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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**

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders**



SOMERLEY LIMITED

A letter from the board of the Company is set out on pages 4 to 11 of this circular and a letter from the independent board committee of the Company, containing its recommendation to the independent shareholders of the Company, is set out on page 12 of this circular. A letter from Somerley Limited containing its advice is set out on pages 13 to 19 of this circular.

30 May 2006

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DEFINITIONS

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

“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;
“Associates”	shall have the meaning given to it in 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);
“Board”	the board of Directors;
“Cangdong Power”	河北國華滄東發電有限責任公司 (Hebei Guohua Cangdong Power Generation Company);
“Cap”	the proposed cap for the Transactions for the year ending 31 December 2006 as set out in the section headed “Cap for the Transactions” of this Circular;
“Circular”	this circular dated 30 May 2006 issued by the Company in relation to the Transactions;
“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;
“Eight Power Plants”	Cangdong Power, Panshan Power, Sanhe Power, Beijing Thermal, Suizhong Power, Guohua Zhunge’er, Zheneng Power and Shenmu Power, all being subsidiaries of the Company;
“Group”	the Company and its subsidiaries;

DEFINITIONS

“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);
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	an independent committee of the Board comprising Messrs. Huang Yicheng, Anthony Francis Neoh and Chen Xiaoyue;
“Independent Financial Adviser”	Somerley Limited, the independent financial adviser advising the Independent Board Committee and Independent Shareholders in respect of the Transactions and the Cap;
“Independent Shareholders”	all shareholders of the Company;
“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;
“Latest Practicable Date”	26 May 2006, being the latest practicable date prior to the printing of this circular on which certain information contained herein could be ascertained;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“LNEPC”	遼寧省電力有限公司 (Liaoning Electric Power Company Limited);
“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;
“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;

DEFINITIONS

“PRC”	the People’s Republic of China;
“Prospectus”	the prospectus dated 2 June 2005 published by the Company in accordance with the Listing Rules for the purpose of its listing in Hong Kong;
“RMB”	the lawful currency of the PRC;
“Sanhe Power”	三河發電有限責任公司 (Sanhe Power Company Limited);
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	holder(s) of Share(s);
“Shares”	share(s) of RMB1.00 each in the capital of the Company;
“Shenhua Group”	神華集團有限責任公司 (Shenhua Group Corporation Limited), the sole promoter and controlling shareholder of the Company;
“Shenmu Power”	中電國華神木發電有限公司 (CLP Guohua Shenmu Power Company Limited);
“SNEPC”	陝西省電力公司 (Shaanxi Electric Power Company);
“SPGC”	國家電網公司 (State Power Grid Corporation);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“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).

LETTER FROM THE BOARD



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)

Executive Directors:

Chen Biting
Wu Yuan
Ling Wen

Non-executive Directors:

Zhang Xiwu
Zhang Yuzhuo
Han Jianguo

Independent Non-executive Directors:

Huang Yicheng
Anthony Francis Neoh
Cheng Xiaoyue

Registered Office:

Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, PRC

30 May 2006

To the shareholders

Dear Sir or Madam,

2006 POWER PURCHASE AGREEMENTS AND INTERIM AGREEMENTS CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 9 May 2006 in relation to the Power Purchase Agreements and Interim Agreements. 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.

Under the Listing Rules, the percentage ratio in relation to the revenue test applicable to the Transactions for the year ending 31 December 2006 exceeds 2.5%. Accordingly, pursuant to Rule 14A.35(4) of the Listing Rules, the Company must comply with the Independent

LETTER FROM THE BOARD

Shareholders' approval requirements as set out in Rule 14A.48 of the Listing Rules as well as the reporting and announcement requirements in Rules 14A.45 to 14A.47 of the Listing Rules in respect of the Transactions. 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.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Transactions and the annual Cap for 2006. The Independent Financial Adviser has been appointed as independent financial adviser to the Independent Board Committee and to the Independent Shareholders to advise the Independent Board Committee and the Independent Shareholders on the same.

