
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF 2007**

AND

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
IN RESPECT OF 2008-2010**

AND

PROPOSED APPOINTMENT OF NEW NON-EXECUTIVE DIRECTOR

**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 13 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 14 of this Circular. A letter from Somerley Limited containing its advice is set out on pages 15 to 28 of this Circular.

A notice setting out the resolutions 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 15 May 2007 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.

30 March 2007

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DEFINITIONS

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

“AGM”	the annual general meeting of the Company for the year ended 31 December 2006 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 15 May 2007;
“Approval Transactions”	(i) the provision of production supplies and ancillary services by Shenhua Group to the Group during 2007 pursuant to the Mutual Supplies and Services Agreement, (ii) the supply of coal by Shenhua Group to the Group during 2007 pursuant to the Mutual Coal Supply Agreement (iii) the supply of coal by the Group to Shenhua Group during 2007 pursuant to the Mutual Coal Supply Agreement; and “ Approval Transaction ” shall be construed accordingly as any one of the above;
“Associates”	shall have the meaning given to it in the Listing Rules;
“Board”	the board of Directors;
“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;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Financial Adviser”	Somerley Limited, the independent financial adviser advising the Independent Board Committee and Independent Shareholders in respect of the revised caps and the annual caps in relation to the Approval Transactions;
“Independent Board Committee”	an independent committee of the Board comprising Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Dr. Chen Xiaoyue;
“Independent Shareholders”	shareholders of the Company that are not required pursuant to the Listing Rules to abstain from voting on the relevant matter at the AGM;

DEFINITIONS

“Jinjie Energy”	陝西國華錦界能源有限責任公司 (Jinjie Energy Corporation), a limited liability company established in the PRC as of 16 February 2004;
“Latest Practicable Date”	28 March, 2007, 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;
“Mutual Coal Supply Agreement”	the agreement for the mutual supply of coal dated 24 May 2005 between the Company and Shenhua Group or, as the context so requires, the new agreement on substantially the same terms conditionally entered into on 23 March 2007;
“Mutual Supplies and Services Agreement”	the agreement for the mutual provision of production supplies and ancillary services dated 24 May 2005 and made between the Company and Shenhua Group or, as the context so requires, the new agreement on substantially the same terms conditionally entered into on 23 March 2007;
“Percentage Ratios”	percentage ratios as defined under Rule 14.04(9) of the Listing Rules
“PRC”	the People’s Republic of China;
“Prospectus”	the prospectus dated 2 June 2005 published by the Company, in accordance with the Listing Rules, at the time of its listing;
“Relevant Transactions”	(i) the provision of production supplies and ancillary services by Shenhua Group to the Group during 2007 pursuant to the Mutual Supplies and Services Agreement, (ii) the provision of production supplies and ancillary services by the Group to Shenhua Group during 2007 pursuant to the Mutual Supplies and Services Agreement, and (iii) the supply of coal by Shenhua Group to the Group during 2007 pursuant to the Mutual Coal Supply Agreement; and “ Relevant Transaction ” shall be construed accordingly as any one of the above;
“RMB”	the lawful currency of the PRC;
“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;

DEFINITIONS

“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; and
“Stock Exchange”	The Stock Exchange of Hong Kong 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)
(Stock Code: 1088)

Executive Directors:

Chen Biting
Ling Wen

Registered Office:

Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, PRC

Non-executive Directors:

Zhang Xiwu
Zhang Yuzhuo
Han Jianguo

Independent Non-executive Directors:

Huang Yicheng
Anthony Francis Neoh
Chen Xiaoyue

30 March 2007

To the shareholders

Dear Sir or Madam,

**REVISED CAPS FOR CERTAIN CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF 2007**

AND

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF 2008-2010**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 26 March 2007 in relation to (i) the proposed revision to the annual caps for the Relevant Transactions in respect of 2007; and (ii) the renewal of continuing connected transactions and proposed new annual caps in respect of 2008 to 2010. Certain of the applicable Percentage Ratios in relation to the Approval Transactions are expected to exceed 2.5% on an annual basis. Accordingly, the Company will seek the approval of Independent Shareholders at the AGM for the revised annual caps and new annual caps in respect of

LETTER FROM THE BOARD

the Approval Transactions. The purpose of this Circular is to provide you with, among other things, (i) further information about the Approval Transactions to enable you to make an informed decision on whether and how to vote on the proposed resolutions at the AGM; (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.

In addition, the Directors resolved on 23 March 2007 to propose Mr. Yun Gongmin as a new non-executive director of the Company. The appointment of Mr. Yun is subject to the approval of the shareholders at the AGM. Biographical details for Mr Yun are set out in Appendix I.

2. REVISED CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2007

As disclosed in the Prospectus, the Group is party to a number of existing continuing connected transactions. At the time of the Company's listing in 2005, 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 continuing connected transactions for a period of three years from 1 January 2005 to 31 December 2007. The waivers covered, among other things, the Relevant Transactions described below.

Pursuant to the terms of the waivers granted by the Stock Exchange, certain of the Company's continuing connected transactions including, among other things, the Relevant Transactions, are subject to an annual cap. If any of the relevant annual caps needs to be revised, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant connected transaction.

The Company had made revisions to the annual caps for certain continuing connected transactions in respect of 2006 and/or 2007, as detailed in an announcement dated 17 March 2006 and a circular dated 31 March 2006. Pursuant to Rule 14A.36(1) of the Listing Rules, also in the announcement dated 17 March 2006, the Company had announced details of the annual caps for (i) the supply of production supplies and ancillary services provided by Shenhua Group to the Group and (ii) the supply of coal by the Group to Shenhua Group having been exceeded in respect of 2005. Save in respect of the above, the annual caps for the Relevant Transactions in respect of 2005 and 2006 were not exceeded. Further details of the actual transaction values and the annual caps for the Approval Transactions in respect of 2005 and 2006 are set out below.

In accordance with the Listing Rules, the Company has been monitoring all of its continuing connected transactions. With the continued development of the Group and based on internal estimates of the demand under, and the operating conditions in respect of, the continuing connected transactions, the Directors expect that the existing annual caps in respect of 2007 for the Relevant Transactions will not be sufficient for the Group's requirements. The Directors therefore propose that the existing annual caps for the Relevant Transactions be revised. In respect of the Approval Transactions, certain of the applicable Percentage Ratios are expected to exceed 2.5% on an annual basis. In addition to complying with the reporting and announcement requirements in Rules 14A.45 to 14A.47 of the Listing Rules, Independent Shareholders' approval will be required for the revision of the annual caps

LETTER FROM THE BOARD

in respect of the Approval Transactions. In this connection, the Company will seek the Independent Shareholders' approval to the revised caps for the Approval Transactions at the AGM. Shenhua Group is interested in these transactions and it and its Associates will therefore abstain from voting on the relevant resolutions.

Further details of the Approval Transactions are set out below.

