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

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

(Stock Code: 01088)

CONTINUING CONNECTED TRANSACTIONS

**TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES
AND SERVICES AGREEMENT
AND ENTERING INTO NEW MUTUAL SUPPLIES
AND SERVICES AGREEMENT**

**TERMINATION OF THE ORIGINAL MUTUAL SUPPLIES AND SERVICES
AGREEMENT AND ENTERING INTO NEW MUTUAL SUPPLIES AND
SERVICES AGREEMENT**

As disclosed in the announcement dated 22 March 2019 and the circular dated 10 May 2019, the Company has entered into the Original Mutual Supplies and Services Agreement with China Energy on 22 March 2019 to provide for the mutual supply of products and services between the Group and the China Energy, the term of which will expire on 31 December 2022.

The Company has entered into the New Mutual Supplies and Services Agreement with China Energy on 27 August 2021. Except for the annual cap, the New Mutual Supplies and Services Agreement is drafted with reference to the relevant terms of the Original Mutual Supplies and Services Agreement. The New Mutual Supplies and Services Agreement shall enter into force upon approval by the first EGM for the year 2021, and shall be effective from 1 January 2021 and expire on 31 December 2023. The Original Mutual Supplies and Services Agreement shall terminate from the date on which the New Mutual Supplies and Services Agreement becomes effective, and all rights and obligations under the Original Mutual Supplies and Services Agreement of both parties shall be terminated. The Company and China Energy will agree on their respective rights and obligations in accordance with the New Mutual Supplies and Services Agreement.

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

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

The Company will seek approval from the Independent Shareholders for the New Mutual Supplies and Services Agreement and the proposed annual caps thereto at a general meeting to be convened. According to the Hong Kong Listing Rules, China Energy and their respective associates shall abstain from voting in respect of the resolutions for the New Mutual Supplies and Services Agreement and the proposed annual caps thereto.

The Company and the Independent Board Committee have reviewed the New Mutual Supplies and Services Agreement and the proposed annual caps thereto. The Company will appoint an independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms, proposed annual caps of and the transactions contemplated under the New Mutual Supplies and Services Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole, and to advise the Independent Shareholders on how to vote.

A circular containing, among other things, further details regarding the continuing connected transactions under the New Mutual Supplies and Services Agreement, a letter from the Independent Board Committee and an opinion of the independent financial adviser will be dispatched to the Shareholders in due course, within 15 business days.

BACKGROUND

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

China Energy and its subsidiaries have 8 industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal liquefaction, coal-based chemical processing business, coal production and power generation business as well as investment and finance activities. China Energy is the controlling shareholder of the Company. As at the date of this announcement, China Energy holds 69.52% interest in the Company. The ultimate beneficial owner of China Energy is the State-owned Assets Supervision and Administration Commission of the State Council.

As disclosed in the announcement dated 22 March 2019 and the circular dated 10 May 2019, the Company has entered into the Original Mutual Supplies and Services Agreement with China Energy on 22 March 2019 to provide for the mutual supply of products and services between the Group and the China Energy Group, the term of which will expire on 31 December 2022.

The Company has entered into the New Mutual Supplies and Services Agreement with China Energy on 27 August 2021. Except for the annual cap, the New Mutual Supplies and Services Agreement is drafted with reference to the relevant terms of the Original Mutual Supplies and Services Agreement. The New Mutual Supplies and Services Agreement shall enter into force upon approval by the first EGM for the year 2021, and shall be effective from 1 January 2021 and expire on 31 December 2023. The Original Mutual Supplies and Services Agreement shall terminate from the date on which the New Mutual Supplies and Services Agreement becomes effective, and all rights and obligations under the Original Mutual Supplies and Services Agreement of both parties shall be terminated. The Company and the China Energy will agree on their respective rights and obligations in accordance with the New Mutual Supplies and Services Agreement.

NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

Date

27 August 2021

Parties

The Company and China Energy

Mutual Supplies and Services

Pursuant to the New Mutual Supplies and Services Agreement:

- (a) the Group has agreed to supply products and provide services to the China Energy Group, including:
 - (i) production: power trading and other related or similar services.

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

Term and termination

The New Mutual Supplies and Services Agreement is conditional on the approval at the first EGM, and is effective from 1 January 2021 and will expire on 31 December 2023.

