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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)

2006 POWER PURCHASE AGREEMENTS AND INTERIM AGREEMENTS CONTINUING CONNECTED TRANSACTIONS

The Directors announce that on 9 May 2006, six of the Eight Power Plants of the Company entered into the 2006 Power Purchase Agreements and the remaining two power plants entered into the Interim Agreements with their respective Power Purchasers, to regulate their supply of power to their respective Power Purchasers. The Eight Power Plants have been or will be supplying power to power grid companies which are connected persons of the Company. The transactions under the 2006 Power Purchase Agreements and the Interim Agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.35 of the Listing Rules, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules if any of the applicable Percentage Ratios in respect of the aggregate values of the supply of power under these continuing connected transactions exceed 2.5% on an annual basis.

The Directors consider that the terms of the 2006 Power Purchase Agreements and the Interim Agreements have been negotiated on an arm's-length basis and are conducted on normal commercial terms and are fair and reasonable so far as the shareholders are concerned and are in the interest of the Company as a whole.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of these continuing connected transactions and an independent financial adviser will be appointed to advise the Independent Board Committee on the same.

No shareholder of the Company is required to abstain from voting in the general meeting of the Company for approving the Transactions and the new cap proposed for 2006, as the connected persons in the Transactions, namely NCPG and its Associates, are connected persons solely by virtue of their interest in a subsidiary of the Company and not in the Company itself. The Company has obtained from Shenhua Group, which currently holds 81.21% of the issued share capital of the Company, a written approval for the Transactions and the proposed cap for 2006. Pursuant to Rule 14A.43 of the Listing Rules, the Company has applied for a waiver from the Stock Exchange to approve the Transactions, which constitute continuing connected transactions of the Company, and the proposed new cap for 2006, on the basis of a written shareholders' approval in lieu of holding a general meeting of the Company.

A circular containing, among other things, further information on the terms of the 2006 Power Purchase Agreements, the Interim Agreements and the proposed new cap for 2006, a letter from the Independent Board Committee and the recommendations from the independent financial adviser, will be issued to the shareholders as soon as possible.

Relationship between the Company's power plants and the Power Purchasers

As disclosed in the Prospectus, one of the Company's indirect subsidiaries, Panshan Power, supplies power generated by it to one of its own substantial equity holders, NCPG. NCPG currently holds a 25% equity interest in Panshan Power and is a subsidiary of the SPGC. Pursuant to Rule 14A.11 of the Listing Rules, NCPG is a connected person of the Company as it is a substantial shareholder of a subsidiary of the Company and accordingly any transaction between NCPG, its Associates (including its holding company, SPGC, its subsidiaries and fellow subsidiaries) and the Group will constitute connected transactions. Similarly, the Company's indirect subsidiary, Sanhe Power and the Company's branch company, Beijing Thermal, also supply power generated by their respective power plants to NCPG.

In addition, power plants of five subsidiaries of the Company, Cangdong Power, Suizhong Power, Guohua Zhunge'er, Zheneng Power and Shenmu Power, supply or will be supplying power generated by them in 2006 to the power grid companies where they are located, namely NCPG, LNEPC, SNEPC and ZEPC. As these power grid companies are all owned or controlled by the same parent company, the SPGC, they are all Associates of a connected person of the Company.

Accordingly, the supply of power by each of the Eight Power Plants, namely Cangdong Power, Panshan Power, Sanhe Power, Beijing Thermal, Suizhong Power, Guohua Zhunge'er, Zheneng Power, and Shenmu Power, to their respective Power Purchasers which are owned or controlled by the SPGC, constitutes continuing connected transactions of the Company.

Historically, the Company's power plants supplied power to the Power Purchasers pursuant to annual power sale and purchase agreements. Each of the Eight Power Plants mentioned above, except Zheneng Power which commenced power generation at the end of 2005 and Cangdong Power which did not generate power in 2005, entered into power purchase agreements with its corresponding Power Purchaser in 2005. The Stock Exchange previously granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements of the Listing Rules in respect of these transactions for the year ended 31 December 2005 at the time of listing of the Company's H shares on the Stock Exchange in June 2005, subject to, among other things, the aggregate value of these transactions not exceeding the annual cap set for them as disclosed in the Prospectus. The aggregate value of these transactions did not exceed the annual cap for 2005 as disclosed in the Prospectus.

Listing Rules Requirements

The Company disclosed in its Prospectus, among other things, that six power plants of the Company, Panshan Power, Sanhe Power, Beijing Thermal, Suizhong Power, Guohua Zhunge'er, and Shenmu Power, supplied power generated by them to the Power Purchasers, who are all connected persons of the Company (as defined under Rule 14A.11 of the Listing Rules), under the 2005 Power Purchase Agreements. The 2005 Power Purchase Agreements expired on 31 December 2005.