The main purpose of this circular is to provide you with, among other things, (i) further information relating to the Transactions and the annual Cap for 2006; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iii) the letter of recommendation from the Independent Board Committee.

BACKGROUND

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,

LETTER FROM THE BOARD

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.

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, all of them being 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, these 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 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

LETTER FROM THE BOARD

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. 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 Latest Practicable Date 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.

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Nevertheless, the Board (including all the independent non-executive directors) 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 Agreement 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

LETTER FROM THE BOARD

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 FOR THE TRANSACTIONS

The actual values of the supply of power by the Company's power plants to NCPG and its Associates for the years ended 31 December, 2003 to 2005, the original cap set for 2005 and the annual Cap proposed by the Company for the year ending 31 December 2006 are as follows:

Year ended 31 December, 2003 <i>(RMB million)</i>		Year ended 31 December, 2004 <i>(RMB million)</i>		Year ended 31 December, 2005 <i>(RMB million)</i>		Year ending 31 December, 2006 <i>(RMB million)</i>	
Actual value	Annual cap	Actual value	Annual cap	Actual value	Annual cap	Actual value	Proposed Annual cap
6,691.4	N/A	7,519.7	N/A	7,843.0	17,919.0	N/A	19,100.0

The Directors have 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 Cap 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 the Company's 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

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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.

REASONS FOR ENTERING INTO AND BENEFITS OF 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.

DISCLOSURE AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Pursuant to the Listing Rules, entering into the Transactions and adopting the annual Cap for 2006 are subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Rules 14A.45 to 14A.48. 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.

ADDITIONAL DISCLOSURE

Information on 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.

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 "Background" 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.

LETTER FROM THE BOARD

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Transactions and the annual Cap for 2006, and Somerley Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The Independent Financial Adviser considers that the terms of the 2006 Power Purchase Agreements and the Interim Agreements and the annual Cap for 2006 proposed are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the 2006 Power Purchase Agreements and the Interim Agreement are, in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from the Independent Financial Adviser containing its recommendation are set out on pages 13 to 19 of this circular.

The Independent Board Committee, having taken into account and based on the recommendation of the Independent Financial Adviser as set out on pages 13 to 19 of this circular, considers that the 2006 Power Purchase Agreements and the Interim Agreements are conducted on normal commercial terms and have been entered into in the ordinary and usual course of business of the Group and the proposed annual Cap for the Transactions in 2006 and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Transactions is, in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the Transactions and the proposed annual Cap for 2006 if a shareholders' meeting is required to be held.

Yours faithfully,
for and on behalf of the Board
Chen Biting
Chairman



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)

30 May 2006

To: The Independent Shareholders

Dear Sirs/Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the Independent Board Committee to advise you in connection with the Transactions. We wish to draw your attention to the letter from Somerley Limited as set out on pages 13 to 19 of this Circular. Terms defined in this Circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the information set out in the letter from the Board, the Transactions, the proposed annual Cap for 2006 in relation to the Transactions and the advice of Somerley Limited in relation thereto, we are of the view that the Transactions are conducted on normal commercial terms and were entered into in the ordinary and usual course of business of the Group, the terms of the Transactions and the proposed annual Cap for 2006 are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Transactions is in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the Transactions and the proposed annual Cap for 2006 if a shareholders' meeting is required to be held.

Yours faithfully,

for and on behalf of the Independent Board Committee

Mr. Huang Yicheng

Dr. Chen Xiaoyue **Mr. Anthony Francis Neoh**
Independent Non-executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY LIMITED

Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 May 2006

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE 2006 POWER PURCHASE AGREEMENTS AND INTERIM AGREEMENTS

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the Transactions in relation to the supply of power by the Eight Power Plants to their respective Power Purchasers, for which the Independent Shareholders' approval is being sought subject to the Cap. Details of the Transactions and the Cap are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 30 May 2006 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 9 May 2006, six of the Eight Power Plants entered into the 2006 Power Purchase Agreements and the remaining two of the Eight Power Plants entered into the Interim Agreements with their respective Power Purchasers to regulate the supply of power. The Power Purchasers comprise power grid companies, namely, NCPG, LNEPC, SNEPC and ZEPC, which are owned or controlled by SPGC. As at the Latest Practicable Date, NCPG was a 25% substantial shareholder of Panshan Power which is an indirect subsidiary of the Company. By virtue of its substantial shareholding in Panshan Power, NCPG is considered a connected person of the Company and the other Power Purchasers are Associates of NCPG. Accordingly, the Transactions constitute continuing connected transactions for the Company under the Listing Rules. The Company was granted a waiver (the "Waiver") by the Stock Exchange from strict compliance with the relevant requirements in Chapter 14A of the Listing Rules in respect of the Transactions for the year ended 31 December 2005 at the time of the Company's initial public offering on 15 June 2005. As the Company anticipates that the applicable Percentage Ratios for the Transactions in respect of the year ending 31 December 2006 will exceed 2.5% on an annual basis, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirement pursuant to Rules 14A.35 of the Listing Rules.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

No shareholder of the Company is required to abstain from voting in the general meeting of the Company for approving the Transactions and the Cap as the connected persons in the Transactions, namely NCPG and its Associates, are connected persons solely by virtue of their interests 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, the written approval of the Transactions and the Cap. The Company has applied for a waiver from the Stock Exchange to approve the Transactions and the Cap by way of a written independent shareholders' approval in lieu of holding a general meeting of the Company.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Mr. Chen Xiaoyue, has been established to make a recommendation to the Independent Shareholders as regards whether the Transactions are in the ordinary and usual course of business, the terms of the 2006 Power Purchase Agreements and the Interim Agreements are on normal commercial terms and fair and reasonable, the Cap is fair and reasonable in so far as the Independent Shareholders are concerned and the entering into of the 2006 Power Purchase Agreements and the Interim Agreements is in the interests of the Company and the Shareholders as a whole. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the date of the Circular. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Transactions and the Cap are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to the Transactions and reasons for the 2006 Power Purchase Agreements and the Interim Agreements

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. At as 31 December 2005, the Group operates a total of 9 power plants (of which 8 are the Eight Power

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Plants) in various provinces in the PRC, with total installed capacity of approximately 6,560 MW and gross power generation of approximately 39.21 billion kwh. Power supplied by the respective power plants, after those required for self consumption, are sold to the power grid companies for onward supply to ultimate users. The Power Purchasers are the respective power grid companies for the Eight Power Plants and the main, if not sole, customer of the Eight Power Plants. Previously, the Company's power plants (except Zheneng Power which only commenced power generation at the end of 2005 and Cangdong Power which did not generate power in 2005) supplied power to the Power Purchasers pursuant to annual power sale and purchase agreements. The 2006 Power Purchase Agreements were entered into with a view to regulating the relationship between the Group and the Power Purchasers on the aforesaid transactions after the expiry of the 2005 Power Purchase Agreements. The Interim Agreements were entered into as interim arrangements for the ongoing purchase of the power generated by Shenmu Power and Suizhong Power by the relevant Power Purchasers following the expiry of the 2005 Power Purchaser Agreements until the finalisation of the new power purchase agreements in 2006.

In light of the respective principal activities of the Group and the Power Purchasers, we consider that the Transactions are entered into in the ordinary and usual course of business of the Group and the Power Purchasers. The 2006 Power Purchaser Agreements and the Interim Agreements also serve to regulate the business relationship with the Power Purchasers as the main or sole customer for the respective Eight Power Plants and are in the interests of the Group and the Shareholders as a whole.

2. Principal terms of the Transactions

(i) the 2006 Power Purchase Agreements

The principal terms and conditions of each of the 2006 Power Purchase Agreements are substantially the same, apart from some minor differences on matters such as the methods and timing for settlement of payments. Each of the 2006 Power Purchase Agreements is for a period of one year commencing from 1 January 2006. Pursuant to the terms of the 2006 Power Purchase Agreements, the price of power supplied to the relevant Power Purchasers is determined and adjusted according to the regulations of the PRC government.