Mutual Supplies and Services Agreement

Background to and Reasons for the Transactions

As disclosed in the Prospectus, Shenhua Group retained certain assets and businesses which are supplemental and necessary to the business of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's-length basis after the listing of the Company. In addition, the Group provides certain goods and services to Shenhua Group on an arm's-length basis to support the businesses retained by Shenhua Group.

The production supplies and ancillary services business is regulated by the Mutual Supplies and Services Agreement dated 24 May 2005.

Pricing

The production supplies and ancillary services are provided substantially in accordance with the following pricing policy:

- (i) price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- (ii) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price;
- (iii) where there is neither a state-prescribed price nor a state-guidance price, the market price;
or
- (iv) where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price shall be the contractual price which is the price to be agreed between the relevant parties for the provision of the relevant production supplies or ancillary services, which shall be the reasonable costs incurred in providing the same plus a profit margin of 5% of such costs.

LETTER FROM THE BOARD

Cap

The existing annual caps and the actual aggregate values for the transaction in respect of 2005 to 2007, and the revised caps for 2007 proposed by the Company are as follows:

Transactions	Year ended 31 December 2005		Year ended 31 December 2006		Year ending 31 December 2007	
	Existing annual cap	Actual value	Existing annual cap	Actual value	Existing annual cap	Revised annual cap proposed
	<i>(RMB million)</i>		<i>(RMB million)</i>		<i>(RMB million)</i>	
Production supplies and ancillary services provided by Shenhua Group to the Group	707.4	753.27 ¹	992.7	939.54	1,120.1	2,617.58

The Company confirms that aggregated values for the above transactions during 2007 have not exceeded the annual caps.

Reasons for Revising the Caps

- (i) The proposed revision of the cap for 2007 in relation to the provision of production supplies and ancillary services by Shenhua Group to the Group is primarily due to the growth of the business of the Group in 2007, resulting in a greater need for production supplies and ancillary services from Shenhua Group than the Company had originally estimated. In particular, the Company expects there to be an increase in the amount of production supplies and construction related services provided by Shenhua Group as a result of the continued expansion in operations by the Group. The addition of the Jinjie mines, acquired as part of the acquisition of Jinjie Energy in 2006, together with expansion of mining areas at other of the Group's mines, is expected to lead to an increase in property management service fees. Improvement works are being made to the de-sulphuring facilities at the Group's power plants as part of continued technological revamps, and Shenhua Group is providing technical services in relation to these improvement works. Increases in labour and materials costs has also contributed to the increases in the costs of services provided by Shenhua Group, as most of the services are charged on a cost plus basis.
- (ii) The Company has determined the revised annual caps in respect of 2007 for the above transactions based on the relevant historical figures in 2006 and taking into account the reasons set out above.

¹ Pursuant to the requirements of Rule 14A.36(1) of the Listing Rules, an announcement was made by the Company on 17 March 2006 in relation to the annual cap being exceeded.

LETTER FROM THE BOARD

Mutual Coal Supply Agreement

Background to and Reasons for the Transactions

The Group continues 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 mutual coal supply transactions are governed by a Mutual Coal Supply Agreement entered into between Shenhua Group and the Company dated 24 May 2005.

Pricing

The price of coal supplied as part of these transactions is determined in accordance with the prevailing market price.

Cap

The existing annual caps and the actual aggregate values for the transactions in respect of 2005 to 2007, and the revised caps proposed for 2007 by the Company are as follows:

Transactions	Year ended 31 December 2005		Year ended 31 December 2006		Year ending 31 December 2007	
	Existing annual cap (RMB million)	Actual value	Existing annual cap (RMB million)	Actual value	Existing annual cap (RMB million)	Revised annual cap proposed (RMB million)
Supply of coal by Shenhua Group to the Group	969.3	927.28	1,869.1	1,420.78	2,500.0	5,647.70

The Company confirms that aggregated values for the above transactions during 2007 have not exceeded the annual caps.

Reasons for Revising the Cap

- (i) The proposed revision of the cap for 2007 in relation to the supply of coal by Shenhua Group to the Group is primarily due to the growth of the coal producing business of Shenhua Group as well as a growth in the Group's coal-blending and re-sale operations in 2007, resulting in a greater supply of coal by Shenhua Group to the Group than the Company had originally estimated. At the time of the Company's listing in 2005, the Company had determined the annual caps for this transaction based on historical transaction values and an estimated rate of growth

LETTER FROM THE BOARD

for Shenhua Group's coal producing businesses. However, the production capacity of Shenhua Group's coal producing operations for 2007 is projected to exceed the initial estimations of the Company. As the Group's coal-blending and resale operations is growing, the Company expects to take up some of the additional supply from the Shenhua Group.

- (ii) The Company has determined the revised annual cap in respect of 2007 for the above transaction based on the relevant historical figures in 2006 and taking into account the reasons set out above.

Implications Under the Listing Rules

In respect of the revised annual caps for the abovementioned Approval Transactions, certain of the applicable Percentage Ratios are expected to exceed 2.5% on an annual basis. In addition to complying with the reporting and announcement requirements in Rules 14A.45 to 14A.47 of the Listing Rules, Independent Shareholders' approval will be required for the revision of the annual caps in respect of the Approval Transactions. In this connection, the Company will seek the Independent Shareholders' approval to the revised caps for the Approval Transactions at the AGM. Shenhua Group is interested in these transactions and it and its Associates will therefore abstain from voting on the relevant resolutions.

The Directors are of the view that the Approval Transactions above have been conducted on normal commercial terms, or on terms no less favourable than those available to independent third parties under prevailing local market conditions, and 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 the Shareholders as a whole, and that all the revised annual caps mentioned above are fair and reasonable.

3. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2008-2010

At the time of the Company's listing in 2005, the Stock Exchange granted the Company a waiver from strict compliance with the relevant requirements in Chapter 14A of the Listing Rules in respect of certain continuing connected transactions. This waiver will expire on 31 December 2007. The Company expects to continue certain of the continuing connected transactions after the expiry of the waiver. In accordance with the Listing Rules, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the continuing connected transactions, including, in some cases, obtaining Independent Shareholders' approval.

On 23 March 2007, the Company entered into new agreements in respect of the following Approval Transactions, conditional upon satisfaction of the requirements of the Listing Rules including Independent Shareholders' approval being obtained. The agreements will each be for a duration of three years commencing on 1 January 2008, and will be on substantially the same terms as the agreements entered into on or around the time of the Company's listing.

Non-exempt continuing connected transactions

The following transactions are continuing connected transactions which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules:

LETTER FROM THE BOARD

(1) *Provision of Production Supplies and Services by Shenhua Group to the Group pursuant to the Mutual Supplies and Services Agreement*

Please refer to “Revised Caps for Certain Existing Continuing Connected Transactions in Respect of 2007 — Mutual Supplies and Services Agreement” above, for a description of the background to and reasons for entering into the transaction, as well as the pricing provisions governing the Mutual Supplies and Services Agreement.