Each of the Eight Power Plants has been or will be supplying power to their respective Power Purchasers in 2006 after the expiration of the 2005 Power Purchase Agreements and these transactions constitute continuing connected transactions under Rule 14A.14 of the Listing Rules. Pursuant to Rule 14A.35 (1) of the Listing Rules, power purchase agreements should be entered into between the relevant parties prior to the commencement of the supply of power by the Eight Power Plants in 2006.

The applicable Percentage Ratios for the Transactions in respect of the aggregate values of the supply of power in 2006 will exceed 2.5% on an annual basis. Accordingly, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirement of the Listing Rules pursuant to Rule 14A.35 of the Listing Rules.

Reasons for delay in finalising the 2006 Power Purchase Agreements in 2005

The Company intended, and has used its reasonable endeavours, to finalise power purchase agreements with the Power Purchasers, which are all power grid companies, prior to the expiration of the 2005 Power Purchase Agreements. However, they were only signed on 9 May 2006, for the following reasons:

1. The Company understands that, according to the current plans of the PRC government to restructure the PRC power industry which involves amongst other things, the separation of power generating and power distribution businesses between separate entities, it is expected that power grid companies will withdraw all of their investment and equity interests in power plants in due course. Upon the disposal of their equity interests in the power plants of the Company, transactions between the power plants and the power grid companies will no longer constitute connected transactions. Pending implementation of the restructuring of the PRC power industry, the power grid companies are reluctant to enter into long-term commercial arrangements which would contemplate a continuation of their status as connected persons on the basis of their equity interests in power generating companies.
2. It is the Company's understanding that normally, power grid companies only start considering or negotiating matters in connection with the supply of power with power plants at the beginning of each year and the usual time for entering into new power purchase agreements is around the end of the first quarter of each year at the earliest. The power grid companies have not acceded to the Company's repeated attempts to commence earlier negotiation with a view to more timely finalisation of the formal power purchase agreements. Further, the amount of power allocated to each power grid company will be determined and announced by the relevant government authorities or relevant power grids on a yearly basis around the first quarter of each year, with the exception of Suizhong Power, where the amount of power supplied to its Power Purchaser is determined through competitive bidding, in line with recent PRC government policies. It is the Company's understanding that it is generally difficult to enter into any definitive agreements with power grid companies pending the determination and announcement of the allocated amount of power supply.
3. As disclosed above, one of the Eight Power Plants of one of the Company's indirect subsidiaries, Panshan Power, supplies power generated by it to its 25% minority shareholder, NCPG, which is a power grid company, resulting in the power grid companies in China which are all Associates of NCPG, being connected persons of the Company. Neither the Company nor its controlling shareholder, Shenhua Group, holds any direct or indirect interest in any way in any of the power grid companies. The Company is, therefore, unable to compel the power grid companies to enter into the 2006 Power Purchase Agreements prior to 2006. However, written undertakings were provided by the Power Purchasers on terms similar to the Interim Agreements, to regulate the supply of power by the Eight Power Plants from 1 January 2006 until the 2006 Power Purchase Agreements are entered into.

Based on the unaudited financial information available to the Company currently, the Company estimates that the aggregate value of the ongoing power supply transactions between the Eight Power Plants and the Power Purchasers from 1 January 2006 up to the date hereof has exceeded 2.5% of the applicable Percentage Ratios. However, for the reasons set out above, the Company was unable to comply with the reporting, announcement and independent shareholders' approval requirements of Rule 14A.35 of the Listing Rules immediately after the expiry of the 2005 Power Purchase Agreements.

Nevertheless, the Board believes the delay in finalising the Power Purchase Agreements has not adversely prejudiced its shareholders in any material way since the amount and price of power supplied to the power grid companies are all determined in accordance with relevant regulations of the PRC government and the purchase of electricity by power grids is increasingly subject to the objective process of competitive bidding. Being power grid companies, the Power Purchasers are also, by virtue of the nature of their business, the main if not sole customer for the purchase of power generated by the Eight Power Plants.

Terms of the 2006 Power Purchase Agreements

The principal terms and conditions of the 2006 Power Purchase Agreements are substantially the same apart from some minor differences on matters such as the methods and time for settlement of payments. They are entered into by Beijing Thermal, Cangdong Power, Guohua Zhunge'er, Panshan Power, Sanhe Power and Zheneng Power with their respective Power Purchasers and are for periods of 1 year commencing from 1 January 2006. The principal terms of these agreements are summarised as follows:

1. the price of power supplied to the relevant Power Purchasers is determined and adjusted pursuant to the regulations of the PRC government; and
2. the total amount of power purchased is regulated by the relevant authorities under the principle of equality between all power suppliers and each Power Purchaser.

