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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)

CONNECTED TRANSACTION
DISPOSAL OF 100% EQUITY INTERESTS
OF FUPING THERMAL POWER

On 29 December 2020, Shendong Power entered into Equity Transfer Contract with Guoyuan Power. Accordingly, Shendong Power proposed to dispose 100% equity interests of Fuping Thermal Power to Guoyuan Power at a total consideration of RMB2,258.2617 million. After the completion of the Transaction, Guoyuan Power will directly hold 100% equity interests of Fuping Thermal Power, and Fuping Thermal Power will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Company.

As of the date of this announcement, Guoyuan Power is held as to 100% equity interests by China Energy, and China Energy holds 69.45% of shares of the Company and is the controlling shareholder of the Company. As such, Guoyuan Power is a connected person of the Company as defined under the Hong Kong Listing Rules, and the Transaction constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios of the Transaction exceed 0.1% but all of the percentage ratios are less than 5%, the Company is therefore subject to the reporting and announcement requirements under the Hong Kong Listing Rules but are exempt from the independent shareholders' approval requirement.

BACKGROUND

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

Shendong Power is a company incorporated in the PRC with limited liability. Its principal business includes thermal power generation, coal mining and sales. As at the date of this announcement, the Company directly holds 100% equity interests of Shendong Power.

China Energy and its subsidiaries operate eight business segments including coal, thermal power, new energy, hydropower, transportation, chemical industry, environmental technology and finance, principally engaging in coal liquefaction, coal-related chemical processing, coal production, power generation businesses and investment and financing activities. China Energy is the controlling shareholder of the Company. As at the date of the announcement, China Energy holds 69.45% equity interests of the Company.

Guoyuan Power is a company incorporated in PRC with limited liability. Its principal business includes power and heat production, and power plant investment, construction and management, etc. As at the date of this announcement, China Energy directly holds 100% equity interests of Guoyuan Power.

On 29 December 2020, Shendong Power entered into the Equity Transfer Contract with Guoyuan Power, pursuant to which Shendong Power contemplates to dispose 100% equity interests of Fuping Thermal Power to Guoyuan Power at a total consideration of RMB2,258.2617 million. After the completion of the Transaction, Guoyuan Power will directly hold 100% equity interests of Fuping Thermal Power, and Fuping Thermal Power will cease to be a subsidiary of the Company and it will no longer be consolidated into the financial statements of the Company.

DISPOSAL OF 100% EQUITY INTERESTS OF FUPING THERMAL POWER

The major terms of Equity Transfer Contract are as follows:

Date

29 December 2020

Parties

Shendong Power (as the transferor)

Guoyuan Power (as the transferee)

Target of Transfer

The 100% equity interests of Fuping Thermal Power held by Shendong Power.

Consideration and Payment

Shendong Power shall transfer the 100% equity interests of Fuping Thermal Power to Guoyuan Power at a consideration of RMB2,258.2617 million. Guoyuan Power shall pay the entire equity transfer consideration to Shendong Power in a lump sum within 120 natural days after the Equity Transfer Contract takes effect.

The consideration under the Equity Transfer Contract was determined in accordance with the appraised net assets value of RMB2,258.2617 million prepared based on the asset-based approach as set out in the Assets Appraisal Report.

Completion Matters

- (1) Shendong Power and Guoyuan Power shall perform or assist in fulfilling contractual obligations, and make best efforts to cooperate with each other to handle reasonable requests.
- (2) Shendong Power and Guoyuan Power shall agree on a specific date and place to handle the completion matters in relation to the equity transfer. Shendong Power shall deal with the hand-over matters with Guoyuan Power in accordance with the Property and Information List compiled by Fuping Thermal Power. Shendong Power shall be responsible for the completeness and authenticity of the abovementioned materials provided, and the consistency between the materials provided and the true conditions of Fuping Thermal Power, and shall assume all legal responsibilities caused by concealment or false reporting.
- (3) With regard to the RMB0.3 billion of entrusted loan provided by Shendong Power to Fuping Thermal Power, Shendong Power and Guoyuan Power shall jointly promote and Guoyuan Power shall ensure that Fuping Thermal Power will return all principal and interest thereof to Shendong Power within 30 days after the Equity Transfer Contract is entered into.

