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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)  
(the "Company")  
(Stock Code: 1088)

## CONTINUING CONNECTED TRANSACTIONS 2007 POWER PURCHASE AGREEMENTS

Reference is made to the announcement of the Company dated 9 May, 2006 and the subsequent Circular issued by the Company dated 30 May, 2006, relating to Power Purchase Agreements for 2006.

On 11 October, 2006, the SERC issued a notice inviting tenders for the acquisition of the interests held by certain power grid companies in power generating assets, including the entire equity interest held by NCPG in Panshan Power and LPPC in Suizhong Power. The results of the tender process have not yet been announced. Following the divestment by NCPG and LPPC of their respective interests in Panshan Power and Suizhong Power, NCPG, LPPC and their associates will cease to be connected persons of the Company, and the Power Purchase Agreements will accordingly cease to be connected transactions for the Company.

The Power Purchase Agreements entered into in 2006 and the related shareholder approvals will expire on 31 December, 2006. As explained in the Circular, the practice in the PRC power supply industry is for definitive power purchase agreements to be entered into following the first quarter of each year. The Company proposes that until such time as the new Power Purchase Agreements for 2007 are entered into (currently expected to be in the second quarter of 2007), it will continue supply of power pursuant to the terms of the Power Purchase Agreements entered into for 2006, save in respect of the volume and tariff (if applicable) of the power supply.

### PROPOSED DIVESTMENT BY NCPG AND LPPC OF THEIR RESPECTIVE INTERESTS IN PANSHAN POWER AND SUIZHONG POWER

The PRC government had previously announced plans to restructure the PRC power industry, involving, among other things, the separation of power generating and power transmission businesses. As part of the implementation of this restructuring plan, the SERC had issued on 11 October, 2006 a notice inviting tenders for the acquisition of interests held by certain power grid companies in power generating assets, including the entire equity interest held by NCPG in Panshan Power and LPPC in Suizhong Power. The Group was one of the bidders who had submitted a bid to acquire these interests. The results of the tender process have not yet been announced but it is currently expected that the divestment will be completed by the end of February 2007.

Panshan Power is currently an indirect non-wholly owned subsidiary of the Company. It is held as to 50% by CLP Guohua (a non-wholly owned subsidiary of the Company), 25% by NCPG and 25% by Tianjin Energy Investment Company.

Suizhong Power is currently a non-wholly owned subsidiary of the Company. It is held as to 50% by the Company, 25% by LPPC and 25% by Liaoning Provincial Energy Company.

As NCPG and LPPC is each a substantial shareholder of a subsidiary of the Company, they and their associates are connected persons of the Company. However, following the divestment by NCPG and LPPC of their respective interests in Panshan Power and Suizhong Power (whether or not to the Group), they will cease to be a substantial shareholder of a subsidiary of the Company, and therefore cease to be a connected person of the Company. The supply of power pursuant to the Power Purchase Agreements by members of the Group to NCPG, LPPC and their associates will accordingly cease to be connected transactions for the Company.

If the Group is successful in its bid pursuant to the tender process, the acquisition of the interests in Panshan Power and Suizhong Power will constitute a connected transaction for the Company, and the Company will comply with the requirements of Chapter 14A of the Listing Rules in relation thereto.

### POWER PURCHASE AGREEMENTS FOR 2007

Power supply to power grid companies in the PRC is significantly influenced by state policies. The relevant government authorities in the PRC will determine and announce on a yearly basis the amount of power allocated to each power grid company and the price policies for power supply. This announcement is typically made in the first quarter of each year. Prior to such announcement, it is difficult for the Company to conclude any definitive agreements for power supply with power grid companies. During this interim period until definitive agreements are entered into, industry practice is for supply to continue based on the terms of the previous year contracts, save as to volume and tariff (if applicable).

Rule 14A.35(1) of the Listing Rules requires that the Company enters into written contracts for its connected transactions. In order to comply with the strict requirements of Rule 14A.35(1) in the period before definitive agreements for power supply can be entered into, the Company had in 2006 sought to negotiate with the Power Purchasers an interim agreement to record the industry practice of continuing supply pursuant to the terms of the previous year contracts. However, as such written interim agreements are not industry practice, the Company had experienced significant difficulties in persuading the Power Purchasers to accede to its request.

As NCPG, LPPC and certain of their associates are currently in the midst of a tender process for the divestment of their power generating assets, the Company considers that it would not be practicable to seek to discuss with them interim agreements for power supply in addition to ongoing negotiations in respect of the tender process. Neither the Company nor its controlling shareholder has any direct or indirect holding in NCPG or its associates, and therefore is not able to compel the entering into of interim agreements.

### Terms of the Power Purchase Agreements

The principal terms and conditions of the Power Purchase Agreements entered into in 2006 are substantially the same amongst each other apart from minor differences on matters such as the methods and time for settlement of payments. They are entered into between various members of the Group and their respective power grid customers. The contracts are for one year commencing from 1 January, 2006. Pursuant to these Power Purchase Agreements:

- the price of the power supplied is determined and adjusted pursuant to regulations published by the PRC government; and
- the amount of power supplied is regulated by the relevant authorities under the principle of equality between all power suppliers and each power grid company.