(ii) the Interim Agreements

Under the Interim Agreements, the Power Purchasers have undertaken that the terms for the power to be purchased from Shenmu Power and Suizhong Power in 2006 shall continue to be conducted in accordance with 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 new definitive power purchase agreements in 2006. We have reviewed the 2005 Power Purchase Agreements and noted that the price of power supplied is determined and adjusted according to the regulations of the PRC government.

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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, save for Suizhong Power of which the amount of power supplied is determined through competitive bidding, which is in line with recent PRC government policies.

As a condition to the Waiver, the auditors of the Company have performed review of the Transactions for the year ended 31 December 2005 (the “Past Transactions”). We have reviewed the report issued by the auditors of the Company on such review and noted that they have confirmed that nothing has come to their attention to suggest that the Past Transactions were not conducted in accordance with the terms of the 2005 Power Purchase Agreements or the Group’s pricing policies. Based on the auditors’ review and given that the price of power is regulated by and fixed in accordance with the pricing policies promulgated by the relevant PRC authorities from time to time which is uniform to all power plants in the same district, we consider that the Past Transactions were conducted on normal commercial terms which were no less favourable to the Group than those offered to independent third parties.

Based on the above, we consider that the terms of the 2006 Power Purchase Agreements and the Interim Agreements, which allow the Group to supply power to the Power Purchasers on terms no less favourable to the Group than to independent third parties, are fair and reasonable.

3. The Cap

The Transactions are subject to the Cap whereby for the year ending 31 December 2006, the value of the Transactions will not exceed RMB19,100 million.

In assessing the reasonableness of the Cap, we have discussed with the management of the Company the basis and underlying assumptions for projection of the expected increase in the price of power to be supplied to the Power Purchasers, the anticipated growth in the Group’s power generating capacity and the historical data of power supply to the Power Purchasers for the purpose of setting the Cap.

Set out below are the total sales of power by the Group to the Power Purchasers for each of the financial years ended 31 December 2003, 2004 and 2005:

	Year ended 31 December		
	2003	2004	2005
	<i>(RMB</i>	<i>(RMB</i>	<i>(RMB</i>
	<i>million)</i>	<i>million)</i>	<i>million)</i>
Total sales of power to the Power Purchasers	6,691.4	7,519.7	7,843.9
Percentage change		+12.4%	+4.3%

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The increase in the sales value of power supplied to the Power Purchasers in 2004 as compared with 2003 was attributable to the approximately 11.4% increase in the amount of power sold, as well as the increase in weighted average on-grid tariff by approximately 6.2%. The 4.3% increase in the total sales of power in 2005 was largely due to the rise in the on-grid tariff as regulated by the relevant PRC authorities and the approximately 2.0% decrease in the amount of power sold in 2005 compared with 2004.

