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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**

The Company has entered into the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement with China Energy on 27 August 2021 to provide for the mutual supply of coal and mutual supply of products and services between the Group and China Energy Group, the term of which will expire on 31 December 2023.

In accordance with the Hong Kong Listing Rules, the Company has been monitoring all of its transactions carried out pursuant to the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement. The transaction amount of the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 exceeded the annual cap. Additionally, the existing annual caps in respect of the supply of coal by the Group to the China Energy Group for the years ended on 31 December 2022 and 31 December 2023, and the supply of products and provision of services by the Group to the China Energy Group for the years ended on 31 December 2022 and 31 December 2023 will not be sufficient for the Group's needs. The Directors therefore propose to revise them.

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 Coal Supply Agreement, 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 revision of the annual caps, 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 proposed revision of the annual caps is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders on the proposed revision of the annual caps. The Company will appoint the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in accordance with the Hong Kong Listing Rules.

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

A circular containing, among other things, further details regarding the proposed revision of the annual caps, 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.

Reference is made to the announcements dated 27 August 2021 (the “**Announcements**”) and the circular dated 17 September 2021 (the “**Circular**”) in relation to the termination of the Original Mutual Coal Supply Agreement and entering into the New Mutual Coal Supply Agreement, and the termination of the Original Mutual Supplies and Services Agreement and entering into the New Mutual Supplies and Services Agreement. As disclosed in the Announcements and the Circular, the Company has entered into the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement with China Energy on 27 August 2021 to provide for the mutual supply of coal and mutual supply of products and services between the Group and China Energy Group, the term of which will expire on 31 December 2023.

In accordance with the Hong Kong Listing Rules, the Company has been monitoring all of its transactions carried out pursuant to the New Mutual Coal Supply Agreement and the New Mutual Supplies and Services Agreement. The transaction amount of the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 exceeded the annual cap. Additionally, the existing annual caps in respect of the supply of coal by the Group to the China Energy Group for the years ending 31 December 2022 and 31 December 2023, and the supply of products and provision of services by the Group to the China Energy Group for the years ending 31 December 2022 and 31 December 2023 will not be sufficient for the Group’s needs. The Directors therefore propose to revise them.

## **EXCEEDING OF ANNUAL CAP AND PROPOSED REVISED ANNUAL CAPS FOR SUPPLY OF COAL BY THE GROUP TO THE CHINA ENERGY GROUP**

The existing annual caps for the three years ending 31 December 2021, 31 December 2022 and 31 December 2023 for the supply of coal by the Group to the China Energy Group and the proposed revised annual caps are set out below. The Company also sets out below the historic transaction amount under the same category for the year ended 31 December 2021.

### **Supply of coal by the Group to the China Energy Group**

Year ended 31 December 2021			Year ended 31 December 2022		Year ended 31 December 2023	
Transaction Amount	Proposed Revised		Proposed Revised		Proposed Revised	
Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)	Annual Cap (RMB million)
86,000	96,776	99,000	86,000	99,000	86,000	99,000

The transaction amount for the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 exceeded the annual cap due to the following reasons:

- (a) As disclosed in the Announcements and the Circular, during the week of 27 August 2021, the Bohai Bay Thermal Coal Index (ie. 5,500 Kcal thermal coal price) was approximately RMB683 per tonne. In the first half of 2021, the Group's average coal sales price was RMB499 per tonne (excluding tax). However, there was a significant surge in coal market price in 2021 due to the post COVID-19 industrial recovery, extreme weather, the annual sharp uptick in demand for coal for winter. Since August 2021, the coal price increased substantially due to soaring demand. The Bohai Bay Thermal Coal Index (ie. 5,500 Kcal thermal coal price) was consistently above RMB720 per tonne and even exceeded RMB840 per tonne in October 2021. The average coal sales price of the Group was RMB742 per tonne (exclusive of tax) in the fourth quarter of 2021, representing an increase of 48.7% as compared to the first half of 2021. The Group implemented the same pricing policy for both internal and external clients which resulted in consistently high prices for coal supplied to China Energy Group.
- (b) The surge in coal prices led to the worst energy shortage in China since 2011. The significant curb in electricity use in various provinces and regions in China caused serious disruptions to the Chinese people's livelihood. On 8 October 2021, the State Council issued six specific orders to deal with the power shortages, including, among others, *"to give priority to people's livelihood, guarantee people's daily life and the energy for heating in winter and, in particular, ensure the coal and energy demand for winter in the north-eastern regions be fulfilled"*. As the world's largest thermal power generation company with an installed thermal power generation capacity of about 16% of the country, China Energy has resolutely implemented requirements to conform with the State Council's six specified orders and the Central Committee's "Six Stabilities" and "Six Guarantees" economic policy and made every effort to ensure coal and power supply and increase production and supply. Accordingly, the Group increased its coal supply to the China Energy Group significantly from what was expected at the time of the entry into the New Mutual Coal Supply Agreement, with actual supply to the China Energy Group increased by approximately 10 million tonnes more than expected in the second half of 2021. The Company expected the transaction amount for supply of coal by the Group to the China Energy Group in 2021 would reach approximately RMB77,900 million, but it ultimately surged to RMB96,776 million despite already factoring into fluctuations in coal price and buffer.

