitability.

THE IMPACT OF THE ACQUISITION ON THE COMPANY

1. The impact of the Transaction on the Company's financial position and operating results

Due to the prolonged suspension of construction of Tarangaole Coal Mine in the early stages, as well as the one-time impacts of the "927" Event and external donation of Eastern Yiminhe No.1 Coal Mine, the Target Company has recognised a large amount of asset impairment and non-operating expenses, resulting in temporary book losses and negative net assets. The Transaction will not affect the Company's operating performance in 2024. The Company will reflect the financial impact of the Transaction in its 2025 financial statements and the comparative financial statements for 2024, in accordance with the relevant requirements of the applicable accounting standards.

As at the date of this announcement, construction of the Tarangaole Coal Mine has resumed and progressing normally, with production scheduled to commence in 2028. Eastern Yiminhe No.1 Coal Mine has resumed normal production and is gradually resuming production capacity. The asset quality and profitability of the Target Company are steadily making a bottom-up recovery. China Energy has made performance commitments for the Target Company for the period from September to December 2024 and for the years from 2025 to 2029. Upon the completion of the Transaction, it is expected that the Target Company will gradually contribute to coal, transportation, and power generation businesses, as well as performance growth, and the Company plans to further promote quality improvement, cost reduction, and efficiency enhancement for the Target Company through measures such as strengthening regional collaborative operations, controlling production and operating costs, reducing financing pressure, and broadening financing channels, thereby achieving the synergetic optimisation effect of the asset acquisition.

2. The Transaction does not involve any changes to management or resettlement of personnel of the Target Company. As at the Valuation Benchmark Date, Dayan Mining, a subsidiary of the Target Company, leased a piece of land with an area of approximately 14,042,340 square meters. Upon the completion of the Transaction, the aforesaid land lease will continue to be executed by Dayan Mining in accordance with the original contract.

3. In 2008, Mengdong Energy provided joint and several liability guarantees to its non-wholly-owned subsidiary Liangyi Railway for the syndicated loans in the amount of RMB196.67 million, with major liability period from 29 August 2008 to 28 August 2027. During the period from 2013 to 2023, Mengdong Energy repaid all the principal and interests of borrowings of RMB288.8196 million in total within the scope of the suretyship liability of Mengdong Energy on behalf of Liangyi Railway, and all liabilities guaranteed have been performed. Mengdong Energy has fully provided the credit impairment losses for the aforementioned repaid amounts. As at 31 August 2024, there are no external guarantees or entrusted asset management in the Target Company.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, China Energy is the controlling shareholder of the Company, therefore, China Energy is a connected person of the Company as defined under the Hong Kong Listing Rules. In accordance with Chapter 14A of the Hong Kong Listing Rules, the Acquisition contemplated by the Company and China Energy under the Equity Transfer Agreement constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios of the Acquisition (calculated based on Rule 14.07 of the Hong Kong Listing Rules) exceed 0.1% but all of the percentage ratios are less than 5%, the Acquisition contemplated under the Equity Transfer Agreement is therefore subject to the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but is exempt from the independent shareholders' approval requirement.

Pursuant to the Equity Transfer Agreement, China Energy will grant to the Company a call option to acquire designated Coal Field. The grant of the Call Option to the Company constitutes a transaction under Chapter 14 of the Hong Kong Listing Rules and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Hong Kong Listing Rules. According to Rule 14.75(1) of the Hong Kong Listing Rules, on the grant of the Call Option to the Company (the exercise of which is at the discretion of the Company), only the premium will be taken into consideration for calculating the percentage ratios. As nil premium is payable on the grant of the Call Option, such grant will not constitute a notifiable transaction of the Company. The Company will comply with the applicable Hong Kong Listing Rules on any exercise of the Call Option.

INFORMATION ON RELEVANT PARTIES TO THE TRANSACTION

The Company is a world-leading coal-based integrated energy company. The main business of the Group includes production and sales of coal and power, railway, port and ship transportation, and coal-to-olefins and other coal-related chemical processing businesses. As at the date of this announcement, China Energy directly and indirectly held 13,824,302,724 A shares of the Company, accounting for 69.5789% of the total issued shares of the Company.

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

APPROVAL OF THE BOARD

The Board has resolved and approved the Equity Transfer Agreement and the transaction thereunder on 21 January 2025. Among the Directors attending the Board meeting, the Abstained Directors have abstained from voting on the relevant resolution as they are considered to have a material interest in the Equity Transfer Agreement and the transaction thereunder due to their employment with China Energy. The Directors (including independent non-executive Directors) consider that the Equity Transfer Agreement and the transaction thereunder will be conducted on normal commercial terms, and the terms and conditions thereof are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

Shareholders and potential investors of the Company are reminded that the Equity Transfer Agreement is pending execution by the Company and China Energy. The Company will issue further announcement upon execution of the Equity Transfer Agreement.

DEFINITIONS

"'927' Event"	a flooding accident occurred in Eastern Yiminhe No.1 Coal Mine of Mengdong Energy on 27 September 2023
"Abstained Directors"	Mr. Kang Fengwei and Mr. Li Xinhua, who had abstained from voting as Directors on the relevant Board resolution relating to the Equity Transfer Agreement and the transaction contemplated thereunder
"Acquisition" or "Transaction"	the transaction that the Company proposes to acquire 100% equity interest in Hangjin Energy held by China Energy under the Equity Transfer Agreement
"Board"	the board of Directors
"China Energy"	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the controlling shareholder of the Company (as defined under the Hong Kong Listing Rules)
"China Energy Group"	China Energy and its subsidiaries (excluding the Group)
"China United Assets"	China United Assets Appraisal Group Co., Ltd.
"Company"	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the Hong Kong Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange
"CSRC"	China Securities Regulatory Commission
"Dayan Mining"	Inner Mongolia Dayan Mining Industry Group Co., Ltd. (內蒙古大雁礦業集團有限責任公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of Hangjin Energy; in August 2024, with the approval of China Energy, Guoyuan Power transferred its 100% equity interest in Dayan Mining to Hangjin Energy for nil consideration, thereby making Dayan Mining a wholly-owned subsidiary of Hangjin Energy
"Director(s)"	the director(s) of the Company
"Equity Transfer Agreement"	the equity transfer agreement proposed to be entered into between the Company and China Energy in relation to the acquisition of 100% equity interest of Hangjin Energy
"Group"	the Company and its subsidiaries
"Guoyuan Power"	China Energy Guoyuan Power Co., Ltd. (國家能源集團國源電力有限責任公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of China Energy

