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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)

CONNECTED TRANSACTION ENTERING INTO FINANCIAL SERVICES AGREEMENT

Financial Services Agreement

The Board announces that on 21 July 2006, the Company and Shenhua Finance entered into the Financial Services Agreement, pursuant to which Shenhua Finance has agreed to provide to the Group deposit services, loan services and other financial services subject to the terms and conditions provided therein.

Connected Transaction

Shenhua Group is the sole promoter and the controlling shareholder of the Company. As at the date hereof, Shenhua Group is the holder of 81.21% of the issued Shares. Shenhua Finance is a non-wholly owned subsidiary of Shenhua Group in which Shenhua Group owns 59.29% equity interests directly and indirectly through its subsidiaries, and is therefore a connected person of the Company. Accordingly, the Financial Services Agreement and the financial services transactions contemplated thereunder constitute continuing connected transaction of the Company under the Listing Rules. As each of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the deposit services is less than 2.5%, the deposit services to be provided by Shenhua Finance to the Company is subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules but not the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules. In respect of other financial services to be provided by Shenhua Finance to the Company, each of the percentage ratio(s), where applicable, is below the *de minimis* threshold set out in Rule 14A.33 of the Listing Rules, therefore the provision of other financial services by Shenhua Finance to the Company is exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. In addition, loan services by Shenhua Finance to the Company would amount to the provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.65(4) of the Listing Rules, from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Company and its subsidiaries will be granted in respect of the loans.

The Board announces that on 21 July 2006, the Company and Shenhua Finance entered into the Financial Services Agreement, pursuant to which Shenhua Finance has agreed to provide certain financial services to the Group on a non-exclusive basis.

Shenhua Finance was originally established for the purpose of enhancing the centralised management of funds among the group of companies of Shenhua Group and for improving the fund utilisation efficiency of the group as a whole. Shenhua Finance is a non-bank financial institution approved and regulated by the PBOC and CBRC. Other than with other financial institutions, it only transacts with Shenhua Group and its associated companies in the PRC. Associated companies of Shenhua Group include its subsidiaries, companies in which Shenhua Group and/or its subsidiaries hold more than 20% interests, companies in which Shenhua Group is the largest shareholder or any other social entities operating under these companies. The Executive Director, Executive Vice President and Chief Financial Officer of the Company, Dr. Ling Wen, is also the chairman of the board of directors of Shenhua Finance.

The Group utilises the services of Shenhua Finance on a voluntary, non-exclusive basis and is not obliged to engage Shenhua Finance for any particular service, or at all. Shenhua Finance is merely one of a number of financial institutions which provide financial services to the Group.

FINANCIAL SERVICES AGREEMENT

Date

21 July 2006

Parties

- (i) Shenhua Finance, as provider of financial services; and
- (ii) the Company.

Major Terms

- the term of the Financial Services Agreement is from the date of execution to 31 December 2007;
- the services to be provided by Shenhua Finance to the Group include financial consultation, credit appraisal and other relevant advice and agency services; assistance in receiving transaction proceeds; provision of security; entrusted loans and entrusted investment services; bill acceptance and discount services; settlement services and planning of settlement scheme; deposit services; loans and finance leasing; underwriting of company bonds; consumer credit facilities, buyer's credit and finance leasing for the products of the members of the Group;
- subject to compliance with the terms and conditions of the Financial Services Agreement, Shenhua Finance shall be appointed as one of the financial institutions to provide financial services to the Group. The Group may obtain financial services from other financial institutions in addition to or instead of Shenhua Finance, as it sees fit;
- the terms and conditions for the provision of financial services to the Group at any time shall be no less favourable than those provided by Shenhua Finance to other members of Shenhua Group and shall be no less favourable than the same type of financial services provided by other financial institutions to the Group;