- (c) In light of the macro-environment, the Company was faced with challenges brought by the soaring sales volume and prices of coal supply against the constraint of the existing annual cap for the year ended 31 December 2021, while fulfilling its social responsibility as a listed company and in line with the State's requirement of ensuring supply. Nevertheless, the Company strictly enforced the Listing rules of Shanghai Stock Exchange and the Hong Kong Listing Rules and the pricing principles under the New Mutual Coal Supply Agreement and did not reduce the selling price of coal to the China Energy Group to circumvent the existing annual cap. In concurrent with ensuring supply, the Company achieved good financial returns and ensured that the interests of the Company's minority shareholders were not compromised.

In addition to the above, the following factors were taken into consideration in revising the existing annual caps for the three years ending 31 December 2021, 31 December 2022 and 31 December 2023 for the supply of coal by the Group to the China Energy Group under the New Mutual Coal Supply Agreement:

- (a) The total transaction amount for the supply of coal by the Group to the China Energy Group for the year ended 31 December 2021 was RMB96,776 million.
- (b) The Group's coal sales volume in 2021 was approximately 482 million tonnes, of which approximately 167 million tonnes were sold to China Energy Group. The Group's projected coal sales volume in 2022 is 403 million tonnes. Based on the proportion of coal sales to the China Energy Group to the total sales volume in 2021 (approximately 35%), it is estimated that 140 million tonnes will be sold to China Energy Group in 2022. Using the Group's average sales price of approximately RMB677 per tonne of coal (excluding tax) in the second half of 2021 as the projected sales price for a tonne of coal to the China Energy Group for the full year of 2022, the total transaction amount is expected to be approximately RMB94,600 million in 2022. Setting aside a 5% buffer, it is proposed that the annual cap be revised to RMB99,000 million.
- (c) It is expected that the transaction amount of the supply of coal by the Group to the China Energy Group in 2023 will remain stable as compared to 2022, and thus it is proposed that the annual cap for 2023 remains the same as 2022.

## PROPOSED REVISED ANNUAL CAPS FOR SUPPLY OF PRODUCTS AND PROVISION OF SERVICES BY THE GROUP TO THE CHINA ENERGY GROUP

The existing annual caps for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 for the supply of coal by the Group to the China Energy Group and the proposed revised annual caps are set out below. The Company also sets out below the historic transaction amount under the same category for the year ended 31 December 2021.

### Supply of Products and Provision of Services by the Group to the China Energy Group

Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	
Annual Cap	Transaction Amount (Audited)	Annual Cap	Proposed Revised Annual Cap	Annual Cap	Proposed Revised Annual Cap
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
13,000	10,502	16,000	39,000	16,000	39,000

The following factors were taken into consideration in revising the existing annual caps for the two years ending 31 December 2022 and 31 December 2023 for the supply of products and provision of services by the Group to the China Energy Group under the New Mutual Supplies and Services Agreement:

- (a) The transaction amount of the supply of products and provision of services by the Group to the China Energy Group was RMB10,502 million in 2021. An additional 80 million tonnes of transportation is expected to be provided to the China Energy Group in 2022, increasing the revenue for transportation service (including rail freight, port handling fees, shipping fees, etc.) by approximately RMB16,000 million. Meanwhile, some power plants of the Group are expected to add the sale of electricity through regional power sales companies of the China Energy Group in 2022. The Group generated 166.45 billion kWh of electricity in 2021 and expects to generate 180.5 billion kWh of electricity in 2022, a year-on-year increase of approximately 8%. The revenue of the Group from electricity sales in 2021 was approximately RMB54,300 million. Electricity sales revenue is measured at the same proportional growth as electricity generation, and thus the Group's electricity sales revenue is expected to be RMB58,900 million in 2022. Based on 10% of the electricity sales revenue in 2022 being sold through power sales companies of the China Energy Group, the increase in revenue from connected transactions is approximately RMB5,900 million. Additionally, it is expected that there will be a year-on-year increase for revenue from information



