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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

ENTERING INTO THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

ENTERING INTO THE NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

As disclosed in the announcement dated 27 August 2021, and the circular dated 17 September 2021, the Company has entered into the mutual supplies and services agreement with China Energy on 27 August 2021, to provide for the mutual supply of products and services 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 Supplies and Services Agreement with China Energy on 28 April 2023 to provide for the mutual supply of products and services 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 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 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 Supplies and Services Agreement and the proposed annual caps thereto.

The Independent Board Committee has 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 despatched to the Shareholders within 15 business days.

BACKGROUND

The Company is the world's leading integrated coal-based energy company. The main business of the Group is the 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 multiple industrial sectors including coal, thermal power, new energy, hydropower, transportation, chemical industry, technology and environmental protection, and finance, and are mainly engaged in coal production, power generation business, transportation, and coal-based chemical processing business and investment and financing activities. China Energy is the controlling shareholder of the Company. As of the date of this announcement, China Energy holds 69.52% of the company's shares. 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 supplies and services agreement with China Energy on 27 August 2021, to provide for the mutual supply of products and services between the Group and China Energy Group, the term of which will expire on 31 December 2023.

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NEW MUTUAL SUPPLIES AND SERVICES AGREEMENT

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: selling of chemical products, selling and leasing of production equipment and spare parts, office products and other related or similar product supplies or services.
 - (iii) ancillary production services: rail, shipping and port transportation services, 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 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: sales of refined oil and chemicals, sales or lease of production equipment and spare parts, office supplies and other related or similar products and services.
 - (iii) ancillary production services: shipping or port services, construction, logistics and support services, training, tendering services, information technology 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 annual general meeting, and is effective from 1 January 2024 and will expire on 31 December 2026.

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 the New Mutual Supplies and Services 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 the New Mutual Supplies and Services 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 agency 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 China Energy (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

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 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 Products and Provision of Services 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)
13,000	10,502	39,000	18,560	39,000

(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)
35,000	35,000	35,000

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

(1) *Historic annual caps and actual transaction amount*

Year ended 31 December 2021 Annual Cap (RMB million)	Year ended 31 December 2021 Transaction Amount (Audited) (RMB million)	Year ended 31 December 2022 Annual Cap (RMB million)	Year ended 31 December 2022 Transaction Amount (Audited) (RMB million)	Year ended 31 December 2023 Annual Cap (RMB million)
13,000	6,595	17,000	7,780	17,000

(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)
17,000	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 China Energy.

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

- (a) The products and services provided by the Group to China Energy Group include transportation services, power trading, information services, sales of chemicals, etc. China Energy Group is one of the Group's long-term important customers, and the two parties have a stable cooperative relationship. With the development of the Group's business and the growth of its operating income, the amount of products and services provided by the Group to China Energy Group in 2020, 2021 and 2022 was at RMB9.73 billion, RMB10.50 billion and RMB18.56 billion respectively, with an annual average compound growth rate of 38.1%.

- (b) In the future, the Group will continue to promote the reconstruction of railway capacity, the construction of dedicated coal transportation lines, and the investment and construction of information and smart industries. With the Group's continuing strengthening of its edge in railway transportation and other aspects, the Group's ability to provide transportations services, information services and other services and products to China Energy Group will be continually enhanced. Considering the impact of business growth, rising prices and labour costs, the compound growth rate for the amounts charged by the Group for products supplied and services rendered to China Energy Group is expected to be 28% in 2023 and 2024, which is 10.1% lower than the compound growth rate from 2020 to 2022. It is estimated that the Group will provide products and services amounting to approximately RMB30.4 billion, and a built-in buffer of 15%. It is recommended that the annual caps for the amount charged by the Group for products supplied and services rendered to China Energy Group 2024 to 2026 be set at RMB35 billion, respectively, which is RMB4 billion lower than the annual caps for 2022 and 2023.

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

- (a) The products and services provided by China Energy Group to the Group include engineering construction services, technical consulting services, sales of refined oil products, sales or lease of production equipment and spare parts, etc. In view of the long-term cooperative relationship between the Group and China Energy Group, China Energy Group has business advantages, good reputation and can provide the Group with production materials and auxiliary services at fair and reasonable prices. In 2020, 2021 and 2022, the amount of products and services provided by the Group to China Energy Group was at RMB3.27 billion, RMB6.60 billion and RMB7.78 billion, respectively, with a compound growth rate of 54.2%.
- (b) During the "14th Five-Year Plan" period, the Group will continue to promote the construction of green mines, green transportation, green power stations, and green chemicals, accelerate the clean and efficient mining and utilization of coal, build clean and efficient coal-fired power generation units, and strengthen heating, energy saving, and flexibility transformation. To promote the development of high-end, diversified and low-carbon coal chemical industry, it is expected to increase the purchase of products and services such as engineering construction services, material supply and technical services from the China Energy Group. Considering the impact of business growth, rising prices and labor costs, the growth rate is expected to reach approximately 35% in 2023 and 2024, which is 19.2% lower than the annual average compound growth rate from 2020 to 2022. It is estimated that products and services purchased by the Group from China Energy Group amounting to around RMB14.2 billion. In addition, from 2024 to 2026, promotion of construction of major projects such as Baotou Coal Chemical Coal-to-Olefins Phase II, Xinjie No. 1 Well, No. 2 Well will continue, and the amount of related transactions may thus increase by approximately RMB1 billion per year. It is estimated that from 2024 to 2026, the annual amount of products and services purchased by the Group from China Energy Group will be about RMB15.2 billion, and a built-in buffer of 15%. The annual cap is to remain the same to that of 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 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 products and services 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 by electronic transfer or other payment methods agreed by both parties.

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

The Group has experience in long term cooperation with China Energy Group in mutual supply of products and services. The Company entered into the New Mutual Supply and Services Agreement with China Energy Group. The Group will continue to provide China Energy Group, on a fair basis, with chemicals, railway transport and other products and services, China Energy Group will continue to provide the Group, on a fair basis, with refined oil products, engineering construction and other products and services. This signing ensures that the Group will continue to obtain stable, reliable, and quality-assured supplies of materials and services, which is conducive to the Group's normal production and operational activities and promotes the Group's business development and business growth.

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 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 (including independent non-executive Directors) consider that the New Mutual Supplies and Services 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 Supplies and Services 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 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.

Annual 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 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 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 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 Supplies and Services Agreement”	the New Mutual Supplies and Services 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.