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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Shenhua Energy Company Limited** (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser, or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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**中国神华**  
CHINA SHENHUA

**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)**

**REVISED CAPS FOR CERTAIN TRANSACTIONS  
UNDER THE MUTUAL COAL SUPPLY AGREEMENT**

**Independent financial adviser  
to the Independent Board Committee and Independent Shareholders**



**SOMERLEY LIMITED**

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A letter from the board of the Company is set out on pages 3 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 20 of this circular.

A supplemental notice setting out the additional resolution to be resolved at the annual general meeting of the Company to be held at The Atrium Room, 39th Floor, Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong, on Friday, 12 May, 2006 at 9:00 a.m. is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by not less than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

31 March, 2006

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## CONTENTS

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	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	3
1. INTRODUCTION .....	3
2. BACKGROUND .....	4
3. MUTUAL COAL SUPPLY AGREEMENT .....	6
4. REVISED CAPS FOR THE TRANSACTIONS .....	6
5. REASONS FOR EXCEEDING THE CAPS .....	7
6. REASONS FOR ENTERING INTO AND BENEFITS OF THE TRANSACTIONS .....	9
7. DISCLOSURE AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS .....	9
8. ADDITIONAL DISCLOSURE .....	10
9. ANNUAL GENERAL MEETING .....	10
10. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE .....	11
<b>LETTER FROM INDEPENDENT BOARD COMMITTEE</b> .....	12
<b>LETTER FROM INDEPENDENT FINANCIAL ADVISER</b> .....	13
<b>APPENDIX – GENERAL INFORMATION</b> .....	21
1. RESPONSIBILITY STATEMENT .....	21
2. DIRECTORS' INTERESTS .....	21
3. SUBSTANTIAL SHAREHOLDERS .....	22
4. EXPERT .....	27
5. SERVICE CONTRACTS .....	27
6. NO MATERIAL ADVERSE CHANGE .....	27
7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS ...	28
8. DIRECTORS' INTERESTS .....	28
9. DOCUMENTS AVAILABLE FOR INSPECTION .....	29
<b>SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING</b> .....	30

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## DEFINITIONS

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

<b>“AGM”</b>	the annual general meeting of the Company for the year ended 31 December, 2005 to be held at The Atrium Room, 39th Floor, Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong, at 9:00 a.m. on 12 May, 2006;
<b>“associates”</b>	shall have the meaning given to it in the Listing Rules;
<b>“Board”</b>	the board of Directors;
<b>“Company”</b>	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;
<b>“Director(s)”</b>	the director(s), including the independent non-executive directors of the Company;
<b>“Group”</b>	the Company and its subsidiaries;
<b>“Hong Kong”</b>	Hong Kong Special Administrative Region of the People’s Republic of China;
<b>“Independent Board Committee”</b>	an independent committee of the Board comprising Messrs. Huang Yicheng, Anthony Francis Neoh and Chen Xiaoyue;
<b>“Independent Financial Adviser”</b>	Somerley Limited, the independent financial adviser advising the Independent Board Committee and Independent Shareholders in respect of the Revised Caps;
<b>“Independent Shareholders”</b>	Shareholders other than Shenhua Group and its subsidiaries and associates;
<b>“Latest Practicable Date”</b>	29 March, 2006, being the latest practicable date prior to the printing of this circular on which certain information contained herein could be ascertained;
<b>“Listing Rules”</b>	The Rules Governing the Listing of Securities on the Stock Exchange;

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## DEFINITIONS

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“ <b>Mutual Coal Supply Agreement</b> ”	the mutual supply of coal agreement dated 24 May, 2005 entered into between the Company and Shenhua Group in relation to the supply of coal between the Group and Shenhua Group;
“ <b>PRC</b> ”	the People’s Republic of China;
“ <b>Prospectus</b> ”	the prospectus dated 2 June, 2005 published by the Company at the time of its listing on the Main Board of the Stock Exchange;
“ <b>Revised Caps</b> ”	the proposed revised caps for the Transactions for the years 2006 and 2007 as set out in the section headed “Revised Caps for the Transactions” of this circular;
“ <b>RMB</b> ”	the lawful currency of the PRC;
“ <b>SFO</b> ”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“ <b>Share(s)</b> ”	share(s) of RMB1.00 each in the capital of the Company;
“ <b>Shareholder(s)</b> ”	holder(s) of Share(s);
“ <b>Shenhua Group</b> ”	神華集團有限責任公司 (Shenhua Group Corporation Limited), the sole promoter and controlling shareholder of the Company;
“ <b>Stock Exchange</b> ”	The Stock Exchange of Hong Kong Limited;
“ <b>Taicang Power</b> ”	國華太倉發電有限公司 (Guohua Taicang Power Generation Company Limited);
“ <b>Transactions</b> ”	transactions relating to the supply of coal from Shenhua Group to the Group and vice versa pursuant to the terms of the Mutual Coal Supply Agreement;
“ <b>Xisanju Companies</b> ”	collectively, 神華集團烏達礦業有限責任公司 (Shenhua Wuda Mining Company Limited), 神華集團海勃灣礦業有限責任公司 (Shenhua Haibowan Mining Company Limited); and 神華集團包頭礦業有限責任公司 (Shenhua Baotou Mining Company Limited), all of which are subsidiaries of Shenhua Group, and their respective subsidiaries.