In estimating the total supply of power to the Power Purchasers for the purpose of setting the Cap for the year ending 31 December 2006, the management of the Company has taken into account the additional power generating capacity of the Eight Power Plants in 2006. The management expects that three new power generating units of Zheneng Power, each with an installed capacity of 600 MW, will commence operations in May, September and December in 2006. Two new power generating units of Cangdong Power, each with an installed capacity of 600 MW, are also expected to commence operations in July and December 2006. With these new power generating units, the management estimates that the total power generating capacity and output dispatch of the Eight Power Plants will substantially increase. The weighted average on-grid tariff of electricity has also continued to rise in the last few years, recording increases of approximately 6.2% in 2004 and 7.3% in 2005. The adjustments varied among power plants in different provinces, ranging from approximately 2.8% to 9.1% in 2005. Such increase was principally driven by the increasing demand of electricity and coal prices in China. In addition, the respective power generating units of the Eight Power Plants have improved their operation efficiency, resulting in a reduced level of self consumption of power and more power available for sale. Taking into account all the above factors, the Cap for 2006 is set at RMB19,100 million. Despite such Cap represents an increase in value of approximately 143.5% from the actual sales in 2005, the amount of power to be supplied to the Power Purchasers used in the estimation of the Cap represents approximately 78.9% of the maximum saleable power generated by the Eight Power Plants. Such ratio is approximately 6 percentage points higher than the actual sales amount to the maximum saleable power generated in 2005, which in our view reflects partly the expected improvement in the operation efficiency of the power generating units and partly the potential growth in amount of power to be sold. The average on-grid tariff used in the Cap, on the other hand, represents an approximately 37% increment over that of 2005. Given that the power industry is a regulated industry in China and the on-grid tariff is subject to adjustments by the relevant PRC authority, we consider the Cap provides a comfortable buffer to cater for future upward adjustments in tariff which is not within the control of the Group. The Cap also provides for allowances should the demand for power by the Power Purchasers continue to grow within the capacity of the Eight Power Plants and the five new power generating units of the Eight Power Plants commence operations earlier than expected.

Having considered the basis on which the Cap is determined as described above, we are of the view that the Cap is fair and reasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

4. Conditions of the Transactions

The conduct of the Transactions are subject to a number of conditions which include, among other things:

- (i) the Cap for power supply to the Power Purchasers for the year ending 31 December 2006 will not exceed RMB19,100 million;
- (ii) the independent non-executive Directors must review the Transactions and confirm in the Company's annual report and accounts that the Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are no normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review the Transactions and they will confirm the same in a letter to the Directors (a copy of which letter will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) in respect of the year ending 31 December 2006, during which the Transactions have been conducted;
- (iv) the Company will allow and will procure that the Power Purchasers will provide the auditors of the Company with sufficient access to the relevant records of the Transactions for the purpose of the auditors' review as referred to in paragraph (iii) above. The Board must state in the annual report whether its auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (v) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the Transactions exceeds the Cap, or that there is any material amendment to the terms of the 2006 Power Purchase Agreements and the Interim Agreements.

In light of the conditions attached to the conduct of the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Cap; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Transactions and the Cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Transactions and safeguard the interests of the Independent Shareholders.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

OPINION

Having taking into account the above principal factors, we consider that the Transactions are in the ordinary and usual course of business of the Group and the terms of the 2006 Power Purchase Agreements and the Interim Agreements are on normal commercial terms. We also consider that the terms of the 2006 Power Purchase Agreements, the Interim Agreements and the Cap are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the 2006 Power Purchase Agreements and the Interim Agreements is in the interests of the Company and the Shareholders as a whole.

The Company has obtained from Shenhua Group the written approval of the Transactions and the Cap, and has applied for a waiver from the Stock Exchange to approve the Transactions and the Cap by way of a written independent shareholders' approval in lieu of holding a general meeting of the Company. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Transactions and the Cap, we would recommend the Independent Shareholders to vote in favour of the resolution to approve the Transactions and the Cap.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Beatrice Lung
Director – Corporate Finance

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date:

- 2.1 none of the Directors or chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors has any direct or indirect interest in any assets which have since 31 December, 2005 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- 2.3 none of the Directors or any of their respective associates has interests in the businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, and so far as is known to the Directors and chief executive of the Company, the following persons had the following interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in ten per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Interests in the Company

Name of shareholder	Capacity	H/domestic shares	Nature of interest	Number of H/domestic shares held	Percentage of H/domestic shares over all issued shares respectively (%)	Percentage of total share capital of the Company (%)
Shenhua Group	Beneficial owner	Domestic	Long Position	14,691,037,955	100.00	81.21
JP Morgan Chase & Co	Beneficial owner	H	Long Position	55,615,250	1.64	0.31
	Investment manager		Long Position	96,931,000	2.85	0.54
	Lending Pool		Long Position	116,641,792	3.43	0.64
	Physically settled unlisted derivatives		Long Position	10,789,250	0.32	0.06
Kerry Group Limited ¹	Interest of controlled corporation	H	Long Position	138,750,350	4.08	0.77
AllianceBernstein L.P. (Formerly know as Alliance Capital Management L.P.) ²	Interest of controlled corporation	H	Long Position	293,545,680	8.64	1.62