"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
"Liangyi Railway"	Hulunbei'er Liangyi Railway Company Limited (呼倫貝爾兩伊鐵路有限責任公司), a company incorporated in the PRC with limited liability, which is an associate company of a non-wholly owned subsidiary of the Company
"Mengdong Energy"	Inner Mongolia Mengdong Energy Co., Ltd. (內蒙古蒙東能源有限公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of Dayan Mining; in March 2024, with the approval of China Energy, Guoyuan Power transferred its 97.46% equity interest in Mengdong Energy to Dayan Mining for nil consideration, thereby making Mengdong Energy a wholly-owned subsidiary of Dayan Mining
"Non-competition Agreement and the relevant Supplemental Agreements"	the Non-competition Agreement on 24 May 2005, the Supplemental Agreement to the Non-competition Agreement on 27 April 2018, and the Supplemental Agreement II to the Non-competition Agreement on 28 April 2023 entered into between the Company and China Energy, as well as the Non-competition Undertakings made by China Energy on 27 June 2014, for details of which, please refer to the Company's H share announcements dated 27 June 2014, 2 March 2018 and 28 April 2023
"PRC"	the People's Republic of China
"RMB"	the lawful currency of the PRC
"Survey and Design Company"	Hulunbuir Dayan Survey, Planning and Design Co., Ltd. (呼倫貝爾市大雁勘測規劃設計有限責任公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of Hangjin Energy
"Target Company" or "Hangjin Energy"	China Energy Hangjin Energy Co., Ltd. (國家能源集團杭錦能源有限責任公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of China Energy
"Target of the Acquisition"	100% equity interest of Hangjin Energy
"Valuation Benchmark Date"	31 August 2024

"Valuation Report"	the Asset Valuation Report for the Asset Valuation Project Concerning China Shenhua Energy Company Limited's Proposed Acquisition of 100% Shares of China Energy Hangjin Energy Co., Ltd. Held by China Energy Investment Corporation Limited in Cash (Zhong Lian Ping Bao Zi [2025] No. 72) issued by China United Assets, in relation to the valuation of the total shareholders' equity value for Hangjin Energy, as at the Valuation Benchmark Date
"%"	percentage

By order of the Board
China Shenhua Energy Company Limited
Song Jinggang
Chief Financial Officer and Secretary to the Board of Directors

Beijing, 21 January 2025

As at the date of this announcement, the Board comprises the following: Mr. Lv Zhiren and Mr. Zhang Changyan as executive directors, Mr. Kang Fengwei and Mr. Li Xinhua as non-executive directors, Dr. Yuen Kwok Keung, Dr. Chen Hanwen and Mr. Wang Hong as independent non-executive directors, and Ms. Jiao Lei as employee director.

I. SELECTION OF VALUATION METHODS

According to the Valuation Report, China United Assets has considered the practicality of three asset valuation methods, namely the asset-based approach, the income approach and the market approach.

China United Assets is of the view that, on or about the Valuation Benchmark Date, due to the historical suspension of construction of Hangjin Energy's Tarangaole coal mine project which has yet been completed and put into production as at the Valuation Benchmark Date, recent cases involving enterprise transactions under similar circumstances thus could not be obtained, given also that the core business of Hangjin Energy was the resale of coal purchased from third parties as at the Valuation Benchmark Date which started the sale of self-produced coal with the construction of the mine completed in 2028, and hence there being fewer comparable listed companies in the market with the same size, construction schedule and business structure, therefore, the market approach was not selected for the valuation. Considering that (i) the asset-based approach reflects an enterprise's value from the perspective of acquisition and construction of enterprises and serves as the basis for the operation, management and assessment of the enterprise after realization of the economic activities, and Hangjin Energy could provide complete information necessary for asset and liability valuation; and (ii) Hangjin Energy qualifies for the basis and requirements of continuance, while future profit and risks are predictable and quantifiable, China United Assets believes that Hangjin Energy is qualified to be valued with the asset-based approach and income approach, therefore, the asset-based approach and income approach are selected for the valuation.

All shareholders' equity value of Hangjin Energy calculated by China United Assets using the asset-based approach was RMB852.6495 million, and all shareholders' equity value of Hangjin Energy calculated using the income approach was RMB848.1240 million.

Taking into account that (i) Hangjin Energy operates in the coal mining and washing industry, and coal mining is an important basic raw materials industry in China with typically strong cycle characteristics. Affected by the impacts of fluctuations in the macroeconomy and upstream and downstream changes in industry chain, the price of coal products as well as the revenue and profits of coal enterprises demonstrated periodic fluctuations. Revenue forecast is a forecast for future revenue based on the market conditions as at the Valuation Benchmark Date, but it is still uncertain whether the subsequent management model of enterprises would be significantly adjusted with the mine being put into production, which will also significantly affect the current revenue forecast, leading to uncertainties in valuation results of the income approach and difficulties in reflecting the actual value of enterprises objectively; (ii) coal mining as an important basic raw materials industry is also capital intensive and has long investment cycle. The asset-based approach reflects the replacement value of each item of assets as at the Valuation Benchmark Date, and such acquisition and construction costs are stable to a certain extent. It may more objectively reflect the market value of net assets of the enterprises as compared to the overall revenue of the enterprises. Therefore, China United Assets ultimately selected the valuation results of asset-based approach as the final valuation conclusion.