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## LETTER FROM THE BOARD

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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)**

*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

Chen Xiaoyue

*Registered Office:*

Shenhua Tower

22 Andingmen Xibinhe Road

Dongcheng District

Beijing

PRC

31 March, 2006

*To the Shareholders*

Dear Sir or Madam,

### **REVISED CAPS FOR CERTAIN TRANSACTIONS UNDER THE MUTUAL COAL SUPPLY AGREEMENT**

#### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated 17 March, 2006 in relation to the proposed revision of several existing continuing connected transactions including, amongst other things, revised caps for the years 2005 to 2007 for transactions relating to the mutual supply of coal between the Group and Shenhua Group under the Mutual Coal Supply Agreement.

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## LETTER FROM THE BOARD

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Under the Listing Rules, the percentage ratio in relation to the revenue test applicable to the Transactions for the years ending 31 December, 2006 and 31 December, 2007 exceeds 2.5% in each case. Accordingly, pursuant to Rule 14A.35(4) of the Listing Rules, the Company must comply with the Independent 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 both the supply of coal by the Group to Shenhua Group, and the supply of coal by Shenhua Group to the Group, under the Mutual Coal Supply Agreement. In this connection, the Company will seek the Independent Shareholders' approval to the revised caps for transactions entered or to be entered into under the Mutual Coal Supply Agreement for the years ending 31 December, 2006 and 31 December, 2007 at the AGM.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Revised Caps. 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 as is necessary to enable you to make an informed decision on whether to vote for or against the resolution to be proposed at the AGM relating to the Revised Caps; (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; and to give you supplemental notice which sets out the additional resolution on the proposed Revised Caps for which approval is sought from the Independent Shareholders at the AGM.

## 2. BACKGROUND

As disclosed in the Prospectus, the Company is party to a number of existing continuing connected transactions with Shenhua Group and/or its subsidiaries and associates, pursuant to which the Company and Shenhua Group and certain of their subsidiaries provided and will continue to provide, after the listing of the Shares on the Stock Exchange, various products and services to each other, including the mutual supply of coal between the Group and Shenhua Group and its subsidiaries under the Mutual Coal Supply Agreement.

The Company was granted waivers by the Stock Exchange from strict compliance with the relevant requirements in Chapter 14A of the Listing Rules in respect of certain of the continuing connected transactions, including the Transactions, for a period of three years from 1 January, 2005 to 31 December, 2007 at the time of the Company's initial public offering on 15 June, 2005.

Pursuant to the terms of the waivers granted by the Stock Exchange, the Transactions are subject to an annual cap. In accordance with Rule 14A.36(1) of the Listing Rules, if an annual cap is exceeded in respect of a given transaction, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to such transaction.

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## LETTER FROM THE BOARD

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It has come to the Company's attention during the course of the audit of the Company's financial statements for the year ended 31 December, 2005 that, primarily due to the development of the businesses of both the Group and Shenhua Group, the 2005 cap for the mutual coal supply transactions under the Mutual Coal Supply Agreement signed between the Company and Shenhua Group on 24 May, 2005 have been exceeded.

The Directors have also been monitoring the Company's continuing connected transactions. However, due to the rapid growth of the Group's business in 2005, the large scale of its business operations, as well as the large number of subsidiaries and branches of the Group involved in relation to the Transactions, the Company was unable to predict with sufficient accuracy by the end of 2005 that the caps for the Transactions to the end of 2005 would be exceeded. In particular, due to the rapid expansion of the Group's business and the commencement of operation of a new power plant operated by Taicang Power in November 2005 (to which the Group supplies coal), the volume of the Transactions exceeded the initial estimates of the Company on a day-to-day basis. The Company therefore did not publish a press announcement at the time when the cap was exceeded, in compliance with Rule 14A.36(1) of the Listing Rules.

The Company has already adopted internal guidelines for identifying and monitoring its connected transactions, which have been disseminated to relevant personnel. In addition, so better to monitor the aggregate volume of its continuing connected transactions within the Group, the Company has implemented improvements to, and will continue to improve, its internal reporting procedure for its branches and subsidiaries to report, on a periodical basis, on the status of the Transactions.

With the continued development of the Group and based on internal estimates of the demand and the operating conditions for the continuing connected transactions, the Directors note that the existing caps for the Transactions in respect of the years ending 31 December, 2006 and 31 December, 2007 are unlikely to be sufficient for the Group's requirements. The Directors therefore propose that the existing caps for the following Transactions be revised:

- (i) in respect of the value of coal supplied by Shenhua Group to the Group for the years ending 31 December, 2006 and 2007; and
- (ii) in respect of the value of coal supplied by the Group to Shenhua Group for the years ending 31 December, 2006 and 2007.