Terms of the Interim Agreements

Shenmu Power and Suizhong Power were unable to sign definitive power purchase agreements in time with their respective Power Purchasers as a result of the difficulties of finalising such agreements as mentioned in the section headed "Reasons for delay in finalising the 2006 Power Purchase Agreements in 2005" above. To comply with the Listing Rules, the Company has adopted interim measures within its control to implement interim arrangements for the ongoing purchase of the power generated by Shenmu Power and Suizhong Power following the expiry of the 2005 Power Purchase Agreements on 31 December 2005, until the finalisation of their respective power purchase agreements in 2006. The relevant Power Purchasers of Shenmu Power and Suizhong Power gave written undertakings to regulate their purchase of power with effect from 1 January 2006 to the date on which definitive power purchase agreements are signed for the full year. Under these undertakings, the power purchases and sales prior to the finalisation of the definitive power purchase agreements are conducted on substantially the same terms as the 2005 Power Purchase Agreements.

The terms of these undertakings are all similar in content and the principal terms are summarised below:

1. the power purchases and sales in 2006 will continue to be conducted pursuant to the terms of the 2005 Power Purchase Agreements (save in respect of the quantity and price of the power supply and duration of the agreement) until the execution of the new definitive power purchase agreements in 2006; and
2. the Power Purchasers will provide monthly power supply schedules to the power plants starting from January 2006 and Shenmu Power and Suizhong Power shall supply power to their respective Power Purchaser in accordance with the power supply schedule and the pricing as determined in accordance with relevant government policies.

The Directors consider that the terms of the 2006 Power Purchase Agreements and Interim Agreements have been arrived at after arm's length negotiation and are conducted on normal commercial terms and are fair and reasonable so far as the shareholders are concerned and are in the interest of the Company as a whole.

Cap

The Directors have also been monitoring the values of these continuing connected transactions since 1 January 2006. The values of these continuing connected transactions in 2003, 2004 and 2005 were RMB6,691.4 million, RMB7,519.7 million and RMB7,843 million respectively. The cap set for 2005 was RMB17,919 million. With the Group's expected continued business expansion and based on internal estimates of future demand for the power supply by the Eight Power Plants, the Directors have set a cap for 2006 for the Transactions at RMB19,100 million. This cap marks an increase of approximately 143.5% from the value of these transactions of RMB7,843 million in 2005. In calculating the increase in the caps from the historical figures, the Company has taken into account the increasing trend of the price of power due to the introduction of new policies indexing the price of power to that of coal and the expected commencement of operations of some of our new power generating units in 2006. Three new generating units of Zheneng Power, each with an installed capacity of 600MW, are expected to commence operations in May, September and December this year, respectively. A new generating unit of Zheneng Power, also with an installed capacity of 600MW, has commenced power generation in December 2005 and will continue to generate power throughout 2006. Two new generating units of Cangdong Power, each with an installed capacity of 600MW, are also expected to commence operations in July and December this year, respectively. This will increase the total installed capacity of the power plants of the Company which supply power to NCPG and its associates (4,760MW in 2005) significantly in 2006. In addition, the power plants of the Company have generally improved generation efficiency to further increase their rate of utilisation while reducing the rate of self-consumption, thereby resulting in a greater amount of power available for supply to the Power Purchasers.

Information on the Power Purchasers

The principal business activity of the Power Purchasers is the operation of power grids.

Please refer to the section headed "Relationship between the Company's power plants and the Power Purchasers" above for the relationship of the Power Purchasers with SPGC, which is an Associate of a connected person of the Company, since NCPG is a subsidiary of SPGC and NCPG is a substantial shareholder of Panshan Power, a subsidiary of the Company.

Business for 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 produces thermal coal and purchases coal from third parties for coal blending and resale.

Reasons for and benefits of entering into the Transactions

The Transactions are conducted in the normal course of business of the Group. According to relevant regulations and governmental policies, the price and amount of the power supply are all determined and adjusted pursuant to the regulations of the PRC authorities. In the circumstances, the Directors believe that no preferential treatment in favour of the connected persons will arise. As disclosed above, the Power Purchasers, as power grid companies, are the main if not sole customers of power generated by the Eight Power Plants.

