

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



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

ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT

ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT

As disclosed in the announcement dated 27 August 2021, and the circular dated 17 September 2021, the Company has entered into the mutual coal supply agreement with China Energy on 27 August 2021, to provide for the mutual supply of coal between the Group and China Energy Group, the term of which will expire on 31 December 2023. The Board has resolved and approved the entering into of the New Mutual Coal Supply Agreement with China Energy on 28 April 2023 to provide for the mutual supply of coal between the Group and China Energy Group, which shall come into force upon approval by the annual general meeting, and shall be effective from 1 January 2024 and shall expire on 31 December 2026.

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

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

The Company will seek, among other things, approval from the Independent Shareholders for the entering into the New Mutual Coal Supply Agreement and the proposed annual caps thereto at the annual general meeting to be convened. According to the Hong Kong Listing Rules, China Energy and its associates shall abstain from voting in respect of the resolutions for the New Mutual Coal Supply Agreement and the proposed annual caps thereto.

The Independent Board Committee has reviewed the New Mutual Coal Supply 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 Coal Supply Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole, 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 Coal Supply Agreement, a letter from the Independent Board Committee and an opinion of the independent financial adviser will be despatched to the Shareholders 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 several industrial sectors, including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection and finance and are principally engaged in coal production, power generation, transportation and coal-based chemical processing business as well as investment and finance activities. China Energy is the controlling shareholder of the Company. As at the date of this 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 27 August 2021, and the circular dated 17 September 2021, the Company has entered into the mutual coal supply agreement with China Energy on 27 August 2021, to provide for the mutual supply of coal between the Group and China Energy Group, the term of which will expire on 31 December, 2023.

The Board has resolved and approved the entering into of the New Mutual Coal Supply Agreement with China Energy on 28 April 2023 to provide for the mutual supply of coal between the Group and China Energy Group, which shall come into force upon approval by the annual general meeting, and shall be effective from 1 January 2024 and shall expire on 31 December 2026.

NEW MUTUAL COAL SUPPLY AGREEMENT

Parties

The Company and China Energy

Details of the transaction

Pursuant to the New Mutual Coal Supply Agreement:

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

Term and termination

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

Price determination

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

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

Proposed annual caps and past transactions

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

Supply of coal by the Group to the China Energy Group

(1) Historic annual caps and actual transaction amount

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023
Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)	Transaction Amount (Audited) (RMB million)	Annual Cap (RMB million)
99,000	96,776	99,000	94,195	99,000

(2) Proposed annual caps

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

Supply of coal by the China Energy Group to the Group

(1) Historic annual caps and actual transaction amount

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

(2) Proposed annual caps

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

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

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

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

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

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

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

As the world's largest thermal power company, by the end of 2021, China Energy Group's thermal power installed capacity has reached 19.4 GW, accounting for about 16% of the country's total; in 2022, 5.71 million kilowatts of cutting-edge clean coal power units have been put into operation. A number of coal-fired power generation projects are still under construction, and the demand for coal will continue to go up in the future. At the same time, the NDRC requires coal enterprises to step up their guarantees on coal for power generation and heat supply. The Company's coal sales will further tilt towards thermal coal. Thus it is estimated that in 2023 the coal supply for China Energy Group will continue to be on the rise.

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

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

- (a) The domestic coal market is generally stable. Yet under the influence of the international energy situation, social public health events, climate and other factors, supply in some regions has been tight during certain periods of time, with coal prices fluctuating at a high level. In 2022, the average comprehensive average price index of thermal coal (5,500 kcal) around the Bohai Sea was at RMB737/tonne, a year-on-year increase of RMB64 tonne, being an increase of 9.5%. At the end of 2022, the National Coal Launched Thermal Coal Price Index NCEI (5,500 kcal) composite index was RMB793/tonne, being a year-on-year increase of RMB43 tonne, and an increase of 5.7%.

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

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

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

IMPLEMENTATION AGREEMENTS AND PAYMENT

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

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

REASONS FOR ENTERING INTO THE NEW MUTUAL COAL SUPPLY AGREEMENT AND THEIR BENEFITS TO THE COMPANY

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

HONG KONG LISTING RULES IMPLICATIONS

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

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

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

GENERAL INFORMATION

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

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

The Independent Board Committee has been formed to advise the Independent Shareholders on the New Mutual Coal Supply Agreement and the proposed annual caps thereto. The Independent Board Committee will 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 Coal Supply Agreement.

Annual general meeting of the Company will be convened and held to, inter alia, consider and, if thought fit, to approve the New Mutual Coal Supply Agreement and the proposed annual caps thereto. According to the Hong Kong Listing Rules, China Energy and its 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 Coal Supply Agreement, a letter from the Independent Board Committee and an opinion of the independent financial adviser will be despatched to the Shareholders within 15 business days.

DEFINITIONS

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

“Abstained Directors”	Mr. Jia Jinzhong and Mr. Yang Rongming, who had abstained from voting as Directors on the relevant board resolution(s) relating to the subject transactions;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“China Energy”	China Energy Investment Corporation Limited (國家能源投資集團有限公司), 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 and the A shares of which are listed on the Shanghai Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Group”	collectively, 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;
“NDRC”	National Development and Reform Commission of the PRC;
“New Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement to be entered into with China Energy as resolved and approved by the Board on 28 April 2023;
“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
Song Jinggang
Chief Financial Officer and Secretary to the Board of Directors

Beijing, 28 April 2023

As at the date of this announcement, the Board comprises the following: Mr. Lv Zhiren 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 Ms. Liu Xiaolei as employee director.