The percentage ratios in relation to the revenue test applicable to the Transactions is expected to be higher than 2.5% on an annual basis and the proposed Revised Caps are therefore subject to the reporting and independent shareholders' approval requirements in Rules 14A.45 to 14A.48 of the Listing Rules. In respect of the transactions for the supply of coal by the Group to Shenhua Group under the Mutual Coal Supply Agreement for the year ended 31 December, 2005, each of the applicable percentage ratios is less than 2.5% on an annual basis, and accordingly those transactions are only subject to the reporting requirements in Rules 14A.45 to 14A.47 of the Listing Rules.

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## LETTER FROM THE BOARD

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### 3. MUTUAL COAL SUPPLY AGREEMENT

As part of the restructuring in connection with the initial public offering of the Company, Shenhua Group transferred substantially all of its businesses including, inter alia, its coal production and sales operations and power generation operations, to the Group. Shenhua Group retained certain coal assets and businesses relating to coal mines and power generation.

After completion of the restructuring, the Group has continued to sell coal to a number of power plants owned by Shenhua Group and, in small quantities, to certain subsidiaries of Shenhua Group which trade in coal, and receives, in return, payment on normal commercial terms. Shenhua Group also continues to supply the Group with various types of coal for the purpose of coal blending and re-sale. These transactions are governed by the Mutual Coal Supply Agreement.

The value of the Transactions between Shenhua Group and the Group is determined in accordance with the prevailing market price.

### 4. REVISED CAPS FOR THE TRANSACTIONS

The original caps set and the revised caps proposed by the Company for the years ended 31 December, 2005 to 2007, inclusive, are as follows:

Transactions	Year ended 31 December, 2005		Year ending 31 December, 2006		Year ending 31 December, 2007	
	Original cap	Actual value, if exceeded	Original cap	Revised cap proposed	Original cap	Revised cap proposed
	<i>(RMB million)</i>		<i>(RMB million)</i>		<i>(RMB million)</i>	
Supply of coal by the Group to Shenhua Group	226.1	401.84	237.4	1,734.5	249.3	2,000.0
Supply of coal by Shenhua Group to the Group	969.3	927.28 (Cap not exceeded)	1,114.7	1,869.1	1,281.9	2,500.0

For the year ended 31 December, 2005, the aggregate value of coal supplied by the Group to Shenhua Group reached approximately RMB401.84 million, which exceeded the original cap by RMB175.74 million. In addition, it is expected that the annual caps for the years ending 31 December, 2006 and 2007 will be exceeded for the reasons set out below. Accordingly, the Company proposes to revise the annual caps in relation to the supply of coal transaction by the Group to Shenhua Group for the years 2006 and 2007 to RMB1,734.5 million and RMB2,000 million, respectively.

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## LETTER FROM THE BOARD

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For the year ended 31 December, 2005, the aggregate value of the coal supplied by Shenhua Group to the Group was approximately RMB927.28 million, which is within the limits of the original cap. However, it is expected that the annual caps for the years ending 31 December, 2006 and 2007 for the Transactions will be exceeded for the reasons set out below. Accordingly, the Company proposes to revise the annual caps for the supply of coal by Shenhua Group to the Group for the years ending 31 December, 2006 and 2007 to RMB1,869.1 million and RMB2,500 million, respectively.

### 5. REASONS FOR EXCEEDING THE CAPS

#### **Supply of Coal from the Group to Shenhua Group for year ended 31 December, 2005**

The cap for the supply of coal from the Group to Shenhua Group during the year ended 31 December, 2005 was exceeded principally because the businesses of the Group and Shenhua Group have expanded faster than expected by the Company at the time of the grant of the initial waiver. A significant part of Shenhua Group's expansion is accounted for by the acquisition of Taicang Power by Shenhua Group.

Shenhua Group acquired a 100% equity interest in Taicang Power in 2005 and the first power generation unit of Taicang Power with an installed capacity of 600 MW came into operation in November 2005. Taicang Power purchases coal from the Group for use in this power plant with an aggregate value of RMB128.3 million for the remaining two months in 2005 after its commencement of power generation. The commencement of operation of this power generation unit, which constitutes most of the increase of coal supply by the Group to Shenhua Group in 2005 was not contemplated at the time of the application for the initial waiver.

#### **Supply of coal from the Group to Shenhua Group for the years ending 31 December, 2006 and 2007**

It is expected that the annual caps for the supply of coal from the Group to Shenhua Group for the years ending 31 December, 2006 and 2007 will be exceeded principally for the following reasons:

##### *Planned expansion of Taicang Power generators*

In addition to the power generation unit which came into operation in 2005, a second power generation unit of Taicang Power, which has a projected installed capacity of 600 MW, is expected to commence power generation in April 2006, and from that point onwards will purchase coal from the Group. The volume of coal to be supplied by the Group to Taicang Power, which according to the internal estimates of the Group will total in value around RMB1.2 billion during 2006, was not contemplated in determining the initial cap of the supply of coal by the Group to Shenhua Group. In addition, in view of the rapid growth in volume of the Group's domestic coal sales by over 20% each year since 2003, the Group considers it

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## LETTER FROM THE BOARD

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appropriate to provide for a 15% increase annually in the value of coal to be supplied to Shenhua Group for the purpose of setting the revised annual caps for the years ending 31 December, 2006 and 2007.

