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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: 1088)**

**ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT**

**MUTUAL SUPPLIES AND SERVICES AGREEMENT**

As disclosed in the Announcement and the Circular, the Company has entered into the Current Mutual Supplies and Services Agreement with Shenhua Group Co to provide for the mutual supply of products and services between the Group and the Shenhua Group, the term of which will end on 31 December 2010.

The Company has entered into a new Mutual Supplies and Services Agreement with Shenhua Group Co on 12 March 2010. Pursuant to the Mutual Supplies and Services Agreement, the Group has agreed to supply products and provide services to the Shenhua Group and the Shenhua Group has agreed to supply products and provide services to the Group. The Mutual Supplies and Services Agreement will be effective from 1 January 2011.

**HONG KONG LISTING RULES IMPLICATIONS**

Since Shenhua Group Co is a controlling shareholder of the Company, it is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Mutual Supplies and Services Agreement, 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 Mutual Supplies and Services Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders and comply with other requirements under the Hong Kong Listing Rules.

## **INTRODUCTION**

As disclosed in the Announcement and the Circular, the Company has entered into the Current Mutual Supplies and Services Agreement with Shenhua Group Co to provide for the mutual supply of products and services between the Group and the Shenhua Group, the term of which will end on 31 December 2010.

The Company has entered into a new Mutual Supplies and Services Agreement with Shenhua Group Co on 12 March 2010. Pursuant to the Mutual Supplies and Services Agreement, the Group has agreed to supply products and provide services to the Shenhua Group and the Shenhua Group has agreed to supply products and provide services to the Group. The Mutual Supplies and Services Agreement will be effective from 1 January 2011.

## **MUTUAL SUPPLIES AND SERVICES AGREEMENT**

### **Date**

12 March 2010

### **Parties**

The Company and Shenhua Group Co

### **Continuing transaction**

Pursuant to the Mutual Supplies and Services Agreement:

- (a) the Group and the Shenhua Group will share information networks at no costs to either party;
- (b) the Group has agreed to supply products and provide services to the Shenhua Group, including water supplies, rolling stock management, rail transportation, other related or similar production supplies or services; and
- (c) the Shenhua Group has agreed to supply products and provide services to the Group, including:
  - (i) production supplies: explosives, fuses, oil products, and other related or similar production supplies and services;
  - (ii) ancillary production services: security, logistics and support services, tendering services and other related or similar services; and
  - (iii) ancillary administrative services: social security and pension management services and staff data recording services.

## Term and termination

The Mutual Supplies and Services Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Mutual Supplies and Services Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

## Price determination

Pursuant to the Mutual Supplies and Services Agreement, production supplies and ancillary services are provided substantially in accordance with the following pricing policy:

- (a) price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price;
- (c) where there is neither a state-prescribed price nor a state-guidance price, the market price (including bidding price); or
- (d) where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price shall be the contractual price which is the price to be agreed between the relevant parties for the provision of the relevant production supplies or ancillary services, which shall be the reasonable costs incurred in providing the same plus a profit margin of 5% of such costs.

## Past transactions

The aggregate transaction amounts under the Current Mutual Supplies and Services Agreement for the two years ended 31 December 2008 and 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Mutual Supplies and Services Agreement and are set out as follows:

	<b>Year ended 31 December 2008</b>	<b>Year ended 31 December 2009</b>	<b>Period from 1 January 2010 to 31 January 2010</b>
	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Production supplies and ancillary services by the Group to the Shenhua Group	approximately 508	approximately 559	approximately 46
Production supplies and ancillary services by the Shenhua Group to the Group	approximately 1,221	approximately 1,257	approximately 101

## Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current Mutual Supplies and Services Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future needs, the Company proposes that the annual caps of the Mutual Supplies and Services Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	<b>Year ending 31 December 2011</b>	<b>Year ending 31 December 2012</b>	<b>Year ending 31 December 2013</b>
	<i>Proposed Cap (RMB million)</i>	<i>Proposed Cap (RMB million)</i>	<i>Proposed Cap (RMB million)</i>
Production supplies and ancillary services by the Group to the Shenhua Group	4,600	7,300	8,600
Production supplies and ancillary services by the Shenhua Group to the Group	5,500	6,000	6,600

In particular, the proposed annual caps of the Mutual Supplies and Services Agreement for production supplies and ancillary services by the Group to the Shenhua Group have been set taking into account the following factors: (a) the coal mines of Shenhua Group for coal to liquid and coal chemical projects are expected to commence operation and production and this will increase the need for various production services provided by the Group to the Shenhua Group; (b) there is also expected to be substantial increase in railway transportation services and production services provided by the Group to the Shenhua Group resulting from the expansion of Shenhua Group's operations; and (c) it is also expected that the prices of raw materials and personnel costs will increase steadily, which will in turn increase fees payable under the Mutual Supplies and Services Agreement.