- (4) The assets of and control over Fuping Thermal Power shall be transferred to Guoyuan Power from the later of the following dates, commencing from which Guoyuan Power shall manage and control Fuping Thermal Power: (i) 1 January 2021; (ii) the date on which Fuping Thermal Power repays all principal and interest of the above-mentioned RMB0.3 billion entrusted loan to Shendong Power.

Arrangements for Transition Period

During the transition period of the Equity Transfer Contract (referring to the period commencing from the valuation reference date to the date on which the assets of and control over Fuping Thermal Power are transferred to Guoyuan Power as stated in item (4) of the aforesaid section headed “Completion Matters”, Shendong Power has the obligation of good management over Fuping Thermal Power and its assets. Shendong Power shall ensure and promote the normal operation of Fuping Thermal Power. For any material and adverse effects on Fuping Thermal Power incurred during the transition period, Shendong Power shall promptly notify Guoyuan Power and deal with it properly.

During the transition period of the Equity Transfer Contract, Shendong Power and Fuping Thermal Power shall guarantee not to sign, change, modify or terminate any contract and transaction related to Fuping Thermal Power, not to make Fuping Thermal Power bear liabilities or obligations other than those included in the Assets Appraisal Report, not to transfer or waive its rights, and not to dispose any assets of Fuping Thermal Power, excluding in the normal operation of Fuping Thermal Power.

Unless Shendong Power fails to perform good management obligations, the losses or profits of Fuping Thermal Power’s assets shall be borne or enjoyed by Guoyuan Power in proportion to its shareholding.

Undertaking of Equity Transaction Costs

The transaction costs incurred during the equity transfer under the Equity Transfer Contract shall be undertaken by each of Shendong Power and Guoyuan Power in accordance with relevant regulations.

Liability for Breach

After the Equity Transfer Contract comes into effect, in the event that either party proposes to terminate the contract without cause, it shall pay the other party a one-off penalty amounting to 10% of the consideration under the Equity Transfer Contract, and shall also bear all liability for compensation if losses are caused to the other party.

In the event that Guoyuan Power fails to pay the consideration within the term specified in the contract, liquidated damages shall be paid to Shendong Power for overdue payment. Liquidated damages are calculated based on five ten-thousandths of the unpaid consideration payable on a daily basis during the overdue payment period. In the event that the payment is overdue for over 90 days, Shendong Power is entitled to terminate the contract.

In the event that Shendong Power fails to deliver the transfer target as agreed in the Equity Transfer Contract, Guoyuan Power is entitled to terminate the Equity Transfer Contract and require Shendong Power to pay liquidated damages to Guoyuan Power amounting to 10% of the total consideration under the Equity Transfer Contract.

In the event that there are material events undisclosed or omitted in relation to the assets and debts of Fuping Thermal Power, which may have significant and adverse impacts on Fuping Thermal Power or affect the price for the equity transfer, Guoyuan Power is entitled to terminate the contract, and require Shendong Power to undertake the liabilities for breach of contract amounting to 10% of the total consideration under the Equity Transfer Contract. In the event that Guoyuan Power does not terminate the contract, it is entitled to make a request to Shendong Power for compensation for related matters. The amount of compensation shall be equivalent to the corresponding part of the transfer target in the amount of loss of Fuping Thermal Power that may be caused by the aforementioned undisclosed or omitted assets, debts and other matters.

If Fuping Thermal Power fails to repay all the principal and interest of the entrusted loan of RMB0.3 billion to Shendong Power within 30 days after the Equity Transfer Contract is entered into, Guoyuan Power shall pay liquidated damages to Shendong Power based on the standard of five ten-thousandths of the overdue payment on a daily basis for each overdue day, until Fuping Thermal Power repays all the principal and interest to Shendong Power.