### *Continuing increase in the market price of Coal*

The prevailing market price of coal supplied by the Group to Shenhua Group increased by approximately 27% during 2005. This increase in coal price has occurred faster than the Company originally assumed when setting the caps in 2005. It is expected that the price of coal supplied as part of the Transactions by the Group will continue to remain on an upward trend during 2006 and 2007.

### **Supply of Coal from Shenhua Group to the Group for the years ending 31 December, 2006 and 2007**

The principal factors which contribute to the need for the Company to revise the 2006 and 2007 caps for the supply of coal by Shenhua Group to the Group are the increase in the price of coal and the increase in the volume of coal to be supplied by Shenhua Group to the Group.

In line with the increased market price of coal to be supplied by the Group to Shenhua Group, the prevailing market price of coal supplied by Shenhua Group to the Group is also expected to continue to remain on an upward trend for 2006 and 2007 at a faster rate than the Company estimated when setting the caps in 2005. The Company estimates that the volume of coal to be produced by Shenhua Group (principally by the Xisanju Companies) will increase by approximately two million tonnes in 2006 due to the expansion of its business. The Company expects that the increase of the coal to be produced by Shenhua Group and supplied to the Group will maintain a steady rate of increase in 2007.

### **Basis for determining the caps**

The Company has determined the revised caps for the years 2006 and 2007 for the above transactions based on the relevant historical figures in 2005 and taking into account the reasons set out above.

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## LETTER FROM THE BOARD

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### **6. REASONS FOR ENTERING INTO AND BENEFITS OF THE TRANSACTIONS**

Prior to the restructuring of Shenhua Group and the establishment of the Company, Shenhua Group and/or its associates and the Group operated as an integrated organisation which undertook numerous intra-group transactions each year. As a consequence of the restructuring and upon the listing of the Company's shares on the Stock Exchange, a number of such transactions between the Group and Shenhua Group and/or its subsidiaries and associates after listing constitute continuing connected transactions for the Company under the Listing Rules.

In terms of the mutual supply of coal, due to the wide spread of the businesses in China owned by Shenhua Group and the Group and different kinds of coal which the Group and Shenhua Group produce respectively, the Group continues to sell coal to the power plants of Shenhua Group and in small quantities to certain subsidiaries of Shenhua Group which trade in coal, in return for which it receives payment on normal commercial terms. Shenhua Group has also retained certain coal-related assets and businesses and continues to supply the Group with various types of coal for the purpose of coal blending and re-sale.

The mutual supply of coal under the Mutual Coal Supply Agreement is and will be conducted in the ordinary and usual course of business of the Company. The Transactions will continue to be conducted on an arm's length basis and on terms that are fair and reasonable to the Company. Due to the long-term relationship between the Group and Shenhua Group, the Board considers it to be beneficial to the Company to continue to enter into the continuing connected transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Company's business.

The Board considers that the Transactions have been conducted on normal commercial terms or on terms no less favourable than those available to or from independent third parties, under prevailing local market conditions, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and our shareholders as a whole, and that the Revised Caps are fair and reasonable.

### **7. DISCLOSURE AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS**

Pursuant to the Listing Rules, the adoption of the Revised Caps for the Transactions is subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Rules 14A.45 to 14A.48. The Company will seek the Independent Shareholders' approval at the AGM for the Revised Caps.

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## LETTER FROM THE BOARD

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### 8. 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 Shenhua Group

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 shares' listing in Hong Kong.

### 9. ANNUAL GENERAL MEETING

Under the Listing Rules, the Revised Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements contained in Rules 14A.45 to 14A.48. The Company will seek the Independent Shareholders' approval at the AGM for the Revised Caps. A supplemental notice of the AGM setting out the additional resolution relating to the Revised Caps for which the Independent Shareholders' approval is sought at the AGM is enclosed with this circular.

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 Group is therefore a connected person of the Company for the purposes of the Listing Rules. For this reason, and as a party to the Mutual Coal Supply Agreement, Shenhua Group has an interest in the proposed resolution approving the Revised Caps. Thus, Shenhua Group will abstain from voting in relation to the resolution approving the Revised Caps. Such resolution will be taken by way of poll.

A form of proxy for use at the AGM is enclosed. Whether or not you are able to attend the AGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the AGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or at any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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### 10. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Revised Caps for the Transactions, 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 Mutual Coal Supply Agreement and the Revised Caps for the Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Mutual Coal Supply Agreement is, 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 in respect of the Revised Caps is set out on pages 13 to 20 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 20 of this circular, considers that the terms of the Mutual Coal Supply Agreement and the Revised Caps for the Transactions are conducted on normal commercial terms and were entered into in the ordinary and usual course of business of the Group, are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Mutual Coal Supply Agreement 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 ordinary resolution to be proposed at the AGM to approve the Revised Caps for the Transactions.