Price determination

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

- (a) Government-prescribed price and government-guided price: if at any time, the government prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price.

- (b) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.
- (c) Market price: the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third parties for the same period when determining whether the price for any product transaction under this Agreement is the market price.
- (d) Agreed price: to be determined by adding a reasonable profit margin over a reasonable cost. The management shall consider at least two comparable deals with independent third parties for the same period when determining the reasonable profit of any product transaction under this Agreement.

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

- (a) Rail transportation: price prescribed by NDRC or other related government authorities.
- (b) Construction: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, the market price.
- (c) Oil products: government-guided price.
- (d) Power trading: government-guided price if any; market price for the centralized bidding transaction execution; and the independent negotiated transaction shall refer to transaction price of the recent market comparable deals.
- (e) Hardware and software equipment and related services: market price (including tender and bidding price).
- (f) Chemical products: market price.
- (g) Production equipment and spare parts, office products: market price.
- (h) Tendering services: price prescribed by NDRC.
- (i) Technical consulting services: agreed price with a profit margin of approximately 10%.

- (j) Information technology services: the budget is reviewed by professional institution(s) with pricing reviewing qualification according to relevant rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to the market customs of the information technology industry, actual standards and market price, taking into account the actual condition of the Company's information technology construction. The parties negotiate and agree on the service price within the scope of budget.
- (k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%).
- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%).
- (m) Various daily administrative services to the headquarters of China Energy (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

Where the price of mutual supplies and services between the Company and China Energy is not applicable under the pricing principles of the agreement due to any changes by laws and regulations, policies and market of China, both parties may adjust pricing principles of respective supplies and services.

Proposed annual caps and past transactions

The Company proposes that the annual caps of the New Mutual Supplies and Services Agreement for the years ending 31 December 2021, 31 December 2022 and 31 December 2023, respectively, be set as follows. The Company also sets out below the historical transaction amounts under the same categories for the two years ended 31 December 2019 and 31 December 2020 and the period from 1 January 2021 to 30 June 2021.

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

Supply of products and provision of services by the Group to the China Energy Group

(1) Historical transaction amounts

Year ended 31 December 2019 Aggregate transaction amount (RMB million)	Year ended 31 December 2020 Aggregate transaction amount (RMB million)	Period from 1 January 2021 to 30 June 2021 Aggregate transaction amount (RMB million)
Approximately 8,567	Approximately 9,734	Approximately 4,246

(2) Annual caps under the Original Mutual Supplies and Services Agreement

Year ended 31 December 2020 Annual cap (RMB million)	Year ended 31 December 2021 Annual cap (RMB million)	Year ended 31 December 2022 Annual cap (RMB million)
13,000	13,000	13,000

(3) Proposed annual caps under the New Mutual Supplies and Services Agreement

Year ended 31 December 2021 Annual cap (RMB million)	Year ended 31 December 2022 Annual cap (RMB million)	Year ended 31 December 2023 Annual cap (RMB million)
13,000	16,000	16,000

Supply of products and provision of services by the China Energy Group to the Group

(1) Historical transaction amounts

Year ended 31 December 2019 Aggregate transaction amount (RMB million)	Year ended 31 December 2020 Aggregate transaction amount (RMB million)	Period from 1 January to 30 June 2021 Aggregate transaction amount (RMB million)
Approximately 3,150	Approximately 3,270	Approximately 2,641

(2) *Annual caps under the Original Mutual Supplies and Services Agreement*

Year ended 31 December 2020 Annual cap (RMB million)	Year ended 31 December 2021 Annual cap (RMB million)	Year ended 31 December 2022 Annual cap (RMB million)
9,000	9,000	9,000

(3) *Proposed annual caps under the New Mutual Supplies and Services Agreement*

Year ended 31 December 2021 Annual cap (RMB million)	Year ended 31 December 2022 Annual cap (RMB million)	Year ended 31 December 2023 Annual cap (RMB million)
13,000	17,000	17,000

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

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

- (a) In the first half of 2021, the demand of China Energy Group for the Group's supplies and services increased significantly, with a transaction amount of approximately RMB4,260 million, representing a year-on-year increase of 20%. Calculating the annual income based on the year-on-year increase in the first half of 2021, the annual income from mutual supplies and services of 2021 is expected to be approximately RMB11,600 million. Taking into account factors such as commodity price and business growth, and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB13,000 million.
- (b) It is expected that the income of information service, transportation service and chemical product supply from China Energy Group for each of 2022 and 2023 will increase by RMB2,500 million, and the transaction amount of supplies and services provided by the Group to China Energy Group under the New Mutual Supplies and Services Agreement is expected to be approximately RMB14,100 million. Taking into account the impact of commodity price and business growth, and setting aside a buffer, it is recommended that the annual cap for each of 2022 and 2023 be determined at RMB16,000 million.