Effectiveness of Equity Transfer Contract

The Equity Transfer Contract shall take effect from the date when it is affixed with the seals of, and signed by the legal representatives or authorised representatives of both Shendong Power and Guoyuan Power, providing that the following conditions precedent are satisfied: (i) Shendong Power has performed and passed the necessary decision-making procedures for the Transaction; (ii) Guoyuan Power has performed and passed the necessary decision-making procedures for the Transaction.

INFORMATION ON FUPING THERMAL POWER

Basic Information on Fuping Thermal Power

Fuping Thermal Power was established on 18 October 2013, with a registered capital of RMB2,234.70 million. Its address is at the Industrial Park of Eastern Fuping County, Weinan City, Shaanxi Province. Its business scope covers the construction and operation of thermal power plants, the construction of power supporting projects, heat supply and power sales business, etc.

As of the date of this announcement, the Company holds 100% equity interests of Fuping Thermal Power through Shendong Power, being a wholly-owned subsidiary of the Company.

The property rights over the target equity interests of the Equity Transfer are clear, and there is no mortgage, pledge or any other restrictions on the transfer thereof. There is no litigation, arbitration or judicial measures such as sealing up and freezing, and there is no other situation hindering the transfer of ownership.

APPRAISED VALUE OF FUPING THERMAL POWER

Hubei Zhonglian Assets Appraisal Co., Ltd. is the appraisal institution of the Transaction, which is qualified to engage in securities and futures business. According to Zhonglian Review [2020] No. 1234 “Assets Appraisal Report of the Project of Total Equity Value Appraisal of Shareholders of China Energy Shaanxi Fuping Thermal Power Co., Ltd. Involved in the Proposed Equity Transfer by Shenhua Shendong Power Co., Ltd.”, Hubei Zhonglian Assets Appraisal Co., Ltd. adopted the appraisal results prepared based on asset-based approach as the appraisal conclusion. As of the valuation reference date of 31 December 2019, the book value of net assets of Fuping Thermal Power was RMB2,230.1943 million. The appraised value is RMB2,258.2617 million. The value-added amount is RMB28.0674 million, and the value-added rate is 1.26%. Filing process of the these appraisal results has been performed in accordance with the regulations of the State-owned Assets Supervision and Administration.

MAJOR FINANCIAL INDICATORS OF FUPING THERMAL POWER

The major financial indicators of Fuping Thermal Power for the year 2018 (audited), the major financial indicators of Fuping Thermal Power for the year 2019 (audited by Zhongshen Zhonghuan Certified Public Accountants (Special General Partnership) with securities and futures business qualification), and the major financial indicators of Fuping Thermal Power for the ten months ended 30 October 2020 (unaudited) are as follows:

RMB: 0'000

Reporting period	Total assets	Net assets	Revenue	Total profit	Net profit	Net profit after deducting non-recurring profit and loss
For the year 2018/As of the end of 2018	321,190.24	189,703.70	26,906.79	-3,592.66	-3,592.66	-3,592.66
For the year 2019/As of the end of 2019	<u>298,752.30</u>	<u>223,019.43</u>	<u>90,166.36</u>	<u>3,315.73</u>	<u>3,315.73</u>	<u>3,315.73</u>
For the ten months ended 31 October 2020/ As of the end of October 2020	<u>287,580.48</u>	<u>229,303.74</u>	<u>66,449.56</u>	<u>7,199.87</u>	<u>6,284.32</u>	<u>6,284.32</u>

REASONS FOR ENTERING INTO THE EQUITY TRANSFER CONTRACT AND BENEFITS TO THE COMPANY

The Transaction is conducive to optimizing the business layout of the Company, and is in the interests of the shareholders of the Company as a whole.