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)*

**(Stock Code: 1088)**

31 March, 2006

*To: The Independent Shareholders*

Dear Sirs/Madam,

**REVISED CAPS FOR CERTAIN TRANSACTIONS  
UNDER THE MUTUAL COAL SUPPLY AGREEMENT**

We have been appointed as the Independent Board Committee to advise you in connection with the Revised Caps. We wish to draw your attention to the letter from Somerley Limited as set out on pages 13 to 20 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 Revised Caps and the advice of Somerley Limited in relation thereto as set out on pages 13 to 20 of the Circular, we are of the view that the terms of the Mutual Coal Supply Agreement and the Revised Caps for the Transactions are conducted on normal commercial terms and were entered into in the ordinary and usual course of business of the Group, are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Mutual Coal Supply Agreement 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 resolution to be proposed at the AGM to approve the Revised Caps.

Yours faithfully,

for and on behalf of the Independent Board Committee

**Mr. Huang Yicheng Mr. Chen Xiaoyue Mr. Anthony Francis Neoh**

*Independent Non-executive Directors*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*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

31 March, 2006

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

Dear Sirs,

**REVISED CAPS FOR CERTAIN TRANSACTIONS  
UNDER THE MUTUAL COAL SUPPLY AGREEMENT**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the Transactions in relation to the supply of coal between the Group and Shenhua Group under the Mutual Coal Supply Agreement, for which the Independent Shareholders' approval is being sought for the applicable Revised Caps. Details of the Transactions and the applicable Revised Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 31 March, 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 24 May, 2005, the Company entered into the Mutual Coal Supply Agreement with Shenhua Group, pursuant to which (i) the Group sells coal to a number of power plants owned by Shenhua Group and, in small quantities, to certain subsidiaries of Shenhua Group; and (ii) Shenhua Group supplies the Group with various types of coal for the purpose of coal blending and re-sale. As at the Latest Practicable Date, Shenhua Group was the controlling Shareholder interested in approximately 81.21% of the issued share capital of the Company. Accordingly, the Transactions constitute continuing connected transactions for the Company under the Listing Rules. The Company was granted waivers (the "Waivers") by the Stock Exchange from strict compliance with the relevant requirements in Chapter 14A of the Listing Rules in respect of the Transactions for a period of three years from 1 January, 2005 to 31 December, 2007 at the time of the Company's initial public offering on 15 June, 2005. However, due to the rapid growth of the business of the Group and Shenhua Group in 2005, the volume of the Transactions has exceeded the initial estimation of the Company and the relevant cap amounts under the Waivers for 2005. The Company also anticipates that the initial cap amounts under the Waivers are not likely to be sufficient for the Group's requirements for 2006 and 2007 and

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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therefore proposes to revise the relevant cap amounts. In respect of the transactions for the supply of coal by the Group to Shenhua Group under the Mutual Coal Supply Agreement for the year ended 31 December, 2005, each of the applicable percentage ratios is less than 2.5% on an annual basis, and accordingly those transactions are only subject to the reporting requirements in Rules 14A.45 to 14A.47 of the Listing Rules. The percentage ratio in relation to the revenue test of certain transactions under the Mutual Coal Supply Agreement for 2006 and 2007 exceeds 2.5%, and thus in accordance with Rule 14A.36(4) of the Listing Rules, the Company must comply with the Independent Shareholders' approval requirements described in Rule 14A.48 in respect of these transactions, in addition to the reporting and announcement requirements in Rules 14A.45 to 14A.47 of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Revised Caps for 2006 and 2007 at the AGM. At the AGM, Shenhua Group will be required to abstain from voting on the ordinary resolution to be proposed to approve the Revised Caps for the Mutual Coal Supply Agreement. Such resolution will be taken by way of poll.

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 Mutual Coal Supply Agreement are on normal commercial terms and fair and reasonable, the Revised Caps are fair and reasonable in so far as the Independent Shareholders are concerned and the entering into of the Mutual Coal Supply Agreement 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 aspects at the time they were made and up to the date of the AGM. 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 Revised Caps 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 Mutual Coal Supply Agreement**

As part of its reorganisation in preparation of the Company's H shares listing in 2005, Shenhua Group transferred substantially all of its coal production and sales operations, railroad and port transportation and power generation operations, as well as mining rights relating to the coal operations and other related assets, liabilities and interests to the Group. The Group now operates 4 mining groups with a total of 21 operating mines in western and northern China, with focuses on the production and sale of thermal coal products. It also purchases coal from third parties for coal blending and resale.

Shenhua Group, on the other hand, retained the ownership of, and continues to operate assets and liabilities relating to the coal liquefaction, coal-based chemical processing business, investment and finance business as well as limited coal production and power generating assets. Shenhua Group and its subsidiaries (other than the Group), principally the Xisanju Companies, produce other types of coal such as coking coal and thermal coal with sulphur content different from those produced by the Group.