The principal terms of the Mutual Supplies and Services Agreement remain unchanged from the previous agreement.

The aggregate revenues for the goods and ancillary services provided by Shenhua Group to the Group for the two years ended 31 December 2006, the existing annual caps for the three years ending 31 December 2007, the proposed revised annual cap for the year ending 31 December 2007 (see above) and the proposed annual caps for the three years ending 31 December 2010 are as follows:

Year ended 31 December				Year ending 31 December					
2005		2006		2007		2008	2009	2010	
(RMB million)		(RMB million)		(RMB million)		(RMB million)	(RMB million)	(RMB million)	
Existing annual cap	Actual value	Existing annual cap	Actual value	Existing annual cap	Revised cap proposed	Proposed annual cap	Proposed annual cap	Proposed annual cap	
707.4	753.27 ²	992.7	939.54	1,120.1	2,617.58	2,735.91	3,231.31	3,591.71	

The Directors have set the new annual caps for 2008 to 2010 to cater for further growth of the Group which may result in additional goods and ancillary services being supplied by Shenhua Group, as well as general rise in the price of raw materials and labour.

(2) *Mutual Coal Supply Agreement*

Please refer to “Revised Caps for Certain Existing Continuing Connected Transactions in Respect of 2007 — Mutual Coal Supply Agreement” above, for a description of the background to and reasons for entering into the transaction, as well as the pricing provisions governing the Mutual Coal Supply Agreement.

The principal terms of the Mutual Coal Supply Agreement remain unchanged from the previous agreement.

² Pursuant to the requirements of Rule 14A.36(1) of the Listing Rules, an announcement was made by the Company on 17 March 2006 in relation to the annual cap being exceeded.

LETTER FROM THE BOARD

The aggregate revenues from the supply of coal by Shenhua Group to the Group for the two years ended 31 December 2006, the existing annual caps for the three years ending 31 December 2007, the proposed revised annual cap for the year ending 31 December 2007 (see above) and the proposed annual caps for the three years ending 31 December 2010 are as follows:

Year ended 31 December				Year ending 31 December						
2005		2006		2007		2008	2009	2010		
<i>(RMB million)</i>		<i>(RMB million)</i>		<i>(RMB million)</i>		<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>		
Existing annual cap		Existing annual cap		Existing annual cap		Revised cap proposed	Proposed annual cap	Proposed annual cap	Proposed annual cap	
969.3	927.3	1,869.1	1,420.78	2,500.0	5,647.70	7,860.45	8,088.49	8,312.38		

The Directors have set the new annual caps for 2008 to 2010 based on the expected continued increase in the market price of coal.

The aggregate revenues from the supply of coal to Shenhua Group by the Group for the two years ended 31 December 2006, the existing annual caps for the three years ending 31 December 2007, and the proposed annual caps for the three years ending 31 December 2010 are as follows:

Year ended 31 December				Year ending 31 December				
2005		2006		2007	2008	2009	2010	
<i>(RMB million)</i>		<i>(RMB million)</i>		<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	
Existing annual cap		Existing annual cap		Existing annual cap		Proposed annual cap	Proposed annual cap	Proposed annual cap
226.1	401.84 ³	1,734.5	991.9	2,000	1,931.89	2,398.1	2,732.72	

The Directors have set the new annual caps for 2008 to 2010 to cater for further growth of the Shenhua Group which may result in an increase in the amount of coal supplied by the Group to Shenhua Group. The higher rate of growth projected between 2008 to 2009 takes into account new expansion projects by Shenhua Group during 2007 and 2008 which the Group is currently aware of.

Directors' Confirmation

The Directors are of the view that the Approval Transactions above will be conducted on normal commercial terms, or on terms no less favourable than those available to independent third parties under prevailing local market conditions, and will be 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 the Shareholders as a whole, and that all the proposed annual caps mentioned above are fair and reasonable.

³ Pursuant to the requirements of Rule 14A.36(1) of the Listing Rules, an announcement was made by the Company on 17 March, 2006 in relation to the annual cap being exceeded.

LETTER FROM THE BOARD

4. GENERAL INFORMATION RELATING TO THE GROUP AND SHENHUA 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 purchases coal from third parties for coal blending and resale.

Shenhua Group is the sole promoter and a controlling shareholder of the Company. As at the date hereof, 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. 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.

5. INDEPENDENT SHAREHOLDERS' APPROVAL

In order to avoid the need to convene an extraordinary general meeting, the Company proposes to seek approval from the Independent Shareholders in respect of the revised caps for the Approval Transactions and the renewal of the Approval Transactions in respect of the period from 2008 to 2010 at the upcoming AGM of the Company, to be held on 15 May 2007.

Shenhua Group is interested in the abovementioned matters and it and its Associates will abstain from voting at the AGM in respect of the relevant resolutions.

6. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the revised caps and the new annual caps for the Approval Transactions. 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 Supplies and Services Agreement and the Mutual Coal Supply Agreement and the revised caps and the new caps for the Approval Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Mutual Supplies and Services Agreement and the Mutual Coal Supply 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 in respect of the revised caps and the new caps and the Approval Transactions is set out on pages 15 to 28 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 15 to 28 of this Circular, considers that the terms of the Mutual Supplies and Services Agreement and the Mutual Coal Supply Agreement and the revised caps and the new caps for the Approval 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

LETTER FROM THE BOARD

reasonable so far as the Independent Shareholders are concerned, and the entering into of the Mutual Supplies and Services Agreement and the Mutual Coal Supply Agreement are, 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 and the new caps for the Approval Transactions.

7. PROPOSED APPOINTMENT OF NEW NON-EXECUTIVE DIRECTOR

The Directors resolved on 23 March 2007 to propose Mr. Yun Gongmin as a new non-executive director of the Company. The appointment of Mr. Yun is subject to the approval of the shareholders at the AGM. Biographical details for Mr Yun are set out in Appendix I.

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

LETTER FROM INDEPENDENT BOARD COMMITTEE



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)

30 March 2007

To: The Independent Shareholders

Dear Sirs/Madam,

**REVISED CAPS FOR CERTAIN CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF 2007**

AND

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF 2008-2010**

We have been appointed as the Independent Board Committee to advise you in connected with the revised caps for certain of the Relevant Transactions in respect of 2007 and the renewal of certain of the continuing connected transactions in respect of 2008 to 2010. Capitalised terms used in this letter shall have the meanings given to them in the Circular.

Having considered the information set out in the letter from the Board, the terms of the Approval Transactions, the revised annual caps for 2007, the new annual caps for 2008 to 2010 and the advice of Somerley Limited in relation thereto, we are of the view that the Approval Transactions are conducted on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the Approval Transactions, the revised annual caps for 2007 and the new annual caps for 2008 to 2010 are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Approval Transactions is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the Approval Transactions, the revised annual caps for 2007 and the new annual caps for 2008 to 2010.