APPENDIX
GENERAL INFORMATION

Name of shareholder	Capacity	H/domestic shares	Nature of interest	Number of H/domestic shares held	Percentage of H/domestic shares over all issued shares respectively	Percentage of total share capital of the Company
					(%)	(%)
Genesis Fund Managers, LLP	Investment manager	H	Long Position	204,000,500	6.00	1.13
China International Capital Corporation Limited ³	Interest held jointly with another	H	Long Position	124,442,500	3.66	0.69
China Jianyin Investment Limited ⁴	Interest of controlled corporation	H	Long Position	124,442,500	3.66	0.69
China Safe Investment Limited ⁵	Interest of controlled corporation	H	Long Position	124,442,500	3.66	0.69
Deutsche Bank Aktiengesellschaft ⁶	Interest held jointly with another	H	Long Position	128,966,500	3.79	0.71
Merrill Lynch & Co., Inc. ⁷	Interest of controlled corporation	H	Long Position	212,212,723	6.24	1.17
	Physically settled unlisted derivatives		Long Position	18,600,000	0.55	0.10
Merrill Lynch Far East Limited ⁸	Interest held jointly with another	H	Long Position	124,442,500	3.66	0.69
Morgan Stanley ⁹	Interest held jointly with another	H	Long Position	130,577,500	3.84	0.72

APPENDIX
GENERAL INFORMATION

Name of shareholder	Capacity	H/domestic shares	Nature of interest	Number of H/domestic shares held	Percentage of	Percentage of total share capital of the Company
					H/domestic shares over all issued shares respectively (%)	
Kerry Holdings Limited ¹⁰	Interest of controlled corporation	H	Long Position	207,582,000	6.11	1.15
Merrill Lynch International	Other(s)	H	Long Position	59,180,000	1.74	0.33
			Short Position	518,705,000	15.26	2.87
Taurus Investments SA ¹¹	Beneficial owner	H	Long Position	155,612,000	4.58	0.86
Merrill Lynch (Asia Pacific) Limited ¹²	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87
Merrill Lynch (Asia Pacific) Limited	Physically settled unlisted derivatives controlled corporation	H	Long Position	459,525,000	13.52	2.54
Merrill Lynch Europe Intermediate Holdings ¹³	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87
Merrill Lynch Europe PLC ¹⁴	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87

APPENDIX
GENERAL INFORMATION

Name of shareholder	Capacity	H/domestic shares	Nature of interest	Number of H/domestic shares held	Percentage of	Percentage of total share capital of the Company
					H/domestic shares over all issued H/domestic shares respectively (%)	
Merrill Lynch Holdings Limited ¹⁴	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87
Merrill Lynch International Holdings Inc. ¹⁵	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87
Merrill Lynch International Holdings Inc.	Physically settled unlisted derivatives controlled corporation	H	Long Position	459,525,000	13.52	2.54
			Short Position	459,525,000	13.52	2.54
Merrill Lynch International Incorporated	Physically settled unlisted derivatives controlled corporation	H	Long Position	459,525,000	13.52	2.54
			Short Position	459,525,000	13.52	2.54
Merrill Lynch International Incorporated ¹⁶	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87
ML UK Capital Holdings ¹⁷	Interest of controlled corporation	H	Long Position	518,705,000	15.26	2.87
			Short Position	518,705,000	15.26	2.87