- the interest rate for the Group's deposits with Shenhua Finance shall not be lower than the lowest rate allowed by the PBOC for the same type of deposit and, subject to the above, the interest rate payable shall be (1) the same as or higher than the rate payable by Shenhua Finance to other members of Shenhua Group and (2) the same as or higher than the rate payable by normal commercial banks in the PRC for comparable deposits (whichever is higher);
- the interest rate for loans provided to the Group by Shenhua Finance shall not be higher than the highest rate allowed by the PBOC for the same type of loan and, subject to the above, the interest rate charged on the loans to the Group shall be (1) the same as or lower than the rate charged by Shenhua Finance to other members of Shenhua Group for comparable loans and (2) equal to or lower than the rate charged by normal commercial banks in the PRC for comparable loans (whichever is lower); and
- the fees charged by Shenhua Finance for the provision of other financial services shall be fixed according to the rate of fees chargeable by the PBOC or the CBRC and, subject to the above principle, the fees chargeable shall be (1) the same as or lower than the rate charged by Shenhua Finance to other members of Shenhua Group for the same type of financial services and (2) equal to or lower than the rate charged by normal commercial banks in the PRC for the same type of financial services.

Capital Risk Control Measures

In order to regulate any credit risk that might be associated with the Group in depositing funds with Shenhua Finance, the parties have agreed to adopt the following measures:

- (1) Shenhua Finance will not make investments with the deposits placed by the Company other than in entrusted investments as instructed by the Company. Shenhua Finance will only make investments in accordance with the instructions of the Company, for example, investment in government treasury bonds as instructed by the Group;
- (2) any balance in the Group's deposits (after deducting the amount used for making entrusted investments mentioned above and the amount of loans given to the Group by Shenhua Finance) will be re-deposited on a floating rate basis into one or more of the following banks: The Industrial and Commercial Bank of China, The Bank of China, The Agricultural Bank of China, China Construction Bank and Bank of Communications. Shenhua Finance enjoys favourable inter-bank deposit rates (at 1.62% currently, subject to changes as published by PBOC from time to time), which is higher than deposit interest rates (at 0.72% currently, subject to changes as published by PBOC from time to time) which the Group is able to obtain from these PRC banks;
- (3) a report on the status of the Group's deposits will be delivered by Shenhua Finance to the chief financial officer of the Company before 10am each Business Day;
- (4) a copy of every regulatory report submitted by Shenhua Finance to the CBRC will be provided to and reviewed by the senior management of the Company, including the relevant executive director(s); and
- (5) the financial statements of Shenhua Finance for each month will be provided to and reviewed by the senior management of the Company, including the relevant executive director(s), on the fifth day of the following month.

The Audit Committee consists of three independent non-executive directors. The Audit Committee of the Company is responsible for reviewing and supervising the financial reporting process of the Company, including the risk assessment and management policies made or to be made by the Company. At its meeting held in early July, the members of the Audit Committee, namely, the three independent non-executive directors reviewed the terms of the Financial Services Agreement and approved the Financial Services Agreement, including provisions on the capital risk control measures.

The Directors of the Company, including the three independent non-executive directors, take the view that the implementation of the proposed capital risk control measures by the Company presents adequate control by the Company over the risks involved in depositing funds with Shenhua Finance and will further safeguard the interests of the Shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES AGREEMENT

The main reasons for any election by the Company to use Shenhua Finance for the provision of the relevant financial services are as follows:

- the rates on loans and deposits offered by Shenhua Finance to the Company and its subsidiaries will be equal to or more favourable than those offered by PRC commercial banks;
- Shenhua Finance is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of risk control measures to be included in the Financial Services Agreement;
- the Group is expected to benefit from Shenhua Finance's better understanding of operations of the Group which should allow expedient and efficient service provision. For instance, it is expected that loans from Shenhua Finance may be approved quicker than a commercial bank;
- Shenhua Finance is a regulated financial institution in the PRC and is entitled to interbank interest rates, which are generally higher than normal commercial interest rates when re-depositing deposits with commercial banks in the PRC. The Company also holds a 21.43% equity interest directly, and an 18.57% equity interest indirectly through its subsidiaries, in Shenhua Finance. Accordingly, the Company will benefit from Shenhua Finance's profits; and
- pursuant to the relevant regulations of the PBOC and the CBRC, the customers of Shenhua Finance are limited to entities within Shenhua Group, thereby reducing the risks that Shenhua Finance may otherwise be exposed to if its customers included other entities unrelated to Shenhua Group.