Yours faithfully

For and on behalf of the Independent Board Committee

Mr. Huang Yicheng

Mr. Anthony Francis Neoh

Dr. Chen Xiaoyue

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
10th Floor,
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

30 March 2007

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

Dear Sirs,

REVISED CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2007

AND

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2008 TO 2010

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on (a) the transactions in relation to (i) the provision of production supplies and ancillary services by Shenhua Group to the Group during 2007 pursuant to the Mutual Supplies and Services Agreement; and (ii) the supply of coal by Shenhua Group to the Group during 2007 under the Mutual Coal Supply Agreement (altogether, the “Revised Cap Transactions”), for which the Independent Shareholders’ approval is being sought for the applicable annual revised caps for 2007 (the “Revised Caps”); and (b) the renewal of non-exempt continuing connected transactions in relation to the provision of production supplies and ancillary services by Shenhua Group to the Group under the Mutual Supplies and Services Agreement and the supply of coal to and by Shenhua Group under the Mutual Coal Supply Agreement (altogether, the “Renewal Transactions”) and the relevant annual caps for 2008 to 2010 (the “New Caps”). Details of the Revised Cap Transactions, the Renewal Transactions, the Revised Caps and the New Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 30 March 2007 (the “Circular”), of which this letter forms part. Unless otherwise stated herein, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 24 May 2005, the Company and Shenhua Group entered into the Mutual Supplies and Services Agreement which sets out the terms and conditions under which (i) Shenhua Group provides certain goods and ancillary services to the Group’s core businesses; and (ii) the Group provides certain goods and services to Shenhua Group to support the businesses retained by Shenhua Group, each for

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the period up to 31 December 2007. On 24 May 2005, the Company and Shenhua Group also entered into the Mutual Coal Supply Agreement which sets out the terms and conditions under 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, each for a period up to 31 December 2007.

At the time of the aforesaid agreements were entered into and as at the Latest Practicable Date, Shenhua Group was the controlling Shareholder. Accordingly, the transactions under the Mutual Supplies and Services Agreement and the Mutual Coal Supply Agreement 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 aforesaid 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. In May 2006, the Company has sought the Independent Shareholders' approval of the revised caps for the continuing connected transactions in relation to the Mutual Coal Supply Agreement for 2006 and 2007 at the annual general meeting of the Company.

However, due to the continued growth of the Group's business and based on internal estimates of the demand under, and the operating environments of, the Revised Cap Transactions, the Company anticipates that the cap amounts for 2007 for the Revised Cap Transactions are not likely to be sufficient for the Group's requirements for 2007 and therefore proposes to revise the relevant cap amounts. As certain percentage ratios represented by the Revised Caps exceed 2.5% on an annual basis, in accordance with Rule 14A.36(1) of the Listing Rules, the Company must comply with the Independent Shareholders' approval requirements described in Rule 14A.48 in respect of the Revised Cap 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 of the Revised Caps for 2007 at the AGM.

As the Company expects that the transactions contemplated under the existing Mutual Supplies and Services Agreement and Mutual Coal Supply Agreement will continue after 31 December 2007 and in anticipation of the expiry of the Waivers on 31 December 2007, the Company entered into a new Mutual Supplies and Services Agreement and a new Mutual Coal Supply Agreement with Shenhua Group on 23 March 2007 to set out the terms and conditions for the Renewal Transactions for a duration of three years commencing on 1 January 2008. It is expected that certain percentage ratios represented by the New Caps will exceed 2.5% on an annual basis. In accordance with Rule 14A.36(2) 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 this connection, the Company will seek the Independent Shareholders' approval of the Renewal Transactions and the New Caps at the AGM.

As at the Latest Practicable Date, Shenhua Group was interested in approximately 81.21% of the issued share capital of the Company. At the AGM, Shenhua Group and its Associates will be required to abstain from voting on the ordinary resolutions to be proposed to approve the Revised Caps, the Renewal Transactions and the New Caps. Voting on such resolutions will be taken by way of poll.

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The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Dr. Chen Xiaoyue, has been established to make a recommendation to the Independent Shareholders as regards whether the Revised Cap Transactions and the Renewal Transactions are in the ordinary and usual course of business, the terms of the Mutual Supplies and Services Agreement and the Mutual Coal Supply Agreement are on normal commercial terms and fair and reasonable, the Revised Caps and the New Caps are fair and reasonable in so far as the Independent Shareholders are concerned and the entering into of the Mutual Supplies and Services Agreement and 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 Revised Cap Transactions, the Renewal Transactions, the Revised Caps and the New 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 and reasons for the Mutual Supplies and Services Agreement and Mutual Coal Supply Agreement

Mutual Supplies and Services Agreement

After completion of its restructuring in preparation of the Company's H shares listing in 2005, Shenhua Group retained certain assets and businesses which are supplemental and necessary to the business of the Group and has continued to provide certain goods and ancillary services to the Group's core businesses on an arm's-length basis after the listing of the Company. In addition, the Group provides certain goods and services to Shenhua Group on an arm's-length basis to support the businesses retained by Shenhua Group.

The services under the Mutual Supplies and Services Agreement are principally day-to-day production and administrative services ancillary to the respective core business of the Group and Shenhua Group. The Directors consider that the Mutual Supplies and Services Agreement serves to

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provide mutual benefits to the Group and Shenhua Group and enables the efficient use of resources of their respective remaining assets and businesses to provide ancillary services to each other. Each of the Group and Shenhua Group is equipped with the necessary technology and expertise and possesses geographical advantage to provide satisfactory services to each other.

The Mutual Supplies and Services Agreement was entered into with a view to regulating the relationship between the Group and Shenhua Group on the aforesaid services provided to each other. In light of the respective principal activities of the Group and Shenhua Group, we consider that the transactions contemplated under the Mutual Supplies and Services Agreement are entered into in the ordinary and usual course of business of both the Group and Shenhua Group.

Mutual Coal Supply Agreement

As part of its restructuring 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 5 mining groups with a total of 20 operating mines in western and northern China, focusing on the production and sale of thermal coal products. It also purchases coal from third parties for coal blending and re-sale.

Shenhua Group, on the other hand, retained the ownership of, and continues to operate assets and liabilities relating to coal liquefaction, coal-based chemical processing business, investment and finance business as well as coal production and power generating assets. Shenhua Group and its subsidiaries (other than the Group) 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 became 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 contemplated under the Mutual Coal Supply Agreement 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 Revised Cap Transactions and Renewal Transactions

Mutual Supplies and Services Agreement

Pursuant to the Mutual Supplies and Services Agreement, Shenhua Group and the Group have agreed to provide production supplies and ancillary services to each other on the terms and conditions

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contained therein. The duration of the new Mutual Supplies and Services Agreement is three years commencing from 1 January 2008 and is renewable upon mutual agreement between the two parties. The other principal terms of the new Mutual Supplies and Services Agreement remain unchanged from the previous agreement.