Given the above delineation in the businesses of the Group and Shenhua Group, the Group becomes a supplier of thermal coal for Shenhua Group's remaining business, while Shenhua Group continues to supply various types of coal not produced by the Group for coal blending and re-sale. The Mutual Coal Supply Agreement was entered into with a view to regulating the relationship between the Group and Shenhua Group on the aforesaid transactions. In light of the respective principal activities of the Group and Shenhua Group, we consider that the Transactions are entered into in the ordinary and usual course of business of both the Group and Shenhua Group. The Mutual Coal Supply Agreement also serves to cement a continuous business relationship with Shenhua Group as both a customer and a supplier and is in the interests of the Group and the Shareholders as a whole.

### **2. Principal terms of the Transactions**

Pursuant to the Mutual Coal Supply Agreement, Shenhua Group and the Group have agreed to supply coal products to each other on the terms and conditions contained therein. The term of the Mutual Coal Supply Agreement is three years commencing from 1 January, 2005 and is renewable upon agreement. The prices of coal to be supplied pursuant to the Mutual Coal Supply Agreement shall be set at prevailing market price, which shall mean the price at which the same type of coal product is provided by or to independent third parties in the same area or in the vicinity. The terms and conditions for the supply of coal by one party to the other shall not be less favourable than those for the

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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supply of coal by that one party to any independent third party or less favourable than those for coal supplied by the other party to any independent third party. Each of the Group and Shenhua Group shall give priority in the supply of coal to the other. Nevertheless, each party is entitled to purchase coal from any independent third party if such a third party is able to provide coal to it on better terms and conditions than those offered by the other party.

As a condition to the Waivers, the auditors of the Company have performed annual 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 Mutual Coal Supply Agreement or the Group’s pricing policies. We have also compared the terms, including pricing and payment terms, of samples of the Past Transactions with those similar transactions conducted by the Group with independent customers or suppliers. Based on the review by the Company’s auditors and ourselves and after due enquiry with the management of the Company, we consider that the Past Transactions were conducted on normal commercial terms which were no less favourable to the Group than those offered by / to independent third parties.

Based on the above, we consider that the terms of the Mutual Coal Supply Agreement, which allow the Group to supply and purchase coal to/from Shenhua Group on terms no less favourable to the Group than to/from independent third parties, are fair and reasonable.

### 3. Revised Caps

The Transactions are subject to the Revised Caps whereby for each of the two financial years ending 31 December, 2006 and 2007, the value of the Transactions will not exceed the following annual amounts:

	<b>Year ending 31 December,</b>	
	<b>2006</b>	<b>2007</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Supply of coal by the Group to Shenhua Group	1,734.5 (original cap: 237.4)	2,000.0 (original cap: 249.3)
Supply of coal by Shenhua Group to the Group	1,869.1 (original cap: 1,114.7)	2,500.0 (original cap: 1,281.9)

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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In assessing the reasonableness of the Revised Caps, we have discussed with the management of the Company the basis and underlying assumptions for projection of the expected increase in the market price of coal products, the anticipated growth in Shenhua Group's demand for thermal coal and the expected increase in sales of blended coal and other coal products of the Group for the purpose of setting the Revised Caps.

(i) *Supply of thermal coal by the Group to Shenhua Group*

Set out below are the total sales of coal by the Group to Shenhua Group for the two financial years ended 31 December, 2004 and 2005:

	Year ended 31 December,		Percentage change
	2004 (RMB million)	2005 (RMB million)	
Total sales to Shenhua Group	215.4	401.8	+86.5%

Shenhua Group purchases thermal coal from the Group principally for trading purposes. The significant increase in the supply of coal to Shenhua Group during 2005 was principally due to the rapid expansion of business of Shenhua Group, particularly with the acquisition of Taicang Power by Shenhua Group. Shenhua Group acquired Taicang Power in 2005 and the first power generation unit of Taicang Power with a projected installed capacity of 600MW came into operation in November 2005. In the two months of operation in 2005, Taicang Power purchased coal from the Group with an aggregate value of approximately RMB128.3 million, which accounted for a substantial portion of the increase in sales to Shenhua Group in 2005. The increase in unit price of coal products also contributed to the increase in total sales value to Shenhua Group in 2005.

In estimating the total sales value of coal to Shenhua Group for the purpose of setting the Revised Caps for the two financial years ending 31 December, 2006 and 2007, the management of the Company has taken into account the additional volume of coal to be supplied to Shenhua Group for the first power generation unit of Taicang Power which will be in full year operation in 2006 and the expected commencement of operation of the second power generating unit of Taicang Power with projected installed capacity of 600MW in April 2006. In addition, average domestic sales price for the Group's coal products has continued to surge in the last few years, recording at approximately RMB188 per tonne in 2002 to approximately RMB285 per tonne in 2005. This represented a compound increase of approximately 14.9% per annum, which was principally driven by the increasing demand of coal products from the power and steel industries in China. According to reports issued by the National Bureau of Statistics of China, China's consumption of coal increased from approximately 1.37 billion tones in 2002 to 2.14 billion tones in 2005, representing an annual growth of approximately 16.0%. Based on the preliminary

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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forecast of the National Development and Reform Commission, it is expected that domestic demand for coal in 2006 will continue to grow to approximately 2.17 billion tonnes. In view of this, the management has also factored in an expected increase in coal price in setting the Revised Caps. Taking into account all the above factors, the Revised Cap for 2006 is set at RMB1,734.5 million, which represents an increase of approximately 331.7% from the actual sales in 2005 to cater for the supply of coal to the additional power generating units of Taichang Power; while the Revised Cap for 2007 is set at RMB2,000.0 million, representing an increase of approximately 15.3% from that of 2006 to provide buffer for the expected general rise in coal price.