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

- (a) In the first half of 2021, the demand of China Energy Group for the Group's supplies and services increased significantly, with a transaction amount of approximately RMB2,641 million, representing a year-on-year increase of 173%. Calculating the annual expenditure based on the year-on-year increase in the first half of 2021, the annual expenditure from mutual supplies and services of 2021 is expected to be approximately RMB9,000 million. In addition, it is expected that in the second half of the year, the Group will increase the expenditures such as power transaction and engineering construction to China Energy Group by approximately RMB2,300 million. The expenditure for continuing connected transactions for the year 2021 is expected to be approximately RMB11,300 million. Taking into account the impact of commodity price and business growth, and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB13,000 million.
- (b) On the basis of the expenditure for continuing connected transactions in 2021, it is expected that in 2022 and 2023, the Group will continue to increase the production, supply and auxiliary production expenditures to China Energy Group by approximately RMB3,900 million. The annual expenditure for continuing connected transactions is expected to be approximately RMB15,200 million. Taking into account the impact of commodity price and business growth, and setting aside a buffer it is recommended that the annual cap for each of 2022 and 2023 be determined at RMB17,000 million.

IMPLEMENTATION AGREEMENTS AND PAYMENT

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

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

REASONS FOR ENTERING INTO THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT AND THEIR BENEFITS TO THE COMPANY

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

HONG KONG LISTING RULES IMPLICATIONS

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

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

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

GENERAL INFORMATION

The Directors consider that the terms, proposed annual caps of and the transactions contemplated under the New Mutual Supplies and Services Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

The Board has resolved and approved the New Mutual Supplies and Services Agreement and the proposed annual caps thereto on 27 August 2021. Of the Directors attending the board meeting, the Abstained Directors were considered to have material interest by virtue of being employed by China Energy, and thus abstained from voting on the board resolution(s) in respect of the New Mutual Supplies and Services Agreement and the proposed annual caps thereto.

The Independent Board Committee has been formed to advise the Independent Shareholders on the New Mutual Supplies and Services Agreement and the proposed annual caps thereto. The Independent Board Committee will also approve the appointment of an independent financial adviser to advise the Independent Board Committee and Independent Shareholders in accordance with the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the transaction contemplated under the New Mutual Supplies and Services Agreement.

A general meeting of the Company will be convened and held to, inter alia, consider and, if thought fit, to approve the New Mutual Supplies and Services Agreement and the proposed annual caps thereto. According to the Hong Kong Listing Rules, China Energy and its respective associates shall abstain from voting in respect of relevant resolutions.

A circular containing, among other things, further details regarding the continuing connected transactions under the New Mutual Supplies and Services Agreement, a letter from the Independent Board Committee and an opinion of the independent financial adviser will be dispatched to the Shareholders in due course within 15 business days.

DEFINITIONS

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

“Abstained Directors”	Mr. Wang Xiangxi, Mr. Jia Jinzhong and Mr. Yang Rongming, who had abstained from voting as Directors on the relevant board resolution(s) relating to the subject transactions;
“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”	collectively, China Energy and its subsidiaries (excluding the Group);
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on The Stock Exchange of Hong Kong Limited;
“Original Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 22 March 2019 entered into between the Company and China Energy;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) relating to the subject transactions to be proposed at the general meeting under the Hong Kong Listing Rules;

“New Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement entered into between the Company and China Energy on 27 August 2021;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	the shareholder(s) of the Company.

By order of the Board
China Shenhua Energy Company Limited
Huang Qing
Secretary to the Board of Directors

Beijing, 27 August 2021

As at the date of this announcement, the Board comprises the following: Mr. Wang Xiangxi, Mr. Yang Jiping and Mr. Xu Mingjun as executive directors, Mr. Jia Jinzhong and Mr. Yang Rongming as non-executive directors, Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen as independent non-executive directors, and Mr. Wang Xingzhong as employee director.