II. PRINCIPAL VALUATION ASSUMPTIONS

(I) General Assumptions

1. It is assumed that the Target Company is in the process of transaction, and the valuer conducts the valuation according to simulated market conditions such as trading conditions of the assets to be appraised;

2. It is assumed that the Target Company could be freely traded in the open market and both parties are in equal position;

3. It is assumed that the Target Company continues to operate legally in accordance with its business objectives and on the basis of the planned development schedule, production mode, production scale, product structure, development technology level and market supply and demand level under the external environment where it operates;

4. It is assumed that on the Valuation Benchmark Date, the external economic environment remains unchanged, while there are no significant changes in the prevailing macroeconomy in the PRC and the policies on tax collection and tax rates which the Target Company implements;

5. It is assumed that the future operation and management teams of the Target Company duly perform their duties and continue to maintain the existing operation and management model;

6. It is assumed that the valuation is only based on the current operating capabilities as at the Valuation Benchmark Date and each of the assets is premised on the actual inventory as at the Valuation Benchmark Date, and the current market price of the relevant assets is based on the effective domestic prices as at the Valuation Benchmark Date;

7. It is assumed that relevant basic information and financial information provided by the Target Company are true, accurate and complete, and the scope of the valuation is subject to the application form for valuation provided by the Target Company;

8. It is assumed that the value of each parameter estimated in the valuation does not take into account the impact of inflation factors.

(II) Special Assumptions

1. It is assumed that as at the end of the service life of the mines as calculated in this valuation, the enterprise could normally apply for resources tax reduction concession for coal mines at exhaustion stage (with remaining service life of less than 5 years);

2. The mining license of Tarangaole Coal Mine is valid for 30 years from 27 June 2012 to 27 June 2042. The valuation period is from September 2024 to December 2105 on the assumption that mining license can be extended successfully upon its expiration;

3. It is assumed that Tarangaole Coal Field is constructed as planned by the Company and put into production in March 2028 with a production capacity of 10 million tonnes/year to be achieved in 2029 by adopting the principle of quick sale after production;

4. The scope of the valuation only includes Tarangaole Coal Field, with Husiliang Coal Field being excluded therefrom;

5. Zhani River Strip Mine pays the transfer income of mining rights of those funded by the state for exploration in accordance with the relevant requirements related to the transfer income of mining rights at that time during the historical periods, assuming that any subsequent supplementary payment of the transfer income of mining rights as may be required under the prevailing relevant requirements related to the transfer income of mining rights is to be borne by China Energy;

6. This valuation assumes that the production capacity index gaps of 2 million tonnes/year, 0.6 million tonnes/year, and 2 million tonnes/year for the Zhani River Strip Mine, Yannan Mine, and Tarangaole Coal Field, respectively, are internally allocated by China Energy, and has taken into consideration the payment of an estimated index purchase fee of RMB460 million;

7. It is assumed that the re-routing of National Highway 301 involving Zhani River Strip Mine is completed as planned and Zhani River Strip Mine pays government supporting funds of RMB210 million as planned;

8. Affected by the "927" Event, Eastern Yiminhe No.1 Coal Mine was in a state of production suspension and rectification as at the Valuation Benchmark Date, after a planned investment of RMB436 million for technological improvement, it is estimated that the production of coal from September to December 2024 achieves 700,000 tonnes, production of coal for 2025 achieves 3 million tonnes, production of coal for 2026 achieves 3.8 million tonnes, and production of coal for 2027 achieves full capacity of 5 million tonnes, which remains stable at 5 million tonnes during the subsequent forecast periods. The valuation is on the premise that it could resume production and achieve the production capacity as planned;

9. It is assumed that the power generation license of E' wenke Power Plant of Mengdong Energy can be extended upon its expiration in December 2033, which can continue to operate until the end of earnings period, and the annual maintenance renewal expenditure for E' wenke Power Plant forecasted by the management could maintain the normal production and operation of the power plant during earnings period.

III. THE ASSET-BASED APPROACH

(I) Buildings and structures (fixed assets)

Based on the purpose of this valuation, and according to structural features, functional nature and other characteristics of building and structure assets included in the scope of valuation, the reasonable valuation approach for each kind of buildings and structures was finally determined as follows:

1. ***For Hangjin Energy's self-built buildings and structures assets, the cost approach is adopted for valuation.***

The cost approach refers to the approach of calculating the investment required for the replacement of similar properties according to the market conditions as at the Valuation Benchmark Date and the structural characteristics of the buildings and structures to be appraised, multiplying by the newness rate of the buildings and structures after comprehensive evaluation, and finally determining the value of the buildings and structures. The calculation formula was as follows:

Appraised value = full replacement cost × newness rate

A. Determination of full replacement cost

As the appraised entity is a general taxpayer of value-added tax, the full replacement cost of building and structure assets in this valuation was exclusive of tax.

The full replacement cost is generally composed of three parts: construction and installation project costs, preliminary project expenses and other expenses, and capital cost. The calculation formula was:

Full replacement cost (tax exclusive) = construction and installation project cost (tax inclusive) + preliminary and other cost (tax inclusive) + capital cost – deductible value-added tax

a. Determination of construction and installation project cost

For key projects with budget and final accounts, the budget and final accounts adjustment approach is adopted, that is, the appraisers calculated the sub-project fees based on the project volume in the budget and final accounts, with reference to the current Budget Quota for Property Construction and Decoration Project in Inner Mongolia Autonomous Region (2017 Version) (《內蒙古自治區房屋建築與裝飾工程預算定額》), the Budget Quota for General Installation Project in Inner Mongolia Autonomous Region (《內蒙古自治區通用安裝工程預算定額》), the Concrete and Mortar Mix Prices in Inner Mongolia Autonomous Region (《內蒙古自治區混凝土及砂漿配合比價格》) and the Fee Quota for Construction Machinery Shift in Inner Mongolia Autonomous Region (《內蒙古自治區施工機械台班費用定額》), and calculated the construction and installation project cost of the project in accordance with the Cost Quota for Construction Projects in Inner Mongolia Autonomous Region (2017) (《內蒙古自治區建設工程費用定額(2017)》), the Notice on Adjusting the Value-added Tax Rate for Valuation of Construction Projects of the Inner Mongolia Autonomous Region (Nei Jian Biao [2019] No. 113) (《關於調整內蒙古自治區建設工程計價依據增值税税率的通知》(內建標[2019]113 號)) as well as the information on the market prices of civil construction materials in the area where the appraised entity is located on the Valuation Benchmark date;