Production supplies and ancillary services provided by Shenhua Group to the Group include (i) provision of production supplies: explosives, fuses, oil products, and other related or similar production supplies; (ii) ancillary production services: security, logistics and support services, construction services, tendering services and other related or similar services; and (iii) ancillary administrative services: social security and pension management services and staff data recording services. Production supplies and ancillary services provided by the Group to Shenhua Group include water supplies, rolling stock management, rail transportation, other related or similar production supplies or services.

Pursuant to the Mutual Supplies and Services Agreement, if the terms and conditions of similar production supplies or ancillary services offered by an independent third party are not better than those offered by one party, the other party shall give priority in sourcing the requisite production supplies and services from the first party. Each party may terminate the provision of production supplies and ancillary services on six months' notice unless the other party is unable to obtain similar production supplies and ancillary services from other third parties.

The supplies and services are provided substantially according to the following pricing policy:

- (i) price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- (ii) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price;
- (iii) where there is neither a state-prescribed price nor a state-guidance price, the market price;
or
- (iv) where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price shall be the contractual price which is the price to be agreed between the relevant parties for the provision of the relevant production supplies or ancillary services, which shall be the reasonable costs incurred in providing the same plus a profit margin of 5% of such costs.

We understand from the Company that Shenhua Group is the only client for the ancillary services provided by the Group. As the Group does not provide similar services under the Mutual Supplies and Services Agreement to other independent clients, there is no market price available. There is also no state-prescribed or state-guidance price for those services. Accordingly, the price is calculated on cost plus basis as mentioned above. On the other hand, most of the ancillary services provided by Shenhua Group to the Group are based on either price prescribed by the state/state-guidance price or market rate. Given the pricing of the services are firstly determined with reference to the policies or guidelines prescribed or released by the state, failing which the market price or on cost plus basis,

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we consider that the pricing policy, which is determined on terms no less favourable to the Group than those offered by/to independent third parties, is fair and reasonable. The Group has confirmed that it has consistently applied the above pricing policy since the commencement of the services after listing of its shares.

As a condition to the Waivers, the auditors of the Company have performed annual review of the transactions under the Mutual Supplies and Services Agreement for the year ended 31 December 2006 (the “Past Mutual Services 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 Mutual Services Transactions were not conducted in accordance with the terms of the Mutual Supplies and Services Agreement or the Group’s pricing policies. Based on our review and after due enquiry with the management of the Company, we consider that the Past Mutual Services 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 Supplies and Services Agreement, which allow the Group and Shenhua Group to provide production supplies and ancillary services to each other on terms no less favourable to the Group than to/from independent third parties, are fair and reasonable.

Mutual Coal Supply Agreement

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 duration of the new Mutual Coal Supply Agreement is three years commencing from 1 January 2008 and is renewable upon mutual agreement between the parties. The other principal terms of the new Mutual Coal Supply Agreement remain unchanged from the previous 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 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.

Similar to the condition to the Waivers under the Mutual Supplies and Services Agreement, the auditors of the Company are required to perform an annual review of the transactions under the Mutual Coal Supply Agreement for the year ended 31 December 2006 (the “Past Mutual Coal Supply Transactions”). We have reviewed the report issued by the auditors of the Company on such review

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and noted that they have confirmed that nothing has come to their attention to suggest that the Past Mutual Coal Supply 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 Mutual Coal Supply Transactions with those similar transactions conducted by the Group with independent customers or suppliers. Based on our review and after due enquiry with the management of the Company, we consider that the Past Mutual Coal Supply 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 new 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 and New Caps

Mutual Supplies and Services Agreement

The production supplies and ancillary services provided by Shenhua Group to the Group contemplated under the Mutual Supplies and Services Agreement are subject to the Revised Cap for the financial year ending 31 December 2007 and the New Caps for each of the financial years ending 31 December 2008, 2009 and 2010 as set out below:

	Revised Cap	New Caps		
	For the year ending 31 December			
	2007	2008	2009	2010
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Production supplies and ancillary services provided by Shenhua Group to the Group	2,617.58 (original cap: 1,120.1)	2,735.91	3,231.31	3,591.71

In assessing the reasonableness of the Revised Cap and the New Caps for the production supplies and ancillary services provided by Shenhua Group to the Group under the Mutual Supplies and Services Agreement, we have discussed with the management of the Company the basis and underlying assumptions for projection of the anticipated growth in the business of the Group and Shenhua Group and the expected increase in the charges of certain types of services for the purpose of setting the relevant Revised Caps and the New Caps.

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Set out below are the total expenditures incurred and the respective cap amount for the production supplies and ancillary services provided by Shenhua Group to the Group for the two financial years ended 31 December 2005 and 2006:

	Year ended 31 December		Percentage change
	2005 <i>(RMB million)</i>	2006 <i>(RMB million)</i>	
Total expenditures incurred	753.27	939.54	+24.73%
Existing cap amounts	707.4	992.7	

As set out in the above table, the actual expenditures of 2005 exceeded the cap amount for 2005 by about 6.5% while that of 2006 represented about 94.6% of the cap amount for 2006, demonstrating that the historical actual expenditures were generally in line with the estimated cap amounts. The significant increase in the expenditures during 2006 was principally due to the expansion of business of the Group and accordingly more ancillary services are required from Shenhua Group. As set out in the 2006 annual report of the Company, the revenue of the Group has increased from approximately RMB52.2 billion to approximately RMB64.2 billion, representing an increase of approximately 23.0%, while the net profit of the Group has increased from approximately RMB18.0 billion to approximately RMB20.3 billion, representing an increase of approximately 12.8%. The above financial results demonstrate that the scale of operation of the Group recorded significant growth in 2006.

In estimating the total expenditures for the production supplies and services provided by Shenhua Group for the purpose of setting the Revised Cap for the financial year ending 31 December 2007, the management of the Company has taken into account (i) the continuous growth of business of the Group, resulting in a greater need for production supplies and ancillary services from Shenhua Group than the Company had originally estimated; (ii) the new construction service provided by Shenhua Group; and (iii) the price increase in the property management service.

In 2007, the Group plans to commence various construction work to cater for the expansion of its business. Firstly, improvement work for de-sulphuring facilities will be undertaken for 15 power generating plants of the Group as part of the technological revamps pursued by the Group. Shenhua Group will provide the technical support for these improvement work. Secondly, the Group proposes to construct new plants and warehouses for its coal mining and related business. The total expenditures for these construction and related work is estimated to be RMB739.3 million in 2007.

The property management services include water and power supplies and other property related services. We understand from the Company that as a result of the new coal mines in Jinjie acquired as part of the acquisition of Jinjie Energy in 2006 and the expansion of mining areas of certain existing coal mines, more property management services are required from Shenhua Group. Most of the property management services are charged on a cost plus basis according to the pricing policy of the Mutual Supplies and Services Agreement as mentioned above. In light of the economic growth of the mainland China, it is expected that labour and material costs will increase in 2007 in general.