Until such time as the new Power Purchase Agreements for 2007 are entered into (currently expected to be in the second quarter of 2007), the Company will continue supply of power to the Power Purchasers pursuant to the terms of the Power Purchase Agreements entered into for 2006, save in respect of the volume and tariff (if applicable) of the power supply.

As the Power Purchasers are controlled or owned by SGCC which is the holding company of NCPG and LPPC, they are associates of NCPG and LPPC and, accordingly, connected persons of the Company.

The terms of the Power Purchase Agreements for 2006 were entered into following arm's length negotiations and taking into account PRC government policies as the amount of supply and its pricing. Therefore, the Directors consider that the supply of power during the interim period in 2007 pursuant to the terms of the Power Purchase Agreements for 2006 will be conducted on normal commercial terms, pursuant to terms that are fair and reasonable so far as the shareholders are concerned, and are therefore in the interests of the Company as a whole.

### Reasons for entering into Transactions

The Power Purchasers are power grid companies and are therefore the principal, if not sole, customers of the power plants operated by the Group. The power supply arrangements under the Power Purchase Agreements are conducted in the normal and ordinary course of business of the Group.

### Caps for the Transactions

The actual values of the power supply by the Group to NCPG, LPPC and their associates for each of the three years ended 31 December, 2006 and the original caps set for the respective years, are as follows:

Year ended 31 December 2004 (RMB millions)		Year ended 31 December 2005 (RMB millions)		Six months ended 30 June 2006 (RMB millions)	
Actual value	Annual cap	Actual value	Annual cap	Actual value	Annual cap
7,519.7	N/A	7,843.0	17,919.0	3,954.16	19,100.0

As the tariff and supply allocations for 2007 have not yet been announced by the PRC government, the Directors are not able to make a realistic estimate of the transaction amounts for the year ending 31 December, 2007. Nonetheless, the Company is hoping that the volume of power supply in 2007 will be no less than the level in 2006. In addition, if the applicable tariff for 2007 increases, the total volume of the transaction will correspondingly increase. Taking into account the possibility of an increase in both volume and tariff and the fact that changes in the applicable government prescribed tariff is difficult to predict, the Company proposes to adopt the annual cap approved for 2006 of RMB 19,100 million as the cap applicable for 2007. The Directors are of the view that the proposed cap for 2007 is fair and reasonable in light of the present circumstances.

As the proposed annual cap exceeds 2.5% of the applicable size tests under the Listing Rules, the Transactions will be subject to reporting, announcement and independent shareholders approval requirements under Rule 14A.35. However, as no shareholder of the Company is required to abstain from voting on the relevant resolution and Shenhua Group Corporation Limited, the controlling shareholder of the Company holding approximately 81.21% of the Company's total issued share capital, has approved the Transactions in writing, the Company has applied for a waiver from the Stock Exchange from convening a general shareholders meeting for the independent shareholders to approve the Transactions pursuant to Rule 14A.43 of the Listing Rules. Nonetheless, a circular containing further information on the Transactions, the opinions of the independent financial advisers and the independent board committee will be dispatched to shareholders within 21 days after publication of this announcement unless the divestment by NCPG and LPPC of their respective interests in Panshan Power and Suizhong Power is completed before the Company's obligation to issue the circular under the Listing Rules arises.

### FURTHER DISCLOSURES

If the proposed divestment by NCPG and LPPC of their respective interest in Panshan Power and Suizhong Power does not conclude on or prior to 28 February, 2007, the Company will make a further announcement to update shareholders as to the status of the tender process and of the Power Purchase Agreements for 2007 as soon as practicable and, in any event, before 15 March 2007.

### INFORMATION ABOUT THE GROUP AND POWER PURCHASERS

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.

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

### DEFINITIONS

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

"Board"	the board of Directors;
"Circular"	the circular dated 30 May, 2006 issued by the Company in relation to the 2006 Power Purchase Agreements;
"CLP Guohua"	中國華電電力股份有限公司 (CLP Guohua Power Company Limited), a non-wholly owned subsidiary in which the Company has a 51% equity interest;
"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;
"Directors"	the directors of the Company;
"Group"	the Company and its subsidiaries;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"LPPC"	遼寧省電力有限公司 (Liaoning Power Company Limited);
"NCPG"	華北電網有限公司 (North China Power Grid Co., Ltd), a state owned enterprise which is owned or controlled by SGCC;
"Panshan Power"	天津國華龍山發電有限公司 (Tianjin Guohua Panshan Power Generation Company) a non-wholly owned subsidiary in which the Group has a 50% interest. Panshan Power is accounted for as a subsidiary of the Company as the Group has the right to appoint a majority number of the member of its board of directors;
"Power Purchase Agreements"	the yearly power purchase agreements entered into between members of the Group and the Power Purchasers for the supply of power;
"Power Purchasers"	the power grid companies which are owned by SGCC, and to which the Group supplies power;
"PRC"	the People's Republic of China;
"SERC"	國家電力監管委員會 (State Electricity Regulatory Commission);
"Suizhong Power"	綏中發電有限公司 (Suizhong Power Company Limited), a non-wholly owned subsidiary in which the Company has a 50% interest. Suizhong Power is accounted for as a subsidiary of the Company as the Group has the right to appoint a majority number of the members of its board of directors;
"SGCC"	國家電網公司 (State Grid Corporation of China), the controlling shareholder of NCPG and LPPC; and
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

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

Beijing, 30 December 2006

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