IMPACT OF ENTERING INTO THE EQUITY TRANSFER CONTRACT

The Company does not provide guarantee for Fuping Thermal Power or entrust it with wealth management. Except that Shendong Power provided an entrusted loan of RMB0.3 billion (with a term until 25 February 2021) to Fuping Thermal Power, there is no occupancy of funds of the Company by Fuping Thermal Power. Regarding the aforementioned entrusted loan, Fuping Thermal Power will repay all the principal and interest to Shendong Power within 30 days after the Equity Transfer Contract is entered into. In terms of the entrusted loan, its applicable percentage ratios (calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules) are less than 0.1%, which is not material for the Group.

On the completion date of the Equity Transfer, the Group will record investment income (loss) based on the difference between the appraised value of Fuping Thermal Power's net assets on the valuation reference date and the book value of Fuping Thermal Power's net assets on the completion date.

With the completion date not yet determined, based on Fuping Thermal Power's unaudited net assets as of 30 November 2020, the Group is expected to record loss of approximately RMB62.25 million. Investors should note that this data is for reference only and may differ from the actual income (loss).

The Transaction will not have a significant impact on the financial position of the Group. After the completion of the Equity Transfer, the Group will cease to hold any equity interests in Fuping Thermal Power. Fuping Thermal Power will cease to be a subsidiary of the Company and will no longer be consolidated into the financial statements of the Company.

USE OF PROCEEDS

The cash consideration of RMB2,258.2617 million receivable by the Company for the Transaction will be used for general working capital of the Group after deduction of relevant expenses and costs.

HONG KONG LISTING RULES IMPLICATIONS

As of the date of this announcement, Guoyuan Power is held as to 100% equity interests by China Energy, and China Energy holds 69.45% equity interests of the Company and is the controlling shareholder of the Company. As such, Guoyuan Power is a connected person of the Company as defined under the Hong Kong Listing Rules, and the Transaction constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios of this transaction exceed 0.1% but all of the percentage ratios are less than 5%, the Company is therefore subject to the reporting and announcement requirements under the Hong Kong Listing Rules but are exempt from the independent shareholders' approval requirement.

GENERAL INFORMATION

The Board has resolved and approved the Transaction on 29 December 2020. Among the Directors attending the Board meeting, connected Directors Mr. Wang Xiangxi and Mr. Jia Jinzhong were considered to have material interests in the Transaction by virtue of being employed by China Energy, and thus abstained from voting on the Board resolution(s) in relation to the Transaction. The Directors (including the independent non-executive Directors) consider that the Transaction is entered into in the ordinary course of business of the Company, on normal commercial terms, fair and reasonable, and is in the interests of the Company and its shareholders as a whole.

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

- “Assets Appraisal Report” the asset appraisal report issued by Hubei Zhonglian Assets Appraisal Valuation Co., Ltd. (湖北眾聯資產評估有限公司) on Fuping Thermal Power, with valuation reference date being 31 December 2019;
- “Board” the board of directors of the Company;
- “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);
- “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, 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;
- “Equity Transfer Contract” the equity transfer contract entered into between Shendong Power and Guoyuan Power on 29 December 2020;
- “Fuping Thermal Power” China Energy Shaanxi Fuping Thermal Power Co., Ltd. (國家能源集團陝西富平熱電有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
- “Group” the Company and its subsidiaries;
- “Guoyuan Power” China Energy Guoyuan Power Co., Ltd. (國家能源集團國源電力有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of China Energy;

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shendong Power”	Shenhua Shendong Power Co., Ltd. (神華神東電力有限責任公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
“Transaction” or “Equity Transfer”	the transaction contemplated under the Equity Transfer Contract.

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

Beijing, 29 December 2020

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 as non-executive director, Dr. Yuen Kwok Keung, Dr. Bai Chong-En and Dr. Chen Hanwen as independent non-executive directors, and Mr. Wang Xingzhong as employee director.