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Accordingly, the expenditures to be incurred by the Group in the property management services are projected with an increase of approximately 15% to reflect the increase in labour and material costs. Taking into account the aforesaid pricing policy, we consider such increase provides a reasonable buffer to cater for the general increase in costs of services. The Group estimates that the total expenditures in this scope of services will be increased by approximately RMB206.9 million as compared with that originally estimated.

The expenditures for provision of production supplies in 2007 are estimated to increase by approximately RMB403.5 million as compared with that originally estimated. The substantial increase in the budget is mainly attributable to the continuous and fast growth of the business of the Group and as a result, more supplies are required than originally estimated.

Set out below is the summary of the additional expenditures expected to be incurred by the Group in 2007 not anticipated in estimating the original cap amount of RMB1,120.1 million for 2007:

	<i>(RMB million)</i>
Construction and related work	739.3
Property management services	206.9
Provision of production supplies	<u>403.5</u>
 Total additional expenditures	 <u><u>1,349.7</u></u>

Taking into account all the above factors and the buffer of approximately 10% incorporated in the cap amounts to cater for unexpected increase in the needs of services and supplies and/or in costs, the Revised Cap for 2007 is set at RMB2,617.58 million, representing an increase of 133.7% from the original cap amount of RMB1,120.1 million. The New Caps for 2008, 2009 and 2010 are set at RMB2,735.91 million, RMB3,231.31 million and RMB3,591.71 million, representing an increase of approximately 4.5%, 18.1% and 11.2% respectively from that of the relevant preceding years to cater for business growth of the Group and general rise in cost of raw materials and labour. As mentioned above, the scale of operation of the Group has been growing. Coupled with the pace of the growth, it is expected that the Group's operating efficiency would be enhanced and achieve a significant improvement in 2009. Accordingly, the Company has projected a higher growth rate of 18.1% for the cap amount for 2009.

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Mutual Coal Supply Agreement

The supply of coal by Shenhua Group to the Group under the Mutual Coal Supply Agreement is subject to the Revised Cap for the financial year ending 31 December 2007. Both the supply of coal by Shenhua Group to the Group and the supply of coal by the Group to Shenhua Group under the Mutual Coal Supply Agreement are subject to the New Caps for each of the financial years ending 31 December 2008, 2009 and 2010. Details are set out below:

	Revised Cap	New Caps		
	For the year ending 31 December			
	2007	2008	2009	2010
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Supply of coal by the Group to Shenhua Group	2,000 <i>(Note)</i>	1,931.89	2,398.1	2,732.72
Supply of coal by Shenhua Group to the Group	5,647.70 (original cap: 2,500.0)	7,860.45	8,088.49	8,312.38

Note: This is the existing cap amount which does not require revision.

In assessing the reasonableness of the Revised Cap and the New Caps for the Mutual Coal Supply Agreement, we have discussed with the management of the Company the basis and underlying assumptions for the projection of the expected increase in market price of coal products, the anticipated growth in Shenhua Group's demand for thermal coal, the expected increase in sales of blended coal and other coal products by the Group and the potential expansion projects by Shenhua Group for the purpose of setting the relevant Revised Cap and the New 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 2005 and 2006:

	Year ended 31 December		Percentage change
	2005	2006	
	<i>(RMB million)</i>	<i>(RMB million)</i>	
Total sales to Shenhua Group	401.8	991.9	+146.9%

Shenhua Group purchases thermal coal from the Group principally for the purposes of, among others, electricity generation, production of coal chemicals, coal liquefaction project and trading. The significant increase in the supply of coal to Shenhua Group during 2006 was principally due to the rapid expansion of business of Shenhua Group, particularly with the acquisition of 國華太倉發電有限公司

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(Guohua Taicang Power Generation Company Limited) (“Taicang Power”) by Shenhua Group in 2005. The first two power generation units of Taicang Power each with a projected installed capacity of 600MW came into operation in November 2005 and April 2006 respectively. In 2006, Taicang Power purchased coal from the Group with an aggregate value of approximately RMB968.16 million, which accounted for a substantial portion of sales to Shenhua Group in 2006.

In estimating the total sales value of coal to Shenhua Group for the purpose of setting the New Caps for the three financial years ending 31 December 2008, 2009 and 2010, the management of the Company has taken into account the additional volume of coal to be supplied to Shenhua Group for its electricity generation, production of coal chemicals and coal liquefaction project mainly attributable to the continuous growth of Shenhua Group.

The Company expects that the sales of coal to Shenhua Group in 2008 will be similar to the level in 2007. The Company is aware that Shenhua Group is currently undertaking certain expansion projects, including coal liquefaction project and coal chemicals project in Inner Mongolia and these projects are actively in progress. Although the actual timing for the commencement of the above new business is subject to various factors and may vary in accordance with the implementation plan of Shenhua Group, it is currently expected that Shenhua Group will demand more coal gradually for the aforesaid projects starting from 2008. Accordingly, cap amounts for 2009 and 2010 are projected at a higher growth rate compared to that for 2008. Given the anticipated increase in the scale of operation of Shenhua Group, we consider that it is reasonable to take into account the above factors in determining the relevant New Caps.

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 RMB295.2 per tonne in 2006. This represented a compound increase of approximately 11.9% per annum, 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 tonnes in 2002 to 2.14 billion tonnes in 2005, representing a compound annual growth of approximately 16.0%. Based on the preliminary estimation of the National Development and Reform Commission, it is expected that domestic consumption for coal in 2006 would be approximately 2.37 billion tonnes. In view of this, the management has also factored in an expected increase in coal price in setting the New Caps. Taking into account all the above factors, the New Caps for 2008, 2009 and 2010 are set at RMB1,931.89 million, RMB2,398.1 million and RMB2,732.72 million respectively. While the New Cap for 2008 is set at a level similar to that for 2007, the New Cap for 2009 represents an increase of approximately 24.1% from that for 2008 and the New Cap for 2010 represents an increase of approximately 14.0% from that for 2009 to cater for the supply of coal to the new business of Shenhua Group and to provide buffer for the expected general rise in coal price.

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

Set out below is the total value of coal purchased from Shenhua Group by the Group and the respective cap amounts for the two financial years ended 31 December 2005 and 2006:

	Year ended 31 December		Percentage change
	2005 <i>(RMB million)</i>	2006 <i>(RMB million)</i>	
Total purchases from Shenhua Group	927.3	1,420.78	+53.2%
Existing cap amounts	969.3	1,869.1	

As set out in the above table, the actual purchases of 2005 represented about 95.7% of the cap amount for 2005 while that of 2006 represented about 76.0% of the cap amount for 2006. With a view to reducing competition between the Group and Shenhua Group, the Group has been enlarging the scale of its re-sale operation. Accordingly, an increasing amount of coal is being purchased by the Group from Shenhua Group for re-sale purpose. The total value of purchases from Shenhua Group in 2006 recorded an increase of approximately 53.2% from 2005, principally due to the increase in volume of coal purchased. We understand from the Company that such expansion in operation takes place in stages and as a result, though the actual purchases recorded a significant increase, a shortfall to the estimated cap amount was resulted in 2006.