The proposed annual caps of the Mutual Supplies and Services Agreement for production supplies and ancillary services by the Shenhua Group to the Group have been set taking into account the following factors: (a) expansion of the Group's business which increases the need for purchase of explosives, fuel and related services from Shenhua Group, (b) technology upgrades and production expansion of coal mines of the Group resulting in increase in production supplies and ancillary production services provided by Shenhua Group; and (c) it is also expected that the prices of raw materials and personnel costs will increase steadily, which will in turn increase fees payable under the Mutual Supplies and Services Agreement.

## **Implementation agreements**

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Mutual Supplies and Services Agreement with members of the Shenhua Group. Each implementation agreement will set out the specific specifications for the transaction. The implementation agreements provide for the production supplies and ancillary services as contemplated by the Mutual Supplies and Services Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Mutual Supplies and Services Agreement and the annual caps.

All payment made pursuant to the Mutual Supplies and Services Agreement and its implementation agreements will be made in cash.

## **CONNECTED TRANSACTION AND HONG KONG LISTING RULES IMPLICATIONS**

Shenhua Group Co is a controlling shareholder and the sole promoter of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the 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 Mutual Supplies and Services Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders and comply with other requirements under 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 Current Mutual Supplies and Services Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12 months period from the date of this announcement or otherwise related, which would be, together with transactions under the Mutual Supplies and Services Agreement, regarded as a series of transactions and treated as if they are one transaction under Rules 14A.25 of the Hong Kong Listing Rules.

## **BACKGROUND TO AND REASONS FOR ENTERING INTO THE MUTUAL SUPPLIES AND SERVICES AGREEMENT AND ITS BENEFITS TO THE COMPANY**

As disclosed in the Prospectus, the Shenhua Group retained certain assets and businesses which are supplemental and necessary to the business of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's-length basis after the listing of the Company. In addition, the Group provides certain goods and services to the Shenhua Group on an arm's-length basis to support the businesses retained by the Shenhua Group.

## **GENERAL**

The Directors consider that the terms of the Mutual Supplies and Services Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

## **INFORMATION RELATING TO THE GROUP**

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

## **INFORMATION RELATING TO SHENHUA GROUP**

Shenhua Group Co is the sole promoter and a controlling shareholder of the Company. Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal based chemical processing business, coal production and power generation business as well as investment and finance activities.

## **GENERAL INFORMATION**

An Independent Board Committee has been formed to advise the Independent Shareholders on the Mutual Supplies and Services Agreement, the transactions contemplated under the Mutual Supplies and Services Agreement and the proposed annual caps thereto. The Independent Board Committee has also approved the appointment of China Merchants Securities (HK) Co., Limited as 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 transaction contemplated under the Mutual Supplies and Services Agreement.

A general meeting of the Company will be convened and held to, inter alia, consider and, if thought fit, to approve the Mutual Supplies and Services Agreement and the proposed annual caps thereto. A circular containing, among other things, further details, the letter from the Independent Board Committee and the recommendation from the independent financial adviser, together with a notice convening a general meeting of the Company will be dispatched to the Shareholders as soon as practicable.

## **DEFINITIONS**

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

“Announcement”    the announcement dated 26 March 2007 of the Company;

“Board”	the board of Directors;
“Circular”	the circular dated 30 March 2007 of the Company;
“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;
“Current Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 23 March 2007 entered into between the Company and Shenhua Group Co;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“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 of all the independent non-executive Directors;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the resolution(s) in relation to the Mutual Supplies and Services Agreement to be proposed at a general meeting of the Company under the Hong Kong Listing Rules;
“Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 12 March 2010 entered into between the Company and Shenhua Group Co;
“PRC”	the People’s Republic of China;
“Prospectus”	prospectus of the Company dated 2 June 2005 published by the Company, in accordance with the Hong Kong Listing Rules, at the time of its listing;
“RMB”	the lawful currency of the PRC;
“Shareholders”	the shareholders of the Company;

“Shenhua Group”	collectively, Shenhua Group Co and its subsidiaries (but excluding the Group);
“Shenhua Group Co”	Shenhua Group Corporation Limited (神華集團有限責任公司), a limited liability company incorporated in the PRC and a controlling shareholder of the Company; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

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

Beijing, 12 March 2010

*As at the date of this announcement, the Board comprises Dr. Zhang Xiwu and Dr. Ling Wen, as executive Directors, Dr. Zhang Yuzhuo and Mr. Han Jianguo, as non-executive Directors, and Mr. Huang Yicheng, Mr. Anthony Francis Neoh, Dr. Chen Xiaoyue and Mr. Gong Huazhang, as independent non-executive Directors.*