AMOUNTS OF DEPOSITS BETWEEN THE GROUP AND SHENHUA FINANCE AND THOSE OF SHENHUA FINANCE AS A WHOLE, FOR THE YEARS 2003, 2004 AND 2005

	2003	2004	2005
Total amount of deposits placed by the Group (RMB million)	4,417.00	7,193.00	19,891.00
Amount deposited by the Group in Shenhua Finance (RMB million)	2,502.00	3,728.00	–
Percentage of total deposits of the Group which was placed with Shenhua Finance	56.64%	51.83%	–
Total amount of deposits placed in Shenhua Finance (RMB million)	10,388.00	12,084.00	6,724.00
Amount of deposit placed by the Group (RMB million)	2,502.00	3,728.00	–
Percentage of deposits in Shenhua Finance placed by the Group	24%	31%	–

Note: All figures listed above are as at 31 December. All transactions between the Group and Shenhua Finance terminated on 31 May 2005.

PROPOSED CAPS AND RATIONALE

The Board has considered and proposed the following caps in respect of the average maximum daily balance (including the corresponding interests accrued thereon) of the deposits placed by the Group with Shenhua Finance for the period from 1 January 2006 to 31 December 2007:

Transactions	Proposed Caps	Basis of determination of the Proposed Caps
Deposit services	For the two years ending 31 December 2007, RMB3,400 million and RMB3,400 million, respectively	The proposed caps for the average maximum daily balance of deposits (including the corresponding interests accrued thereon) have been determined with reference to the control of financial risks in selecting providers of financial services and the historical amount of deposits of the Group, taking into account business development plans and financial needs of the Group in 2006 and 2007.

In relation to the provision of other financial services by Shenhua Finance on normal commercial terms to the Group, such as financial consultation, credit appraisal and other relevant advice and agency services; assistance in receiving transaction proceeds; provision of security; entrusted loans and entrusted investment services; bill acceptance and discount services; settlement services and planning of settlement scheme; deposit services; loans and finance leasing; underwriting of company bonds; consumer credit, buyer's credit and finance leasing for the products of the members of the Group, the Company expects that the total fees payable by the Group to Shenhua Finance will not exceed RMB3 million for the year ending 31 December 2006 and RMB4 million for the year ending 31 December 2007, which fall within the *de minimis* threshold as stipulated under Rule 14A.33 of the Listing Rules and would therefore be exempt from all reporting, announcement and independent shareholders' approval requirements. Therefore, no cap is required to be set in this regard.

In relation to the provision of loan services by Shenhua Finance on normal commercial terms to the Group, it would amount to the provision of financial assistance by a connected person for the benefit of the Group and would therefore be exempt under Rule 14A.65(4) of the Listing Rules, from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group will be granted in respect of the loans. As a result, no cap would be required to be set in respect of the provision of loans by Shenhua Finance to the Group under the Listing Rules.

CONNECTED TRANSACTION

Shenhua Group is the sole promoter and a controlling shareholder of the Company. As at the Latest Practicable Date, Shenhua Group was the holder of 81.21% of the Company's issued Shares. Shenhua Finance is a non-wholly owned subsidiary of Shenhua Group, and therefore a connected person of the Company. Accordingly, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules. Based on the caps proposed above, as each of the percentage ratios (as defined in Rule 14.07 of the Listing Rules) is less than 2.5%, the provision of deposit services under the Financial Services Agreement is subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules, but not the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

The Directors of the Company, including the independent non-executive directors, believe that the transactions under the Financial Services Agreement will be conducted on normal commercial terms, or on terms no less favorable than those available to independent third parties under prevailing local market conditions, are entered into the ordinary and usual course of business of the Company, in the interests of the Shareholders as a whole and the terms of the Financial Services Agreement and the proposed caps in respect of the average maximum daily balance of deposits (including the corresponding interests accrued thereon) are fair and reasonable.