In estimating the total value of coal to be purchased from Shenhua Group for the purpose of setting the Revised Cap for the financial year ending 31 December 2007, the management of the Company has taken into account the continuous growth in the sales volume of the Group's coal and the growth of the coal-blending and re-sale operation of the Group.

Total sales volume of the Group's coal products to external customers has increased from approximately 67.6 million tonnes in 2002 to 148.7 million tonnes in 2006, representing a compound growth of approximately 21.8% 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. The coal production capacity of Shenhua Group has increased during the recent years and its capacity is projected to exceed the initial estimations of the Company. In order to secure a more stable supply of thermal coal, Shenhua Group acquired three new suppliers of thermal coal in 2006. Given that the coal-blending and re-sale operation of the Group is growing, the Company expects to take up some of the additional supply from Shenhua Group which is in line with the Group's strategy to reduce the competition between the Group and Shenhua Group as mentioned above. In view of the above, the Group proposes to purchase approximately 0.5 million tonnes of thermal coal from Shenhua Group's newly acquired suppliers in 2007. Besides, the Group estimates that a further 8.76 million tonnes of thermal coal will be purchased from Shenhua Group to cater for the Group's needs in 2007. 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 products, the purchase price of coal products from Shenhua Group will also increase.

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Based on the above estimation, the Group expects that an aggregate of additional 9.26 million tonnes of coal products, amounting to an aggregate value of RMB3,490.26 million, will be purchased from Shenhua Group in 2007. The purchase of the above additional amount of coal, which was not anticipated in estimating the original cap amount of RMB2,500.0 million, contributes most of the increase in the Revised Cap for 2007.

Taking into account all the above factors, the Revised Cap for 2007 is set at RMB5,647.70 million, representing an increase of approximately 125.9% from the original cap amount of RMB2,500.0 million; while the New Caps for 2008, 2009 and 2010 are set at RMB7,860.45 million, RMB8,088.49 million and RMB8,312.38 million, representing an increase of approximately 39.2%, 2.9% and 2.8% respectively from that of the relevant preceding years. In 2006, Shenhua Group acquired a coal mine in Ningxia. The Group plans to start purchasing coal from this coal mine in 2008. Accordingly, the Company has projected a higher growth rate of 39.2% for the cap amount for 2008. The modest increase for the cap amounts for 2009 and 2010 is mainly to cater for general rise in coal price.

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

4. Conditions of the Revised Cap Transactions and Renewal Transactions

The conduct of the Revised Cap Transactions and Renewal Transactions are subject to a number of conditions pursuant to the Listing Rules including, among other things:

- (i) the relevant Revised Caps and the New Caps for the Revised Cap Transactions and Renewal Transactions will not exceed the respective amounts for each of the financial years ending 31 December 2007, 2008, 2009 and 2010;
- (ii) each year the independent non-executive Directors must review the Revised Cap Transactions and the Renewal Transactions and confirm in the Company's annual report and accounts that the Revised Cap Transactions and the Renewal 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 annually the Revised Cap Transactions and the Renewal Transactions and they will confirm 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) whether such transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Group; (c) have been entered into in accordance with the relevant agreement(s) governing the transactions; and (d) have not exceeded the relevant Revised Caps or New Caps;

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- (iv) 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 Revised Cap Transactions and Renewal 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 Revised Cap Transactions or Renewal Transactions exceeds the relevant cap amounts, or that there is any material amendment to the terms of the Mutual Supplies and Services Agreement or the Mutual Coal Supply Agreement.

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

OPINION

Having taking into account the above principal factors, we consider that the Revised Cap Transactions and the Renewal Transactions are in the ordinary and usual course of business of the Group and the terms of the Mutual Supplies and Services Agreement and the Mutual Coal Supply Agreement are on normal commercial terms. We also consider that the terms of the Mutual Supplies and Services Agreement, the Mutual Coal Supply Agreement, the Revised Caps and the New Caps are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Mutual Supplies and Services Agreement and 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 resolutions to be proposed at the AGM to approve the Renewal Transactions, the Revised Caps and the New Caps.

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

Mr. Yun Gongmin, aged 56, is nominated for election as a non-executive Director of the Company. He studied in the Heat Energy Engineering Department of Tsinghua University from 1975 to 1979, majoring in the Auto Manufacturing.

From June 1982 to December 1985, he served as a Section Chief and the Deputy Director of the Traffic Management Bureau of Huhhot Municipality, Inner Mongolia. From then on up to June 1989, Mr. Yun was appointed as the Director of the former Planning Commission of Huhhot Municipality. From June 1989 to May 1993, he served as the Vice-Chief and from May 1993 to January 1995 as the Chief of Yi Ke Zhao League, Inner Mongolia and the Vice-General Secretary of the CPC, Yi Ke Zhao League Committee. From January 1995 to March 1996, Mr. Yun was appointed as General Secretary of the CPC, Yi Ke Zhao League Committee and during the same year from March to October he was the Vice-General Secretary of the CPC, Yi Ke Zhao League Committee and the Director of the Working Committee of the NPC, Yi Ke Zhao League. During the last three months of 1996 to January 1997, he worked as the assistant to the President of the Inner Mongolia Autonomous Region and from then on until July 2001 as the Vice-President of the Inner Mongolia Autonomous Region. Mr. Yun was then appointed as Vice-Governor of Shanxi Province from July to September 2001. From September 2001 to May 2003, he was a member of the Standing Committee of CPC, Shanxi Provincial Committee and the General Secretary of CPC, Taiyuan Municipal Committee. During the period from May 2003 to January 2006, he was appointed as the Vice-General Secretary of CPC, Shanxi Provincial Committee and the General Secretary of CPC, Taiyuan Municipal Committee. From January to September 2006, he was appointed as the Vice-General Secretary and the Director of the Propoganda Department of CPC, Shanxi Provincial Committee. Mr. Yun is currently the Vice-President of Shenhua Group Company and the Vice-General Secretary of Communist Party Group of Shenhua Group.

Mr. Yun, if elected at the AGM, will enter into a service contract with the Company. Pursuant to the provisions of the service contract, Mr. Yun will not receive any remuneration from the Company. Mr. Yun does not have any connections with any other Director, senior management personnel, substantial shareholder or controlling shareholder of the Company.

Mr. Yun has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Yun has not been a director or senior manager of any listed company in the last three years.

The proposed appointment of Mr. Yun is for the term commencing from 15 May 2007 to the expiration of the current session of the Board of the Company.

Other than as disclosed herein, there are no other matters relating to Mr. Yun which are required to be drawn to the attention of shareholders or matters which shall be disclosed under rule 13.51(2) of the Listing Rules.