technology services by approximately RMB820 million, mining engineering services by approximately RMB530 million, sales of materials, such as diesel and lubricants, by approximately RMB510 million and chemicals, by-products and training by approximately RMB840 million in 2022. As a result, the transaction amount of the supply of products and provision of services by the Group to the China Energy Group is expected to be approximately RMB35,100 million in 2022. Setting aside a 10% buffer with a measured cap of RMB38,610 million, it is proposed that the annual cap for the supply produces and provision of services by the Group to the China Energy Group be revised to RMB39,000 million.

- (b) It is expected that the transaction amount of the supply of products and provision of services by the Group to the China Energy Group in 2023 will remain stable as compared to 2022, and thus it is proposed that the annual cap for 2023 remains the same as 2022.

## **MEASURES ADOPTED BY THE COMPANY FOR FUTURE COMPLIANCE**

The Directors consider that the failure to re-comply with the requirements under Rule 14A.54(1) of the Listing Rules on a timely basis, which was inadvertent and regretful, was an *force majeure* event. In order to avoid any occurrence of similar events in the future, the Company has taken necessary and additional measures to strengthen the reporting and documentation system of the Company and its subsidiaries including:

- (a) The connected transaction leading group will frequently monitor and update the trend of coal prices on a weekly basis by taking into account the Group's development and market conditions for a more accurate assessment of market expectations. As and when any adjustments to the annual caps of continuing connected transaction become foreseeable, the Company will promptly make necessary announcement and seek prior approval from independent shareholders.
- (b) The Company will conduct more frequent review of the total volume of continuing connected transactions and assign additional executives from the business unit and key subsidiaries of the Company to the connected transaction leading group to report on the projected volume of continuing connected transactions on a monthly basis, with such frequency increased to biweekly during periods of high market volatility to avoid exceeding the approved annual caps for continuing connected transactions.
- (c) The Company will review and strengthen the Group's internal control policies and measures on continuing connected transactions, including, but not limited to, the data collection and cross-checking process, reporting, filing system, and intervals of regular meetings between the Group's finance and compliance departments to discuss potential issues and streamline of internal reporting process.

- (d) The connected transaction leading group will provide monthly transaction data for review by the Company's management and members of the Audit and Risk Committee in order to enhance oversight of the Group's continuing connected transactions.
- (e) The Company will engage external legal advisers to provide not less than 15 hours of additional trainings on connected transactions to the directors, senior management and relevant employees to enhance their familiarity with the Hong Kong Listing Rules, and to conduct frequent trainings and distribute compliance guidelines and training material on a regular basis to remind of and update their knowledge and understanding of the requirements of the Hong Kong Listing Rules and compliance with internal control procedures in relation to the Group's continuing connected transactions to ensure that the Company will continue to comply with the Hong Kong Listing Rules in a timely manner.
- (f) The Company will promptly consult with professional advisers, including the legal advisers as and when appropriate in planning for and reviewing of future transactions.

The Company undertakes that, in the event that it is necessary to adjust the annual caps under the New Mutual Coal Supply Agreement or other continuing connected transaction agreements for any reasons, arrangements will be made in advance and the relevant requirements of the Hong Kong Listing Rules will be strictly complied with to avoid future similar incidents.

## **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 Coal Supply Agreement, 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 revision of the annual caps, 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 proposed revision of the annual caps is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.



## **GENERAL INFORMATION**

The Directors consider that the proposed revision of the annual caps is fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and is in the interests of the Company and its shareholders as a whole.

The Board has resolved and approved the proposed revision of the annual caps on 25 March 2022. 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 proposed revision of the annual caps.

The Independent Board Committee has been formed to advise the Independent Shareholders on the proposed revision of the annual caps. The Company will appoint the 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 proposed revision of the annual caps.

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

A circular containing, among other things, further details regarding the proposed revision of the annual caps, 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 proposed revision of the annual caps;
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“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;
“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
“New Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement entered into between the Company and China Energy on 27 August 2021;

“Original Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 22 March 2019 entered into between the Company and China Energy
“Original Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 22 March 2019 entered into between the Company and China Energy;
“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, 25 March 2022

*As at the date of this announcement, the Board comprises the following: Mr. Wang Xiangxi 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.*