For key projects without financial estimates as well as budget and final accounts, the budget quotas of similar projects are adopted in re-preparing the simulated project volume, and the construction and installation project costs of the projects to be appraised are calculated according to relevant quotas and the applicable price documents on the Valuation Benchmark Date;

For construction projects with relatively small value, the appraisers refer to the budget quotas, construction quotas or financial estimate indicators of construction and installation project costs of the same type, and arrive at the construction and installation project costs of the projects to be appraised after correction based on differences in the construction costs in terms of floor height, column spacing, span, decoration standards, water and electricity facilities, etc.

b. Determination of preliminary and other cost

Preliminary and other cost is determined based on the standards of various fees and rates stipulated by the national standards, industry and local construction management departments as well as the administrative charging policy documents, the particulars of which are set out in the table below:

No.	Name of cost	Charging method	Rate % (tax inclusive)	Rate % (tax exclusive)	Pricing reference basis
1	Management fee of the construction unit	Investment	0.50	0.50	Cai Jian [2016] No. 504
2	Survey and design fee	Investment	2.77	2.61	Based on Fa Gai Jia Ge [2015] No. 299 and with reference to Ji Jia Ge [2002] No. 10
3	Project supervision fee	Investment	1.28	1.21	Based on Fa Gai Jia Ge [2015] No. 299 and with reference to Fa Gai Jia Ge [2007] No. 670
4	Agent service fee for project tendering and bidding	Investment	0.01	0.01	Based on Fa Gai Jia Ge [2015] No. 299 and with reference to Fa Gai Jia Ge [2011] No. 543

No.	Name of cost	Charging method	Rate % (tax inclusive)	Rate % (tax exclusive)	Pricing reference basis
5	Feasibility study fee	Investment	0.08	0.08	Based on Fa Gai Jia Ge [2015] No. 299 and with reference to Ji Jia Ge [1999] No. 1283
6	Environmental impact assessment fee	Investment	0.03	0.03	Based on Fa Gai Jia Ge [2015] No. 299 and with reference to Ji Jia Ge [2002] No. 125
7	Technical service charge for project quality	Investment	0.38	0.35	Relevant Provisions on the Cost Quota and Cost Management of Coal Construction Works (2015) (《煤炭建設工程費用定額及造價管理有關規定》(2015)) and Zhong Mei Jian Xie Zi [2016] No. 116
8	Joint trial-commissioning fee	Not charging	–	–	Relevant Provisions on the Cost Quota and Cost Management of Coal Construction Works (2015) (《煤炭建設工程費用定額及造價管理有關規定》(2015)) and Zhong Mei Jian Xie Zi [2016] No. 116
9	Labor safety and health evaluation fee	Investment	0.02	0.02	Relevant Provisions on the Cost Quota and Cost Management of Coal Construction Works (2015) (《煤炭建設工程費用定額及造價管理有關規定》(2015)) and Zhong Mei Jian Xie Zi [2016] No. 116
10	Completion cleaning and completion acceptance fee	Investment	0.02	0.02	Relevant Provisions on the Cost Quota and Cost Management of Coal Construction Works (2015) (《煤炭建設工程費用定額及造價管理有關規定》(2015)) and Zhong Mei Jian Xie Zi [2016] No. 116
11	Construction insurance fee	Investment	0.35	0.33	Relevant Provisions on the Cost Quota and Cost Management of Coal Construction Works (2015) (《煤炭建設工程費用定額及造價管理有關規定》(2015)) and Zhong Mei Jian Xie Zi [2016] No. 116
	Total		**5.44**	**5.16**	

c. Determination of capital cost

According to the reasonable construction period of the appraised entity, the loan interest rate was determined to be 3.6% with reference to the loan prime rate, namely 3.45% for a term of 1 year and 3.85% for a term of 5 years or more, announced by the National Interbank Funding Center authorized by the People's Bank of China on 20 August 2024 (with reference to the 20th day of the month in which the Valuation Benchmark Date falls) and based on the average 1-5-year loan prime rate. The capital cost is calculated based on the sum of construction and installation project cost and preliminary and other cost, as well as the average investment of funds. The calculation formula is as follows:

Capital cost = construction and installation project cost (tax inclusive) + preliminary and other cost (tax inclusive) × reasonable construction period × loan interest rate × 1/2

d. Determination of deductible value-added tax

Deductible value-added taxes = construction and installation project cost (tax inclusive)/(1 + rate of value-added tax) × rate of value-added tax + preliminary and other cost (tax inclusive) – preliminary and other cost (tax exclusive)

In summary: full replacement price (tax exclusive) = construction and installation project cost (tax inclusive) + preliminary and other cost (tax inclusive) + capital cost – deductible value-added taxes

B. Determination of newness rate

This valuation has respectively appraised the remaining service lives of various buildings by referring to the economic lives of buildings with different structures, and through on-site inspection of each type of building, including the inspection of the foundation of the buildings, loading structural parts (beam, panel, pillar), walls, floors, house exterior part, doors and windows, wall coating, suspended ceiling, water intake and drainage, ventilation, electricity and lighting etc. by the appraisers, according to the Assessment Criteria of Damage Rating of Houses (《房屋完損等級評定標準》) and the Reference Basis for Identifying the Ageing Degree of Houses (《鑒定房屋新舊程度參考依據》) issued by the former Ministry of Urban and Rural Construction and Environmental Protection, as well as the utilisation status, repair and maintenance situations of the buildings. The newness rate was then determined according to the following formula:

Newness rate = remaining service life/(serviced life + remaining service life) × 100%

Upon above calculation, the newness rate of buildings and structures assets ranges from 51% to 98%

C. Determination of appraised value

Appraised value = full replacement cost (tax exclusive) × newness rate

2. For commercial housing assets the enterprise externally purchased or real estates with the possibility of individual transfer, the market approach was adopted for valuation.

The market approach is the approach to estimate the objective and reasonable price or value of the valuation object by comparing the valuation object with similar real estates traded around the Valuation Benchmark Date and conducting proper modifications to the known prices of those similar real estates. The calculation formula was as follows:

P=P case × A × B × C × D × E

Wherein: P: the appraised value of the property to be evaluated; P case: the actual price of comparable transactions;

A: the correction factor of transaction conditions; B: the correction factor of the dates of transactions;

C: the correction factor of regional factors; D: the correction factor of individual factors;

E: the correction factor of equity status factors.