- Note 1:* Kerry Group Limited controls 100% of Kerry Holdings Limited which in turn, directly controls 35%, 100%, 100%, 100%, 44.14% and 100% interests in Perfex Overseas Limited, Aim High Profits Limited, Beat All International Limited, Bright Side International Limited, Kerry Asset Management Limited and Velmar Company Limited respectively. As at the Latest Practicable Date, Kerry Group Limited is deemed through its interest in Kerry Holdings Limited to have a long position in respect of an aggregate of 138,750,350 H shares of the Company held by Kerry Holdings Limited and the companies mentioned above in which Kerry Holdings Limited has a controlling interest.
- Note 2:* AllianceBernstein L.P. holds 100% interests in AllianceBernstein Corporation of Delaware, AllianceBernstein Ltd, AllianceBernstein Investment Management Australia Limited and AllianceBernstein (Singapore) Ltd, and 50% interests in AllianceBernstein Australia Limited, AllianceBernstein New Zealand Limited and New-Alliance Asset Management (Asia) Limited, and is accordingly deemed to have a long position in 293,545,680 H shares of the Company held by these companies.
- Note 3:* The interests of China International Capital Corporation Limited are held jointly with Merrill Lynch Far East Limited and Deutsche Bank AG, Hong Kong Branch.
- Note 4:* China International Capital Corporation Limited is 43.35% directly controlled by China Jiayin Investment Limited. China Jiayin Investment Limited is therefore deemed to have a long position of 124,442,500 H shares of the Company through China International Capital Corporation Limited.
- Note 5:* China Jiayin Investment Limited is an indirect wholly-owned subsidiary of China Safe Investment Limited and therefore is deemed to have a long position of 124,442,500 H shares of the Company through China International Capital Corporation Limited (which is 43.35% directly controlled by China Jiayin Investment Limited).
- Note 6:* The interests of Deutsche Bank Aktiengesellschaft are held jointly with Merrill Lynch Far East Limited and China International Capital Corporation Limited.
- Note 7:* Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Merrill Lynch & Co., Inc and it also holds an interest in 322 H shares of the Company.
- Merrill Lynch & Co., Inc. is deemed to have an interest in 24,138,501 H shares of the Company through its direct and indirect controlling interests in the following companies: Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc, Merrill Lynch Europe PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings, Merrill Lynch International.
- Merrill Lynch & Co., Inc is also deemed to have an interest in 188,073,900 H shares of the Company through its direct and indirect controlling interests in the following companies: Merrill Lynch Group, Inc, ML Invest, Inc, ML Invest Holdings Ltd, Merrill Lynch Investment Managers Group Ltd and Merrill Lynch Investment Managers Ltd (on behalf of discretionary clients).
- Merrill Lynch & Co., Inc is therefore deemed to hold a long position in 212,212,723 H shares of the Company.
- Note 8:* The interests of Merrill Lynch Far East Limited are held jointly with China International Capital Corporation Limited and Deutsche Bank AG, Hong Kong Branch.
- Note 9:* Morgan Stanley is deemed to have an interest in 130,577,500 H shares of the Company through its direct and indirect controlling interests in the following companies: Morgan Stanley Capital Management L.L.C., Morgan Stanley Domestic Capital, Inc., Morgan Stanley International Incorporated, Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley & Co International Limited, Morgan Stanley & Co. Incorporated and China International Capital Corporation Limited.
- Note 10:* Kerry Holdings Limited controls a 35% interest in Perfex Overseas Limited and Toprange Investments Limited respectively, and a 44.14% interest in Kerry Asset Management Limited. As at 31 December 2005, Kerry Holdings Limited has a long position in an aggregate amount of 207,582,000 H shares of the Company, of which 103,741,000 H shares of the Company are held by Perfex Overseas Limited, 103,741,000 H shares of the Company are held by Toprange Investments Limited and 100,000 H shares of the Company are held by Kerry Asset Management Limited.

Note 11: Taurus Investments SA is a wholly owned subsidiary of Anglo American PLC which holds an indirect interest in the 155,612,000 H shares of the Company through Taurus Investments SA.

Note 12: Merrill Lynch Far East Limited is a wholly owned subsidiary of Merrill Lynch (Asia Pacific Limited) and Merrill Lynch Far East Limited has an interest in 518,705,000 H Shares of the Company in short position and 518,705,000 H Shares of the Company in long position.