DISCLOSURE REQUIREMENT

As Shenhua Finance is a connected person of the Company, the proposed provision of financial services by Shenhua Finance to the Company, will amount to continuing connected transactions under Rule 14A.14 of the Listing Rules.

In relation to the provision of loans by Shenhua Finance on normal commercial terms to the Group, it would amount to a provision of financial assistance by a connected person for the benefit of the Company and would therefore be exempt under Rule 14A.65(4) of the Listing Rules, from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group will be granted in respect of the loans.

In relation to the provision of deposit services and by Shenhua Finance on normal commercial terms, the Company is only subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules but exempt from the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules as each of the percentage ratios applicable to the deposit services is, on an annual basis, expected to be less than 2.5% under Rule 14A.34(1) of the Listing Rules.

In relation to the provision of other financial services by Shenhua Finance to the Group, each of the percentage ratios, where applicable, is below the de minimis threshold set out in Rule 14A.33 of the Listing Rules, therefore the provision of other financial services by Shenhua Finance to the Company is exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

INFORMATION RELATING TO THE COMPANY

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation.

INFORMATION ON SHENHUA GROUP AND SHENHUA FINANCE

Shenhua Group and its subsidiaries are principally engaged in the coal liquefaction and coal-based chemical processing business, as well as investment and finance activities. They also retain some coal production and power generation business following the restructuring of the Company in preparation for its H share listing in Hong Kong.

Shenhua Finance is a non-bank financial institution approved and regulated by the PBOC and the CBRC. Shenhua Group owns 59.29% equity interests directly or indirectly through its subsidiaries, the Company also holds 21.43% equity interest directly and 18.57% equity interest through the Company's subsidiaries. The remaining 0.71% equity interests of Shenhua Finance is held by Xinhua Airline, of which 40% equity interests is held by Shenhua Group. Currently, Shenhua Finance provides various financial services to Shenhua Group and some of its associated companies in the PRC. Services provided by Shenhua Finance include deposit services, loan services and other financial services as approved by the CBRC.

DEFINITIONS

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

“Associates”	shall have the meaning as defined in the Listing Rules;
“Audit Committee”	the audit committee of the Company, consisting of three independent non-executive directors, Chen Xiaoyue, who serves as the chairman of the Committee, Huang Yicheng and Anthony Francis Neoh;
“Board”	the board of Directors;
“Business day”	any day on which PRC banks are generally open for business;
“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission);
“Company”	中國神華能源股份有限公司 (China Shenhua Energy Company Limited), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange;
“Director(s)”	the director(s), including the independent non-executive directors of the Company;
“Financial Services Agreement”	an agreement dated 21 July 2006, entered into between Shenhua Finance and the Company, in respect of the provision of financial services by Shenhua Finance to the Company;

“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“PBOC”	中國人民銀行 (People’s Bank of China);
“PRC”	the People’s Republic of China;
“RMB”	the lawful currency of the PRC;
“Shareholder(s)”	holder(s) of Share(s);
“Shares”	share(s) of RMB1.00 each in the capital of the Company;
“Shenhua Finance”	神華財務有限公司 (Shenhua Finance Company Limited);
“Shenhua Group”	神華集團有限責任公司 (Shenhua Group Corporation Limited), the sole promoter of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Xinhua Airlines”	中國新華航空有限責任公司 (China Xinhua Airlines Co., Ltd).

By Order of the Board
Chen Biting
Chairman

Beijing, the PRC, 24 July 2006

As at the date of this announcement, the Directors are:

Chen Biting, Wu Yuan, Ling Wen, Zhang Xiwu, Zhang Yuzhuo, Han Jianguo, Huang Yicheng*, Anthony Francis Neoh* and Cheng Xiaoyue*

* *independent non-executive Directors*

“Please also refer to the published version of this announcement in the South China Morning Post”