Upon calculation, as at the Valuation Benchmark Date, the appraised value of buildings and structures (fixed assets) was RMB936.6912 million, and the book value of buildings and structures (fixed assets) was RMB239.4447 million, representing an appreciation rate of 291.19%. The main reason for this being that the buildings and structures were primarily constructed by the company between 2009 and 2021. As at the Valuation Benchmark Date, there has been a significant increase in labor, materials, and machinery, leading to a substantial increase in the appraised original value. The appreciation in appraised net value was mainly due to the discovery of significant strategic resources in Tarangaole Coal Field during the construction process, the construction of which was suspended in October 2014, and at that time, there was significant uncertainty as to whether it could resume production and put into production in the future, Hangjin Energy made a large amount of provision for impairment for buildings and structures assets. As at the Valuation Benchmark Date, the mine resumed production, and such impairment issue has been resolved. The valuation was carried out based on the going concern assumption, which resulted in a significant increase in the appraised net value.

(II) Equipment (fixed assets)

According to the purpose of the Valuation, we adopted the replacement cost method and the market approach for valuation on sustainable use basis based on the market price, combining with the characteristics of the equipment under valuation and the information collected.

For the equipment in normal operation, the replacement cost method was mainly used for valuation. For the old equipment for which prices were available on the second-hand market, the market approach was used for valuation. The formula of the replacement cost method was as follows:

Appraised value = full replacement cost × newness rate

Wherein: full replacement price = equipment purchase price + freight and miscellaneous expenses + installation expenses + preliminary and other expenses (tax inclusive) + capital costs – deductible value-added tax

Newness rate = remaining service life/(serviced life + remaining service life)

Upon above calculation, the newness rate of equipment assets ranges from 15% to 99%.

Upon calculation, as at the Valuation Benchmark Date, the appraised value of equipment (fixed assets) was RMB277.8589 million, and the book value of equipment (fixed assets) was RMB70.2371 million, representing an appreciation rate of 295.60%, which was mainly due to the discovery of significant strategic resources in Tarangaole Coal Field during the construction process, the construction of which was suspended in October 2014, and at that time, there was significant uncertainty as to whether it could resume production and put into production in the future, Hangjin Energy made a large amount of provision for impairment for equipment assets. As at this Valuation Benchmark Date, the mine resumed production, and such impairment issue has been resolved. The valuation was carried out based on the going concern assumption, which resulted in a significant increase in the appraised net value.

(III) Construction in progress

In conjunction with the characteristics of the construction in progress, the cost method was used for valuation with regard to the type and specific condition of the construction in progress.

In adopting the cost method for the valuation of the construction in progress, the appraiser verified the relevant sub-accounts, entry vouchers and the feasibility study reports, preliminary design and information on budget estimates on site, interviewed the project engineering technicians and other relevant personnel, and carried out on-site inspections. It was confirmed that the progress of the construction-in-progress projects to be assessed was basically on schedule and the physical quality met the requirements of the design standards.

For construction in progress with a short reasonable duration, in the case of little changes in project replacement costs, the appraisers determined the appraised value on the basis of the book value after verification, on the premise that the book value of construction-in-progress was verified to be correct;

For uncompleted projects, the main projects in progress were transferred in fixed assets for accounting. For construction in progress of which some cost items have not been transferred, the appraised value of such construction in progress was zero if its value was included in the appraised value of the assets corresponding to the fixed assets;

Completed construction in progress projects with settled payments and no potential liabilities were valued in accordance with the valuation method for fixed assets;

For the construction in progress project with a long reasonable duration, if the price level of major materials, the level of labour costs and the level of installation costs used for construction changed significantly during the construction period, adjustments were required to be made to the major materials and related costs used for construction. If there were physical obsolescence depreciation and functional obsolescence depreciation, it is also necessary to deduct each depreciation. For assets that have shut down to be invalid, the appraised value was recognised based on the net recoverable amount;

For projects under construction with a long period of time between the commencement of construction and the Valuation Benchmark Date (a reasonable duration of more than six months), the capital cost was required to be taken into account. In calculating the capital costs, the non-reasonable duration was required to be excluded. If the capital costs have already been accounted for in the relevant items of construction in progress, it would not be double-calculated.

In respect of the previous prepaid expenditures of Tarangaole Coal Field involved, the reasonable appraised value for the management fees and capital costs of the construction unit was recalculated on the basis of the total investment amount, the reasonable duration and the corresponding interest rate of the construction in progress. For the remaining prepaid expenditures, the appraised value was confirmed by the appraisers by taking into account certain capital costs on the premise that the book expenditures were verified to be reasonable and correct.

Most of the equipment-type assets under the civil engineering and construction in progress under construction in progress in the Valuation have been completed, and were therefore measured in accordance with the valuation method of fixed assets, which was described in Parts 1 and 2 above and would not be repeated here.

Upon calculation, as at the Valuation Benchmark Date, the appraised value of construction in progress was RMB1,993.0877 million, and the book value of construction in progress was RMB756.2051 million, representing an appreciation rate of 163.56%, which was mainly due to the discovery of significant strategic resources in Tarangaole Coal Field, the construction of which was suspended in October 2014, and at that time, there was significant uncertainty as to whether it could resume production and put into production in the future, Hangjin Energy made a large amount of provision for construction in progress assets on this basis, resulting in a lower book value of construction in progress assets. As at the Valuation Benchmark Date, the construction was resumed and such impairment issue has been resolved. The valuation was carried out based on the going concern assumption, which resulted in a significant increase value.

(IV) Mining rights (intangible assets)

The mine entrusted for valuation is a large-scale coal mine under construction, with relevant exploration and design work completed, expected returns and risks predictable and measurable in monetary terms, and the expected life of returns predictable. Therefore, according to the China Appraisal Standards for Mining Rights (《中國礦業權評估準則》), the valuation was conducted by using the discounted cash flow method. The calculation formula was as follows:

$$P = \sum_{t=1}^{n} (CI - CO)_t \cdot \frac{1}{(1+i)^t}$$

In the formula: P – the appraised value of the mining right;

Cl – annual cash inflow;

CO – annual cash outflow;

i – discount rate;

t – annual sequence number;

n – valuation years.