Note 13: Merrill Lynch Europe Intermediate Holdings has a 100% interest in Merrill Lynch Holdings Limited which in turn has a 100% interest in ML UK Capital Holdings. ML UK Capital Holdings has a 97.2% interest in Merrill Lynch International which has a long position in 518,705,000 H shares and a short position in 518,705,000 H shares, of the Company.

Note 14: Merrill Lynch Europe PLC has a 100% interest in Merrill Lynch Europe Intermediate Holdings which in turn has a 100% interest in Merrill Lynch Holdings Limited. Merrill Lynch Holdings Limited has a 100% interest in ML UK Capital Holdings which in turn has a 97.2% interest in Merrill Lynch International. Merrill Lynch International has a short position in 518,705,000 H shares and a long position in 518,705,000 H shares, of the Company.

Note 15: Merrill Lynch International Holdings Inc. is deemed to have a short position in 518,705,000 H shares and a long position in 518,705,000 H shares, of the Company through its direct and indirect controlling interests in the following companies: Merrill Lynch (Asia Pacific) Limited, Merrill Lynch Far East Limited, Merrill Lynch Europe PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings and Merrill Lynch International.

Note 16: Merrill Lynch International Incorporated is deemed to have a long position in 518,705,000 H shares and a short position in 518,705,000 H shares, of the Company through its direct and indirect controlling interests in the following companies: Merrill Lynch International Holdings Inc., Merrill Lynch (Asia Pacific) Limited, Merrill Lynch Far East Limited, Merrill Lynch International Holdings Inc., Merrill Lynch PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings.

Note 17: ML UK Capital Holdings holds an interest of 97.2% in Merrill Lynch International which has a short position in 518,705,000 H shares and a long position in 518,705,000 H shares, of the Company.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, no other person had any interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10 per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

4. EXPERT

- 4.1 The following are the qualifications of the professional adviser who has given the Company an opinion or provided advice referred to or contained in this circular:

Name	Qualifications
Somerley Limited	A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO.

- 4.2 As at the Latest Practicable Date, the Independent Financial Adviser has no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.
- 4.3 The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they respectively appear.
- 4.4 As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Company were made up.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into, with any member of the Group, a service agreement which is not terminable within one year without payment of compensation (other than statutory compensation).

6. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the articles of association of the Company, at any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is demanded, before

or after any vote by show of hands. A poll can be demanded by (i) the chairman of the meeting; (ii) at least two shareholders entitled to vote present in person or by proxy; or (iii) one or more shareholders present in person or by proxy and representing 10 per cent or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried, unanimously, or carried by, a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made such a demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

8. DIRECTORS' INTERESTS

8.1 There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

8.2 The following Directors also serve as a director or employee of Shenhua Group or its subsidiaries:

Director	Name of company	Position
Chen Biting	Shenhua Group	Chairman of the board of directors
Zhang Xiwu	Shenhua Group	General manager
Zhang Yuzhuo	Shenhua Group	Vice general manager
	中國神華煤制油有限公司 (China Shenhua Coal Liquefaction Company Limited), a subsidiary of Shenhua Group	Chairman of the board of directors

Director	Name of company	Position
	神華呼倫貝爾煤化工有限公司 (Shenhua Hulunbeier Coal Processing Company Limited), a subsidiary of Shenhua Group	Executive director
Ling Wen	神華財務有限公司 (Shenhua Finance Company Limited), a subsidiary of Shenhua Group in which the Company has a 32.89 per cent. equity interest	Chairman of the board of directors
Han Jianguo	Shenhua Group	Vice general manager

Save as disclosed above, none of the Directors is a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of Herbert Smith, 23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong up to and including 16 June 2006:

- 9.1 the 2006 Power Purchase Agreements and the Interim Agreements; and
- 9.2 the letter from the Independent Financial Adviser, the text of which is set out in this circular at pages 13 to 19.