*(ii) Supply of other coal products by Shenhua Group to the Group*

Set out below are the total value of coal purchased from Shenhua Group by the Group for the two financial years ended 31 December, 2004 and 2005:

	<b>Year ended 31 December,</b>		<b>Percentage</b>
	<b>2004</b>	<b>2005</b>	<b>change</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	
Total purchases from Shenhua Group	842.9	927.3	+10.0%

The Group principally purchases from Shenhua Group thermal coal with sulphur content different from those produced by the Group. The total value of purchases from Shenhua Group in 2005 recorded an increase of approximately 10.0% from 2004, principally due to the increase in volume of coal purchased.

In estimating the total value of coal to be purchased from Shenhua Group for the purpose of setting the Revised Caps for the two financial years ending 31 December, 2006 and 2007, the management of the Company has taken into account the continuous growth in the sales volume of the Group's coal. Total sales volume of the Group's coal products to external customers has increased from approximately 67.6 million tonnes in 2002 to 128.0 million tonnes in 2005, representing a compound growth of approximately 23.7% per annum. The management of the Company expects that the market demand for the Group's blended coal will continue to grow and therefore the volume of thermal coal to be purchased from Shenhua Group will also increase to cater for market demand. In order to develop different types of blended coal, the Group also plans to purchase fat coal and prime coking coal from the Xisanju Companies starting from the year ending 31 December, 2006. The Group estimates that an additional two million tonnes of these coal products will be purchased from Shenhua Group in 2006. In addition, as explained above, average coal price rose continuously over the past few years. The Group expects that in line with the rise in the sales price of the Group's

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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products, the purchase price of coking coal and thermal coal from Shenhua Group will also increase. Taking into account all the above factors, the Revised Cap for 2006 is set at RMB1,869.1 million, which represents an increase of approximately 101.6% from the actual sales in 2005 principally attributable to the additional volume of the new types of thermal coal and coking coal to be supplied by the Xisanju Companies; while the Revised Cap for 2007 is set at RMB2,500.0 million, representing an increase of approximately 33.8% from that of 2006 to cater for business growth of the Group as well as general rise in coal price.

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

#### 4. Conditions of the Transactions

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

- (i) the Revised Caps for supply of coal products to Shenhua Group for each of two financial years ending 31 December, 2006 and 2007 will not exceed RMB1,734.5 million and RMB2,000.0 million respectively;
- (ii) the Revised Caps for supply of coal products by Shenhua Group for each of the two financial years ending 31 December, 2006 and 2007 will not exceed RMB1,869.1 million and RMB2,500.0 million respectively;
- (iii) each year 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 on 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;
- (iv) the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review annually 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 each relevant financial year, during which the Transactions have been conducted;

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- (v) the Company will allow and will procure that Shenhua Group 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 (iv) 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
- (vi) 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 Revised Caps, or that there is any material amendment to the terms of the Mutual Coal Supply Agreement.

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 Revised Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Transactions and the Revised Caps 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.

### 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 Mutual Coal Supply Agreement are on normal commercial terms. We also consider that the terms of the Mutual Coal Supply Agreement and the Revised Caps are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Mutual Coal Supply Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM to approve the Revised Caps.

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:

Name of shareholder	Capacity	H/domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of H/domestic shares over all issued H/domestic 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	29,570,250	0.87	0.16
	Investment manager		Long position	61,477,500	1.81	0.34
	Lending pool		Long position	113,668,200	3.34	0.63
	Physically settled unlisted derivatives		Long position	789,250	0.02	0.004
Kerry Group Limited <sup>1</sup>	Interest of controlled corporation	H	Long position	138,750,350	4.08	0.77
Alliance Capital Management L.P. <sup>2</sup>	Interest of controlled corporation	H	Long position	369,980,761	10.89	2.05
Genesis Fund Managers, LLP	Investment manager	H	Long position	204,000,500	6.00	1.13
China International Capital Corporation Limited <sup>3</sup>	Interest held jointly with another	H	Long position	124,442,500	3.66	0.69