The main parameters were determined as follows:

The values of the valuation indicators and parameters were mainly by reference to: the Verification Report on Coal Reserves of Tarangaole Coal Mine of Dongsheng Coal Field of Inner Mongolia Autonomous Region (《內蒙古自治區東勝煤田塔然高勒煤礦煤炭資源儲量核實報告》, "**Verification Report on Reserves**"), the Opinion on the Assessment of Mineral Reserves for the Verification Report on Coal Reserves of Tarangaole Coal Mine of Dongsheng Coal Field of Inner Mongolia Autonomous Region (《<內蒙古自治區東勝煤田塔然高勒煤礦煤炭資源儲量核實報告>礦產資源儲量評審意見書》) and the Reply Letter on the Assessment and Filing of Mineral Reserves for the Verification Report on Coal Reserves of Tarangaole Coal Mine of Dongsheng Coal Field of Inner Mongolia Autonomous Region (《關於<內蒙古自治區東勝煤田塔然高勒煤礦煤炭資源儲量核實報告>礦產資源儲量評審備案的復函》) submitted by Shenhua Geological Exploration Co., Ltd. in January 2024, the Preliminary Design of the Tarangaole Mine and Coal Processing Plant of Shenhua Group Corporation Limited (Revision) (《神華集團有限責任公司塔然高勒礦井及選煤廠初步設計(修改)》, "**Preliminary Design**") submitted by CCTEG Beijing Huayu Engineering Co., Ltd. in September 2024, the relevant information provided by China Energy Investment Corporation Limited and China Energy Hangjin Energy Co., Ltd., and other information owned by the appraisers.

Special treatment of mining rights: The payment for the production capacity indicators had been outflowed as capital expenditure after the Valuation Benchmark Date during the process of mining rights calculation, meaning that the expenditure has been reflected in the reduction of the appraised value of the mining rights.

Retained resources as at the benchmark date: According to the Verification Report on Reserves, as at 31 December 2023, being the base date of the reserve verification, the retained resources of coal in Tarangaole Coal Field amounted to 2,054.1490 million tonnes, including: 674.6510 million tonnes of proven resources, 396.4770 million tonnes of measured resources and 983.0210 million tonnes of inferred resources.

Assessed usable resources: Assessed usable resources = ∑base reserves + ∑resources × confidence coefficient for that resource level = 1,881.8068 (million tonnes)

Product plan: According to the Preliminary Design, the designed product plan consists of lump coal, premium blended coal, and inferior blended coal.

Recovery rate: According to the Preliminary Design, the designed recovery rate of the mining areas of 2-2 coal seam, 3-2 coal seam and 5-1 coal seam is 85%, and the recovery rate of the mining areas of 3-1 coal seam, 4-1 coal seam and 4-2 coal seam is 80%.

Recoverable reserves: 1,049.7127 (million tonnes)

Production scale and service life: The Valuation determined that the production capacity of the Tarangaole Coal Field is 10 million tonnes/year based on the design documents of the Tarangaole Coal Field and the production capacity contained in the mining license. The service life calculated in the Valuation is 77.76 years, i.e. the production period is from March 2028 to December 2105.

Coal product price and sales revenue: The equivalent coal price determined in the valuation is RMB411.00/tonne (pithead price, excluding tax), assuming that all products produced by the mine are sold, i.e. the sales revenue for a normal production year amounted to RMB4,110,000,000.

Fixed assets investment: The original value of fixed assets investment determined in the Valuation is RMB7,511.1709 million, with a net value of RMB6,592.2187 million. Including: the original value of roadway drivage work is RMB3,188.3448 million with a net value of RMB3,083.5120 million, the original value of buildings and structures is RMB1,304.4159 million with a net value of RMB1,042.9936 million, and the original value of equipments is RMB3,018.4102 million with a net value of RMB2,465.7130 million.

Total costs and charges and operating costs:

Costs for purchased materials: With reference to the Preliminary Design, the unit material cost is RMB28.50/tonne.

Costs for purchased fuel and power: With reference to the Preliminary Design, the designed unit cost for purchased fuel and power is RMB44.09/tonne.

Staff remuneration: With reference to the Preliminary Design, the designed unit staff remuneration is RMB53.28/tonne.

Depreciation charges: Upon calculation, the total depreciation charges for a normal production year are RMB218.9906 million, and the unit depreciation charge is RMB21.90/tonne.

Simple reproduction and maintenance charges and roadway drivage work fund: According to the notice of Administrative Measures for the Extraction and Use of Coal Production Safety Costs and Several Provisions on the Standardization of Management Issues for Simple Reproduction and Maintenance Charges in Coal Mines (Cai Jian [2004]No. 119) (《〈煤炭生產安全費用提取和使用管理辦法〉和〈關於規範煤礦維簡費管理問題的若干規定〉》的通知(財建[2004]119號)), it is determined that the simple reproduction and maintenance charges of this project are RMB7.00/tonne, and the roadway drivage work fund is RMB2.50/tonne. Including: the simple reproduction and maintenance charges in depreciation nature are RMB3.50/tonne, and the simple reproduction and maintenance charges in renewal nature are RMB3.50/tonne.

Geological environment restoration and management fund: Upon calculation, the annual mine environment restoration and management cost is RMB79,860,000, equivalent to a unit cost of RMB7.99/tonne.

Safety costs: The safety costs determined according to the standards of the relevant documents of the Ministry of Finance are RMB30.00/tonne.

Repair costs: With reference to the Preliminary Design, the designed unit repair cost is RMB7.66/tonne.

Amortisation fee: The unit amortisation fee determined under the Valuation is RMB0.46/tonne.

Other expenses: With reference to the design in the Preliminary Design, the total of other expenses is RMB28.37/tonne

Finance costs: The calculation is based on the Guidance on Determination of Parameters for the Valuation of Mining Rights (CMVS30800-2008) (《礦業權評估參數確定指導意見(CMVS30800-2008)》) and the regulations on the Valuation of mining rights.

