

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)

ANNOUNCEMENT

CONNECTED TRANSACTION

**ESTABLISHMENT OF SHENHUA GUOHUA NINGDONG
POWER GENERATION CO., LTD.**

On 20 July 2016, the Company, Zheneng Group and Shenhua Ningxia Coal entered into the Shenhua Guohua Ningdong Power Generation Co., Ltd. JV Agreement to establish Shenhua Guohua Ningdong Power Generation Co., Ltd.. Pursuant to the JV Agreement, the registered capital of Shenhua Guohua Ningdong Power shall be RMB400,000,000. The Company, Zheneng Group and Shenhua Ningxia Coal shall contribute 56.77%, 33.33% and 9.9%, respectively, of the registered capital of Shenhua Guohua Ningdong Power.

Shenhua Ningxia Coal is a subsidiary of Shenhua Group Co. As at the date of this announcement, Shenhua Group Co holds an approximately 73.06% equity interest in the Company and is the controlling shareholder of the Company. Therefore, Shenhua Ningxia Coal is a connected person of the Company as defined in the Hong Kong Listing Rules. Zhejiang Zheneng Power Co., Ltd., a subsidiary of Zheneng Group, holds 40% equity interest in Zhejiang Guohua Zheneng Power Generation Co., Ltd. which is a significant subsidiary of the Company. Therefore, Zheneng Group is a connected person at the subsidiary level of the Company as defined in the Hong Kong Listing Rules. As such, the entering into the JV Agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company according to Chapter 14A of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) exceeds 0.1% but all are less than 5%, the JV Agreement and the transaction contemplated thereunder are only subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

I. BACKGROUND

On 20 July 2016, the Company, Zheneng Group and Shenhua Ningxia Coal entered into the Shenhua Guohua Ningdong Power Generation Co., Ltd. JV Agreement to establish Shenhua Guohua Ningdong Power Generation Co., Ltd.. Pursuant to the JV Agreement, the registered capital of Shenhua Guohua Ningdong Power shall be RMB400,000,000. The Company, Zheneng Group and Shenhua Ningxia Coal shall contribute 56.77%, 33.33% and 9.9%, respectively, of the registered capital of Shenhua Guohua Ningdong Power.

II. JV AGREEMENT

Date

20 July 2016

Parties

The Company
Zheneng Group
Shenhua Ningxia Coal

Basic information of Shenhua Guohua Ningdong Power

Name of company to be established: Shenhua Guohua Ningdong Power Generation Co., Ltd.

Registered capital: RMB400,000,000

Place of registration: Hanjia Gou, Majiatan Town, Lingwu City, Ningxia Hui Autonomous Region, the PRC

Business scope: Investment in, construction of, and management of electric power projects; production and sales of electric power, heating and related products; complex utilization of heat and ash; installation, commissioning, checking and repairing of electric power and heating equipment; technology consulting, services and training, and information services. (subject to approval and registration at the industrial and commercial administrative authority)

Term of operation: 30 years commencing from the date of the business licence of Shenhua Guohua Ningdong Power, which may be extended by resolution of shareholders' meeting

Total investment amount of the project

Shenhua Guohua Ningdong Power will invest, develop, construct and operate 2 x 660 MW coal-fired power generation units which is part of second phase expansion project of Shenhua Guohua Ningdong Power Plant located in Ningxia Ningdong Energy and Chemical Base in Lingwu City, Ningxia Hui Autonomous Region. The total investment is expected to amount to RMB4,800,000,000. It is expected that the capital contribution will account for 25% of the total dynamic investment amount of the project, and the remaining portion will be financed by bank loans to be obtained by Shenhua Guohua Ningdong Power from banks.

Contribution of registered capital

	The Company	Zheneng Group	Shenhua Ningxia Coal
Total amount of contribution	RMB227,080,000	RMB133,320,000	RMB39,600,000
(percentage of total registered capital)	(56.77%)	(33.33%)	(9.9%)
Payment of registered capital	To be paid in full within 20 business days of execution of the JV Agreement	To be paid in full within 20 business days of execution of the JV Agreement	To be paid in full within 20 business days of execution of the JV Agreement

After the establishment of Shenhua Guohua Ningdong Power, if registered capital needs to be increased, the Company, Zheneng Group and Shenhua Ningxia Coal will contribute according to shareholding percentage of 56.77%, 33.33% and 9.9%. If one party does not contribute according to the above ratio and shareholding percentage is changed, the shareholding percentage shall be adjusted on the basis of asset valuation and the actual capital contribution amount of each party.

The board of directors

The board of directors of Shenhua Guohua Ningdong Power shall comprise five directors. The Company shall nominate two directors (one will be the chairman of the board of directors), Zheneng Group shall nominate one director, Shenhua Ningxia Coal shall nominate one director, and all of the employees shall elect one director.

The supervisory committee

The supervisory committee of Shenhua Guohua Ningdong Power shall comprise five supervisors. The Company shall nominate one supervisor, Zheneng Group shall nominate one supervisor who will be the chairman of the supervisory committee, Shenhua Ningxia Coal shall nominate one supervisor, and all of the employees shall elect two supervisors.

Senior management

Shenhua Guohua Ningdong Power shall have one general manager who shall be nominated by the Company, three vice general managers among whom one shall be nominated by Zheneng Group, and one chief financial officer who shall be nominated by the Company.