General

The Power Purchasers are connected persons of the Company. Accordingly, the Transactions constitute continuing connected transactions of the Company under the Listing Rules. As the applicable Percentage Ratios exceed 2.5%, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of these continuing connected transactions and an independent financial adviser will be appointed to advise the Independent Board Committee on the same.

A circular containing, among other things, further information on the terms of the 2006 Power Purchase Agreements, the Interim Agreements and new cap for 2006, a letter from the Independent board Committee and the recommendations of the independent financial adviser, will be issued to the shareholders as soon as possible.

No shareholder of the Company is required to abstain from voting in the general meeting of the Company for approving the Transactions and the new cap as the connected persons in the Transactions, namely NCPG and its Associates, are connected persons solely by virtue of their interest in a subsidiary of the Company and not in the Company itself. The Company has obtained from Shenhua Group, which currently holds 81.21% of the issued share capital of the Company, written approval of the Transactions and the proposed new cap. Pursuant to Rule 14A.43 of the Listing Rules, the Company has applied for a waiver from the Stock Exchange to approve the Transactions, which constitute continuing connected transactions of the Company, and the proposed new cap for 2006, by way of a written independent shareholders' approval in lieu of holding a general meeting of the Company.

Definitions

“Associate”	has the meaning ascribed thereto under the Listing Rules;
“Beijing Thermal”	中電國華電力股份有限公司北京熱電分公司 (CLP Guohua Beijing Thermal Power Branch);
“Cangdong Power”	河北國華滄東發電有限責任公司 (Hebei Guohua Cangdong Power Generation Company);
“Company”	中國神華能源股份有限公司 (China Shenhua Energy Company Limited);
“Directors”	the directors of the Company, including the executive, non-executive and independent non-executive directors of the Company;
“Eight Power Plants”	Cangdong Power, Panshan Power, Sanhe Power, Beijing Thermal, Suizhong Power, Guohua Zhunge'er, Zheneng Power and Shenmu Power, all being subsidiaries or branch companies of the Company;
“Group”	the Company and its subsidiaries;
“Guohua Zhunge'er”	內蒙古國華准格爾發電有限責任公司 (Inner Mongolia Guohua Zhunge'er Power Generation Company);

“Independent Shareholders”	all shareholders of the Company;
“LNEPC”	遼寧省電力有限公司(Liaoning Electric Power Company Limited);
“Interim Agreements”	the agreements entered into by Suizhong Power and Shenmu Power with their respective Power Purchasers to regulate the supply of power in 2006;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“NCPG”	華北電網有限責任公司(North China Power Grid Co., Ltd), a state owned enterprise which is owned or controlled by SPGC;
“Panshan Power”	天津國華盤山發電有限責任公司(Tianjin Guohua Panshan Power Generation Company);
“Percentage Ratios”	percentage ratios as defined under Rule 14.04(9) of the Listing Rules;
“2005 Power Purchase Agreements”	the power purchase agreements entered into by each of the Eight Power Plants (except for Zheneng Power which commenced operation at the end of 2005 and Candong Power which did not generate power in 2005) with their respective Power Purchasers, in relation to the supply of power for the year ended 31 December 2005;
“2006 Power Purchase Agreements”	the new formal power purchase agreements entered into by six of the Eight Power Plants of the Company with their respective Power Purchasers, in relation to the supply of power in 2006;
“ Power Purchaser(s)”	each of the power grid companies, namely NCPG, LNEPC, SNEPC and ZEPC, which is owned or controlled by SPGC and to which each of the Eight Power Plants supply power;
“Prospectus”	the prospectus of the Company dated 2 June 2005 in relation to the listing of its H shares on the Stock Exchange;
“Sanhe Power”	三河發電有限責任公司(Sanhe Power Company Limited);
“Shenhua Group”	神華集團有限責任公司(Shenhua Group Corporation Limited);
“Shenmu Power”	中電國華神木發電有限公司(CLP Guohua Shenmu Power Company Limited);
“SPGC”	國家電網公司(State Power Grid Corporation);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“SNEPC”	陝西省電力公司(Shanxi Electric Power Company);
“Suizhong Power”	Suizhong Power Company Limited;

“Transactions”	the supply of power by the Eight Power Plants to the Power Purchasers in 2006 pursuant to the 2006 Power Purchase Agreements and Interim Agreements (as appropriate);
“ZEPC”	浙江省電力公司(Zhejiang Electric Power Company); and
“Zheneng Power”	浙江國華浙能發電有限公司(Zhejiang Guohua Zheneng Power Company Limited)

By order of the Board
China Shenhua Energy Company Limited
Chen Biting
Chairman

Beijing, 9th May 2006

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

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