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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 COAL SUPPLY AGREEMENT AND ENTERING INTO NEW MUTUAL COAL SUPPLY AGREEMENT

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

The Company has entered into the New Mutual Coal Supply Agreement with China Energy on 27 August 2021. Except for the annual cap, the New Mutual Coal Supply Agreement is drafted with reference to the relevant terms of the Original Mutual Coal Supply Agreement. The New Mutual Coal Supply 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 Coal Supply Agreement shall terminate from the date on which the New Mutual Coal Supply Agreement becomes effective, and all rights and obligations under the Original Mutual Coal Supply 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 Coal Supply Agreement.

China Energy holds 69.52% interest in the Company, and is the controlling shareholder of the Company. As such, Chins 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 approval from the Independent Shareholders for the New Mutual Coal Supply 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 Coal Supply Agreement and the proposed annual caps thereto.

The Company and the Independent Board Committee have 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 dispatched to the Shareholders in due course, with 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 Coal Supply Agreement with China Energy on 22 March 2019 to provide for the mutual supply of coal between the Group and China Energy Group, the term of which will expire on 31 December 2022.

The Company has entered into the New Mutual Coal Supply Agreement with China Energy on 27 August 2021. Except for the annual cap, the New Mutual Coal Supply Agreement is drafted with reference to the relevant terms of the Original Mutual Coal Supply Agreement. The New Mutual Coal Supply 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 Coal Supply Agreement shall terminate from the date on which the New Mutual Coal Supply Agreement becomes effective, and all rights and obligations under the Original Mutual Coal Supply 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 Coal Supply Agreement.

NEW MUTUAL COAL SUPPLY AGREEMENT

Date

27 August 2021

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 first EGM for the year 2021 and shall be effective from 1 January 2021 and expire on 31 December 2023.

Price determination

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

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

- (5) the quantity of coal; and
- (6) the estimated transportation fees.

Proposed annual caps and past transactions

The Company proposes that the annual caps of the New Mutual Coal Supply 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 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 Coal Supply Agreement are within the existing annual caps.

Supply of coal 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 52,238	Approximately 54,906	Approximately 38,756

(2) Annual caps under the Original Mutual Coal Supply 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)
65,500	65,500	65,500

(3) Proposed annual caps under the New Mutual Coal Supply 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)
86,000	86,000	86,000

Supply of coal by the China Energy Group to the Group

(1) *Historical transaction amounts*

Year ended 31 December 2019	Year ended 31 December 2020	Period from 1 January 2021 to 30 June 2021
Aggregate transaction amount (RMB million)	Aggregate transaction amount (RMB million)	Aggregate transaction amount (RMB million)
approximately 10,130	approximately 9,131	Approximately 6,098

(2) *Annual caps under the Original Mutual Coal Supply Agreement*

Year ended 31 December 2020	Year ended 31 December 2021	Year ended 31 December 2022
Annual cap (RMB million)	Annual cap (RMB million)	Annual cap (RMB million)
16,000	16,000	16,000

(3) *Proposed annual caps under the New Mutual Coal Supply Agreement*

Year ended 31 December 2021	Year ended 31 December 2022	Year ended 31 December 2023
Annual cap (RMB million)	Annual cap (RMB million)	Annual cap (RMB million)
20,000	29,000	29,000

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 coal price have increased significantly since March 2019. In the week of 22 March 2019, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB578 per tonne. In the week of 27 August 2021, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB683 per tonne. The commercial coal sold by the Group includes various commercial coals with different calorific values, the sales price of which vary with the amount of calorific value generated.

The average coal sales price of the Group was RMB499/tonne (exclusive of tax) in the first half of 2021. However, the average coal sales price of the Group in 2018 was RMB429 per tonne (exclusive of tax), representing an increase of 16%.

- (b) In the first half of 2021, the demand for coal of China Energy Group from the Group increased significantly, with a transaction amount of approximately RMB38,756 million. The sales volume in the second half of the year is expected to be at same level of the first half of the year. It is expected that the transaction amount of the Group's supply of coal to China Energy Group under the New Mutual Coal Supply Agreement in 2021 will reach approximately RMB77,900 million. Taking into account factors such as fluctuations in coal price and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB86,000 million.
- (c) It is expected that the coal markets in 2022 and 2023 are at same level, and it is recommended that the annual cap for 2022 and 2023 be determined at RMB86,000 million.

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 coal price have increased significantly since March 2019. In the week of 22 March 2019, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB578 per tonne. In the week of 27 August 2021, the Bohai Bay Thermal Coal Index (i. e. 5,500 Kcal thermal coal price) was approximately RMB683 per tonne. The commercial coal purchased by the Group includes various commercial coals with different calorific values, the purchased price of which vary with the amount of calorific value generated. The unit purchase cost of coal purchased by the Group was RMB469/tonne (exclusive of tax) in the first half of 2021. However, the unit purchase cost of coal purchased by the Group in 2018 was RMB352 per tonne (exclusive of tax), an increase of 33%.

- (b) In the first half of 2021, the demand for coal of the Group from China Energy Group increased significantly, with a transaction amount of approximately RMB6,098 million. It is expected that the supply and demand for coal will remain tight in the second half of the year. The coal purchased by the Group from China Energy Group will increased as compared to the first half of the year, and it is expected that the transaction amount of China Energy Group's supply of coal to the Group under the New Mutual Coal Supply Agreement in 2021 will reach approximately RMB18,200 million. Taking into account factors such as fluctuations in coal price and setting aside a buffer, it is recommended that the annual cap for 2021 be determined at RMB20,000 million.
- (c) It is expected that the coal production of the Group will remain stable in 2022 and 2023. The increment of coal sales plans to mainly purchases coal from outside suppliers. The Group will increase the purchase of coal from China Energy Group to stabilize the source of coal and fully utilize transportation capacity of self-owned railways. At the same time, the power plant of the Group in Sichuan region etc will be put into production, and considering economy and stabilization, the Group plans to increase the purchase of coal from the subsidiaries of China Energy Group. It is expected that the transaction amount of China Energy Group's supply of coal to the Group under the New Mutual Coal Supply Agreement in 2022 and 2023 will reach approximately RMB26,200 million. Taking into account factors such as fluctuations in coal price and setting aside a buffer, it is recommended that the annual cap for 2022 and 2023 be determined at RMB29,000 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 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, 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 Coal Supply Agreement and the annual caps.

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

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

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

HONG KONG LISTING RULES IMPLICATIONS

China Energy holds 69.52% interest in the Company, and is the controlling shareholder of the Company. As such, Shenhua Group Co is a connected person of the Company under the Hong Kong Listing Rules, and the 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 Original 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 consider that 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.

The Board has resolved and approved the New Mutual Coal Supply 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 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 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 Coal Supply 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 Coal Supply 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 Coal Supply 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, with 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 Coal Supply Agreement”	the Mutual Coal Supply 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 Coal Supply Agreement”	the Mutual Coal Supply 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.