Total costs and expenses for a normal production year = costs for purchased materials + costs for purchased fuel and power + staff remuneration + depreciation charges + simple reproduction and maintenance charges + roadway drivage work fund + geological environment restoration and management fund + safety costs + repair costs + amortisation fee + other expenses + finance costs = RMB2,339.6894 million, equivalent to the total costs and expenses of unit raw coal of RMB233.97/tonne.

Annual operating costs = total costs and expenses – depreciation charge – simple reproduction and maintenance charges in depreciation nature – roadway drivage work fund – amortisation fee – finance costs = RMB2,033.8600 million, equivalent to a unit raw coal operating cost of RMB203.39/tonne.

The process of determining its discount rate was as follows:

In accordance with the Guidance on Determination of Parameters for the Valuation of Mining Rights (CMVS30800-2008) (《礦業權評估參數確定指導意見(CMVS30800-2008)》), the discount rate was calculated as follows:

Discount rate＝risk-free return rate＋risk return rate

Among them, the risk-free return rate can usually be determined by reference to the interest rate of long-term treasury bonds issued by the government or the bank deposit rate for the same period. In the Valuation, an approximation of the risk-free return rate, representing a risk-free return rate of 2.17%, was determined in accordance with the average interest rate of the 10-year treasury bonds with a base date of 31 August 2024 published by China Central Depository & Clearing Co., Ltd. (CCDC).

Risk return rate includes risk return rate in survey and development phase, industry risk return rate and financial operation risk return rate. Based on the actual situation of the mine, it was determined in the Valuation that the risk return rate in survey and development phase was 1.15%, the industry risk return rate was 2.00%, the financial operation risk return rate was 1.50%, and other specific risk was 1.50%. The risk return rate was determined to be 6.15% by adopting the risk-based aggregation method.

On these grounds, the discount rate for the Valuation was determined to be 8.32%.

Upon calculation, as at the Valuation Benchmark Date, the appraised value of mining rights was RMB3,578.6331 million, and the book value of mining rights was RMB657.7744 million, representing an appreciation rate of 444.05%, which was mainly attributable to the fact that the book value of mining rights (intangible assets) represents the exploration expenses of the enterprise in previous years, while the appraised value of the mining rights represents the value of the economic benefits that the enterprise can generate in future years. The scarcity of coal resources results in a relatively weak correlation between exploration costs and the value that can be realised in the future, therefore they are not comparable. The Valuation adopted the discounted cash flow method to reflect the future earnings of the mine, therefore there was a high appreciation.

(V) Other assets and liabilities

The asset appraisal professionals verified the book value based on list of items and related financial information provided by the appraised entity, and the appraisal value was determined by the verified book value or the actual liabilities or equity that the appraised entity shall bear or enjoy.

Among them, as at the Valuation Benchmark Date, the appraised value of current assets was RMB744.0197 million, with a book value of RMB744.7898 million, representing an appreciation rate of -0.10%; the appraised value of other intangible assets excluding mining rights was RMB152.2632 million, with a book value of RMB121.5421 million, representing an appreciation rate of 24.26%; the appraised value of other non-current assets was RMB46.9457 million, with a book value of RMB32.3698 million, representing an appreciation rate of 45.03%; the appraised value and book value of current liabilities were both RMB6,876.8500 million.

Upon calculation, as at the Valuation Benchmark Date:

(A) The appraised value of all shareholders' equity value for Hangjin Energy = current assets (RMB744.0197million) + non-current assets (including buildings and structures (fixed assets) + equipment (fixed assets) + construction in progress + mining rights + other intangible assets excluding mining rights + other non-current assets = RMB936.6912 million + RMB277.8589 million + RMB1,993.0877 million + RMB3,578.6331 million + RMB152.2632 million + RMB46.9457 million) - current liabilities (RMB6,876.8500 million) - non-current liabilities (none) = RMB852.6495 million.

(B) The book value of all shareholders' equity value for Hangjin Energy = current assets (RMB744.7898 million) + non-current assets (including buildings and structures (fixed assets) + equipment (fixed assets) + construction in progress + mining rights + other intangible assets excluding mining rights + other non-current assets = RMB239.4447 million + RMB70.2371 million + RMB756.2051 + RMB657.7744 million + RMB121.5421 million + RMB32.3698 million) - current liabilities (RMB6,876.8500 million) - non-current liabilities (none) = RMB-4,254.4870 million.

IV. INCOME APPROACH

(I) Key parameters and assumptions

The key parameters and assumptions adopted by China United Assets in the income approach are set out below:

1. There are no significant changes in the relevant national laws and regulations, the macroeconomic situation, and the political, economic and social environment of the region in which the both parties to the transaction are located;

2. It is assumed that the business will continue as a going concern;

3. It is assumed that there will be no significant changes in interest rates, exchange rates, tax bases and rates, and policy levies;

4. It is assumed that the enterprise will continue to operate legally on the basis of a set development schedule, production method, production scale, product mix, level of development technology, and level of market supply and demand;

5. It is assumed that the mine will be put into production as scheduled in accordance with the construction period designed in the Preliminary Design and the corporate plan;

6. Revenue forecast: Revenue forecast data quoted from the mining rights valuation (as referenced in "III. THE ASSET-BASED APPROACH - (IV) Mining rights (intangible assets)"), i.e., revenue using the volume coal price of RMB411.00 per ton (pit price, excluding tax), with no growth in the forecast period;

7. Cost forecast, cost forecast data quoted from the mining rights valuation (as referenced in "III. THE ASSET-BASED APPROACH - (IV) Mining rights (intangible assets)"), i.e. total cost expenses of RMB233.97 per ton in a normal production year, and the annual operating costs, RMB203.39 per ton, with no growth in the forecast period;

8. Forecasted investment: The original value of fixed assets investment determined in this Valuation is RMB7,511.1709 million and the net value is RMB6,592.2187 million, of which the invested amount of fixed assets with original value of RMB3,759.7673 million and net value of RMB2,840.8151 million as at the Valuation Benchmark Date;