Consolidation of financial statements

The Company will consolidate the financial statements of Shenhua Guohua Ningdong Power.

Share of profits

Pro rata to the registered capital actually contributed by each joint venture partner.

Governing law

The laws of the PRC.

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE JV AGREEMENT AND ESTABLISHMENT OF SHENHUA GUOHUA NINGDONG POWER

The Company, Zheneng Group and Shenhua Ningxia Coal intend to set up a joint venture company Shenhua Guohua Ningdong Power for the purpose of investing, developing, constructing and operating 2 × 660MW core-fired power generation units which is part of second phase expansion project of Shenhua Guohua Ningdong Power Plant located in Ningxia Ningdong Energy and Chemical Base in Lingwu City, Ningxia Hui Autonomous Region. The power generated will be transmitted to Zhejiang via Ningdong-Zhejiang ultrahigh-voltage direct current power transmission project for sale. It is intended that Zheneng Group will assist Shenhua Guohua Ningdong Power to sell power in Zhejiang province, and Shenhua Ningxia Coal will supply thermal coal produced by its nearby coal mines to Shenhua Guohua Ningdong Power under the Mutual Coal Supplies Agreement entered into between the Company and Shenhua Group Co.

The Company is of the view that this project can effectively combine strength of each party, and utilize the thermal-electric advantage of Ningxia and the electricity consumption capacity of Zhejiang, bringing Shenhua Guohua Ningdong Power and the Company with good economic returns. The Company and other shareholders will benefit from the JV Agreement and the cooperation. The respective amount of capital contribution and the terms of the JV Agreement were arrived at after arm-length negotiations among the joint venture parties, with reference to projected capital requirements of Shenhua Guohua Ningdong Power. The Company intends to finance its capital contribution by its internal resources. Upon establishment of Shenhua Guohua Ningdong Power, it will be a subsidiary of the Company.

IV. HONG KONG LISTING RULES IMPLICATIONS

Shenhua Ningxia Coal is a subsidiary of Shenhua Group Co. As at the date of this announcement, Shenhua Group Co holds an approximately 73.06% equity interest in the Company and is the controlling shareholder of the Company. Therefore, Shenhua Ningxia Coal is a connected person of the Company as defined in the Hong Kong Listing Rules. Zhejiang Zheneng Power Co., Ltd., a subsidiary of Zheneng Group, holds 40% equity interest in Zhejiang Guohua Zheneng Power Generation Co., Ltd. which is a significant subsidiary of the Company. Therefore, Zheneng Group is a connected person at the subsidiary level of the Company as defined in the Hong Kong Listing Rules. As such, the entering into the JV Agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company according to Chapter 14A of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) exceeds 0.1% but all are less than 5%, the JV Agreement and the transaction contemplated thereunder are only subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

V. GENERAL INFORMATION

The Directors, including the independent non-executive Directors, are of the view that the terms of and the transactions contemplated under the JV 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 JV Agreement and the transactions contemplated thereunder on 24 March 2016. Of the Directors attending the board meeting, Dr. Zhang Yuzhuo, Dr. Ling Wen, Mr. Han Jianguo and Mr. Chen Hongsheng were considered to have material interests by virtue of being employed by Shenhua Group Co, and had thus abstained from voting on the board resolution in respect of the JV Agreement and the transactions contemplated thereunder.

VI. GENERAL INFORMATION OF THE PARTIES

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

Shenhua Ningxia Coal is a subsidiary of Shenhua Group Co, the controlling shareholder of the Company. Shenhua Ningxia Coal is mainly engaged in coal production, power generation business, and investment and financing activities.

Zheneng Group is headquartered in Hangzhou, Zhejiang province and is mainly engaged in power-supply construction, power production, mining investment and development, coal circulation operation, development and utilization of natural gas, energy services and other businesses.

DEFINITIONS

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

“Board”	the board of Directors;
“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;
“JV Agreement”	the Shenhua Guohua Ningdong Power Generation Co., Ltd. JV Agreement entered into on 20 July 2016 by and among the Company, Zheneng Group and Shenhua Ningxia Coal;
“Director(s)”	“the director(s) of the Company;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Group”	the Company and its subsidiaries;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shenhua Guohua Ningdong Power”	Shenhua Guohua Ningdong Power Generation Co., Ltd.. (神華國華寧東發電有限責任公司), a joint venture company to be established by the Company, Zheneng Group and Shenhua Ningxia Coal in Lingwu City, Ningxia Hui Autonomous Region;

“Shenhua Ningxia Coal”	Shenhua Ningxia Coal Industry Co., Ltd. (神華寧夏煤業集團有限責任公司), a limited liability company established in the PRC, and is a subsidiary of Shenhua Group Co;
“Zheneng Group”	Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司), a limited liability company established in the PRC; and
“Shenhua Group Co”	Shenhua Group Corporation Limited (神華集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules.

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

Beijing, 20 July 2016

As at the date of this announcement, the Board comprises the following: Dr. Zhang Yuzhuo, Dr. Ling Wen, Mr. Han Jianguo and Dr. Li Dong as executive directors, Mr. Chen Hongsheng and Mr. Zhao Jibin as non-executive directors, and Ms. Fan Hsu Lai Tai, Mr. Gong Huazhang and Mr. Guo Peizhang as independent non-executive directors.