**APPENDIX**

**GENERAL INFORMATION**

Name of shareholder	Capacity	H/domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of H/domestic shares over all issued H/domestic shares respectively (%)	Percentage of total share capital of the Company (%)
China Jianyin Investment Limited <sup>4</sup>	Interest of controlled corporation	H	Long position	124,442,500	3.66	0.69
China Safe Investment Limited <sup>5</sup>	Interest of controlled corporation	H	Long position	124,442,500	3.66	0.69
Deutsche Bank Aktiengesellschaft <sup>6</sup>	Interest held jointly with another	H	Long position	128,966,500	3.79	0.71
Merrill Lynch & Co., Inc. <sup>7</sup>	Interest of controlled corporation	H	Long position	170,616,091	5.02	0.94
Merrill Lynch Far East Limited <sup>8</sup>	Interest held jointly with another	H	Long position	124,442,500	3.66	0.69
Morgan Stanley <sup>9</sup>	Interest held jointly with another	H	Long position	130,577,500	3.84	0.72
Kerry Holdings Limited <sup>10</sup>	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 <sup>11</sup>	Beneficial owner	H	Long position	155,612,000	4.58	0.86
Merrill Lynch (Asia Pacific) Limited <sup>12</sup>	Interest of controlled corporation	H	Long position	518,705,000	15.26	2.87
			Short position	518,705,000	15.26	2.87

Name of shareholder	Capacity	H/domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of H/domestic shares over all issued H/domestic shares respectively (%)	Percentage of total share capital of the Company (%)
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 <sup>13</sup>	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 <sup>14</sup>	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 Holdings Limited <sup>14</sup>	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. <sup>15</sup>	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
Merrill Lynch International Incorporated	Physically settled unlisted derivatives controlled corporation	H	Long position	459,525,000	13.52	2.54
Merrill Lynch International Incorporated <sup>16</sup>	Interest of controlled corporation	H	Long position	518,705,000	15.26	2.87
			Short position	518,705,000	15.26	2.87

Name of shareholder	Capacity	H/domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of	Percentage of total share capital of the Company
					H/domestic shares over all issued shares respectively (%)	
ML UK Capital Holdings <sup>17</sup>	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. 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:* Alliance Capital Management L.P. holds 100% interests in Alliance Capital Management Corporation of Delaware, Alliance Capital Ltd, Alliance Capital Australia Limited and Alliance Capital Management (Singapore) Ltd, and 50% interests in New-Alliance Asset Management (Asia) Limited, Alliance Capital Management Australia Limited and Alliance Capital Management New Zealand Limited, and is accordingly deemed to have a long position in a total of 369,980,761 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 Jianyin Investment Limited. China Jianyin 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 Jianyin 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 Jianyin 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 32,690 H shares of the Company.

Merrill Lynch & Co., Inc. is deemed to have an interest in 12,313,501 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 158,269,900 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 170,616,091 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:

<b>Name</b>	<b>Qualifications</b>
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:

<b>Director</b>	<b>Name of company</b>	<b>Position</b>
Chen Biting	Shenhua Group	Chairman of the board of directors
Zhang Xiwu	Shenhua Group	General manager
Zhang Yuzhuo	Shenhua Group 中國神華煤製油有限公司 (China Shenhua Coal Liquefaction Company Limited), a subsidiary of Shenhua Group	Vice general manager Chairman of the board of directors
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 17 April 2006:

9.1 the Mutual Coal Supply Agreement; and

9.2 the letter from the Independent Financial Adviser, the text of which is set out in this circular at pages 13 to 20.

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## SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

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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)**

### SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

#### WHEREAS

Reference is made to the Notice of Annual General Meeting dated 24 March, 2006 stating that the board of directors of the Company has resolved that an additional ordinary resolution (specified as ordinary resolution 8 below) shall be tabled before the forthcoming annual general meeting of China Shenhua Energy Company Limited (中國神華能源股份有限公司) (the “Company”) (the “AGM”) for shareholders’ approval.

**SUPPLEMENTAL NOTICE IS HEREBY GIVEN** that the AGM for the year ended 31 December, 2005, which will be held, as originally scheduled, at The Atrium Room, 39th Floor, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong at 9:00 a.m. on Friday, 12 May, 2006, will consider and, if thought fit, approve the following resolution as an ordinary resolution in addition to the resolutions set out in the previous notice dated 24 March, 2006 of the same meeting:

8. **“THAT** the annual caps for the Transactions be revised to the Revised Caps as set out in the circular to the shareholders of the Company dated 31 March, 2006 and that the board of directors of the Company be and are hereby authorised to take such actions as are necessary to implement this revision.”

By order of the Board  
**Chen Biting**  
*Chairman*

Beijing, 31 March, 2006

*As at the date of this notice, the Directors of the Company comprise Chen Biting, Wu Yuan, Ling Wen, Zhang Xiwu, Zhang Yuzhuo, Han Jianguo, Huang Yicheng, Anthony Francis Neoh and Chen Xiaoyue.*

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## SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

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*Notes:*

1. A circular to the shareholders of the Company dated 31 March, 2006 setting out details of the Transactions and the Revised Caps will be despatched to the shareholders of the Company on 31 March, 2006.
2. A supplemental form of proxy in respect of the above ordinary resolution 8 is enclosed with this notice.
3. Please refer to the notice dated 24 March, 2006 of the AGM of the Company for details in respect of other resolutions to be passed at the AGM, eligibility of attendance, registration procedures, proxy and other relevant matters.