9. A discount rate of 8.27% is determined using the weighted average cost of capital assets (WACC) model;

10. This Valuation is conducted to consider the impact of liquidity discounts on the equity value of the business.

(II) Valuation models

1. Basic model

The basic model for this Valuation was:

$$E = B - D \qquad (1)$$

In the formula:

E: the value of all shareholders' equity (net assets) of the appraised entity, the final calculation of which amounted to RMB848.1240 million;

B: the enterprise value of the appraised entity, which amounted to RMB7,481.8740 million;

D: the value of interest-bearing debts of the appraised entity, which amounted to RMB6,633.7500 million;

$$E = P + I + C \qquad (2)$$

In the formula:

P: the value of operating assets of the appraised entity;

I: the value of long-term investments of the appraised entity as at the Valuation Benchmark Date;

C: the value of surplus or non-operating assets (liabilities) of the appraised entity existing on the Valuation Benchmark Date;

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n} \qquad (3)$$

In the formula:

R_i: the expected return (free cash flow) of the appraised entity in the i-th year in the future;

r: discount rate, which was 8.27%;

n: the future operating period of the appraised entity;

$$C = C_1 + C_2 \qquad (4)$$

C_1: the value of current surplus or non-operating assets (liabilities) at the Valuation Benchmark Date;

C_2: the value of non-current surplus or non-operating assets (liabilities) at the Valuation Benchmark Date.

2. *Income indicators*

In this Valuation, the free cash flow of the enterprise was used as an indicator of the income on the operating assets of the appraised entity, which was basically defined as:

R = EBITDA × (1 – t) + Depreciation and Amortization – Additional Capital (5)

The free cash flow of the appraised entity in the future operating period was estimated based on its operating history and future market development. The free cash flows in the future operating period were discounted and summed to obtain the value of the operating assets of the enterprise.

3. *Discount rate*

The weighted average cost of capital assets (WACC) model was used in this Valuation to determine the discount rate r

$$r = r_d \times w_d + r_e \times w_e \qquad (6)$$

In the formula:

W_d: the debt ratio of the appraised entity, which was 42.72% in this case

$$w_d = \frac{D}{(E+D)} \qquad (7)$$

W_e: the equity ratio of the appraised entity, which was 57.28% in this case;

$$w_e = \frac{E}{(E+D)} \tag{8}$$

r_d: the interest rate on interest-bearing debts after income taxes, which was 2.89% in this case;

r_e: the cost of equity capital, the cost of equity capital r_e was determined according to the Capital Asset Pricing Model (CAPM) for this Valuation, and the cost of equity capital after the comprehensive calculation was 12.28%;

$$r_e = r_f \times \beta_e \times (r_m - r_f) + \varepsilon \tag{9}$$

In the formula:

r_f: the risk-free rate of return, the 10-year treasury bond yield was used as the risk-free rate for this Valuation, which was 2.17%;

r_m: the market expected rate of return, which was 8.82% in this case;

ε: the characteristic risk adjustment factor of the appraised entity, which was 3.60% in this case;

β_e: the expected market risk factor for the equity capital of the appraised entity, which was 0.628 in this case;

$$\beta_e = \beta_u \times (1 + (1-t) \times \frac{D}{E}) \tag{10}$$

β_u: the expected unlevered market risk factor for the comparable company;

$$\beta_u = \frac{\beta_t}{1 + (1-t)\frac{D_i}{E_i}} \tag{11}$$

β_t: the expected average market risk factor for stocks (assets) of the comparable company;

$$\beta_t = 34\%K + 66\%\beta_x \tag{12}$$

In the formula:

K: the average value at risk of the stock market over a certain period of time, usually assuming K=1;

β_x: the average historical market risk factor of the stock (asset) of the comparable company;

Di, Ei: interest-bearing debt and equity capital of the comparable company, respectively.

APPENDIX II REPORT FROM KPMG HUAZHEN LLP ON THE CALCULATION OF DISCOUNTED FUTURE CASH FLOWS IN THE VALUATION REPORT

The following is the text of a report received from the Company's reporting accountants, KPMG Huazhen LLP, for inclusion in this announcement.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE TOTAL SHAREHOLDERS' EQUITY VALUE FOR CHINA ENERGY HANGJIN ENERGY CO., LTD.

TO THE BOARD OF DIRECTORS OF CHINA SHENHUA ENERGY COMPANY LIMITED

We refer to the discounted future cash flows on which the valuation (the "**Valuation**") dated 5 January 2025 prepared by China United Assets Appraisal Group Co., Ltd. in respect of the appraisal of the total shareholders' equity value for China Energy Hangjin Energy Co., Ltd. (the "**Target Company**") as at 31 August 2024 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

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

Our Independence and Quality Management

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

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.60A(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

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

Opinion

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

Other matters

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

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.60A(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG Huazhen LLP

Beijing, China

21 January 2025

APPENDIX III LETTER FROM THE BOARD ON HANGJIN ENERGY PROFIT FORECAST

Dear Sir or Madam,

Re: Connected Transaction in relation to the acquisition of 100% equity interest in China Energy Hangjin Energy Co., Ltd. ("Hangjin Energy")

Reference is made to the announcement (the "**Announcement**") of China Shenhua Energy Company Limited (the "**Company**") dated 21 January 2025, of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Announcement unless the context otherwise requires.

Reference is made to the valuation report (the "**Valuation Report**") dated 5 January 2025 in relation to the valuation of Hangjin Energy, prepared by China United Assets Appraisal Group Co., Ltd., an independent valuer (the "**Independent Valuer**"). Since the asset-based approach (which involved the use of discounted cash flow method for the valuation of certain assets) and the income approach were adopted for the valuation, the valuation constitutes a profit forecast (the "**Profit Forecast**") under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have discussed with the Independent Valuer and reviewed the basis and assumptions upon which the Profit Forecast was prepared. We have also engaged KPMG Huazhen LLP to report on the calculation of the discounted future cash flows used in the Valuation Report and considered the report from KPMG Huazhen LLP. Based on the aforesaid, we confirm that the Profit Forecast as contained in the Valuation Report has been made after due and careful inquiry.

On behalf of the Board
China Shenhua Energy Company Limited
Zhang Changyan
Chief Executive Officer and Executive Director

21 January 2025