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, 2006 (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	No. 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 (%)	
Shenhua Group Corporation Limited	Beneficial owner	Domestic	Long Position	14,691,037,955	100.00	81.21
Merrill Lynch Europe Intermediate Holdings	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87
Merrill Lynch Europe PLC	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87
Merrill Lynch Holdings Limited	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87

APPENDIX II
GENERAL INFORMATION

Name of shareholder	Capacity	H/ domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of	Percentage
					H/domestic shares over all issued H/domestic shares respectively (%)	of total share capital of the Company (%)
ML UK Capital Holdings	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
			Short Position	518,705,000	16.93	2.87
Merrill Lynch (Asia Pacific) Limited	Interest of controlled corporation	H	Long Position	459,525,000	15.00	2.54
Merrill Lynch International Holdings Inc.	Interest of controlled corporation	H	Long Position	459,525,000	15.00	2.54
Merrill Lynch International Incorporated	Interest of controlled corporation	H	Long Position	459,525,000	15.00	2.54
AllianceBernstein L.P. (Formerly know as Alliance Capital Management L.P.)	Interest of controlled corporation	H	Long Position	340,900,530	10.03	1.88
JPMorgan Chase & Co	Interest of controlled corporation	H	Long Position	339,737,642	10.00	1.88
			Lending Pool	120,977,692	3.56	0.66
Merrill Lynch & Co., Inc.	Interest of controlled corporation	H	Long Position	218,980,866	6.44	1.21
Kerry Holdings Limited	Interest of controlled corporation	H	Long Position	207,582,000	6.11	1.15

Name of shareholder	Capacity	H/ domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of	Percentage
					H/domestic shares over all issued H/domestic shares respectively (%)	of total share capital of the Company (%)
Genesis Asset Managers, LLP	Investment manager	H	Long Position	204,000,500	6.00	1.13
Genesis Fund Managers, LLP	Investment manager	H	Long Position	204,000,500	6.00	1.13
Taurus Investments SA	Beneficial owner	H	Long Position	155,612,000	5.08	0.86

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 corporation, licensed 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 2006, 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 2006 (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
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, 15 Queen's Road Central, Hong Kong up to and including 13 April 2007:

- 9.1 the Mutual Supplies and Services Agreement;
- 9.2 the Mutual Coal Supply Agreement; and
- 9.3 the letter from the Independent Financial Adviser, the text of which is set out in this Circular at pages 15 to 28.

NOTICE OF ANNUAL GENERAL MEETING



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)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting for 2006 (the “Annual General Meeting”) of China Shenhua Energy Company Limited (the “Company”) will 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 Tuesday, 15 May 2007 for the purpose of considering and passing the following resolutions:

AS ORDINARY RESOLUTIONS:

1. To consider and, if thought fit, to approve the report of the board of directors of the Company for the year ended 31 December 2006.
2. To consider and, if thought fit, to approve the report of the board of supervisors of the Company for the year ended 31 December 2006.
3. To consider and, if thought fit, to approve the audited financial statements of the Company for the year ended 31 December 2006.
4. To consider and, if thought fit, to approve the Company's profit distribution plan for the year ended 31 December 2006, namely: (1) the transfer of 10% of the combined net profits, calculated on the basis of the PRC accounting rules and regulations and “Accounting Regulations for Business Enterprises”, to the statutory surplus reserve in accordance with the Articles of Association, in the aggregate amount of RMB1,614,000,000; (2) the Company's proposal for distribution of the final dividend of RMB0.34 per share (inclusive of tax) for 2006, in the aggregate amount of RMB6,151,000,000, and to authorise a committee appointed by the Board comprising Messrs. Chen Biting and Ling Wen, all being directors of the Company, as appointed by the board of directors, to implement the aforesaid distribution.
5. To consider and, if thought fit, to approve the remuneration of the directors and supervisors of the Company, which shall be apportioned on the following basis: the aggregate remuneration of all executive directors shall be RMB1,969,592, comprising basic salaries of RMB530,961, retirement scheme contributions of RMB268,689; and performance remuneration of RMB1,169,942; the aggregate remuneration of all independent non-executive directors shall be

NOTICE OF ANNUAL GENERAL MEETING

RMB1,275,000; and the aggregate remuneration of all supervisors shall be RMB880,500, comprising basic salaries of RMB308,496; retirement scheme contributions of RMB196,283, and performance remuneration of RMB375,721; and to authorise the board of directors of the Company to determine the remuneration of each director and supervisor in 2006.

6. To consider and, if thought fit, to approve the re-appointment of KPMG Huazhen and KPMG as the PRC and international auditors respectively of the Company for 2007, and to authorise a committee appointed by the Board comprising Messrs. Chen Biting and Ling Wen, all being directors of the Company, to determine their remuneration.
7. To consider and, if thought fit, to approve the renewal of certain connected transaction agreements and approve the caps for the connected transactions from 2008 to 2010, and authorised the board committee appointed by the Board comprising Messrs. Chen Biting and LingWen, all being directors of the Company, to take all such actions as required by the listing rules of the place of listing.
8. To consider and, if thought fit, approve the resolution for the adjustments to the annual cap for certain connected transactions in 2007, and authorise a board committee appointed by the Board comprising Messrs. Chen Biting and LingWen, all being directors of the Company, to take all such action as required to amend the caps for the connected transactions.
9. To consider and if thought fit, approve Mr. Yun Gongmin as a director of the first session of the Board, and upon his election as a member of the Board, Mr. Yun Gongmin shall be a non-executive director of the Company.

AS SPECIAL RESOLUTIONS:

10. To consider and, if thought fit, to approve a general mandate to the board of directors to issue, allot and deal with additional domestic shares not exceeding 20% of the registered capital of the Company, and to authorize the board of directors to make such corresponding amendments to the Articles of Association as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares.

“THAT:

- (A) (a) subject to paragraph (c) and in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and the applicable laws and regulations of the People’s Republic of China, the exercise by the board of directors during the Relevant Period of all the powers of the Company to allot, issue and deal with, either separately or concurrently, additional domestic shares and H Shares of the Company and to make or grant offers, agreements, options and rights of exchange or conversion of shares which might require the exercise of such powers be hereby generally and unconditionally approved;

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- (b) the approval in paragraph (a) shall authorize the board of directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion of shares which might require the exercise of such powers after the end of the Relevant Period;
- (c) each of the aggregate nominal amounts of domestic shares and H Shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the board of directors pursuant to the approval granted in paragraph (a) shall not exceed 20% of each of the aggregate nominal amounts of domestic shares and H Shares of the Company in issue at the date of passing this resolution; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the date of granting the authority by a special resolution in the general meeting until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of the Company;
- (2) the expiration of the twelve months from the date of granting the authority by a special resolution in the 2006 annual general meeting; or
- (3) the revocation or variation of the authority given by the special resolution in the general meeting.

- (B) The board of directors be authorized to make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares as provided in sub-paragraph (a) of paragraph (A) of this resolution.”

The Directors of the Company may only exercise their authority as mentioned above in compliance with the relevant laws and regulations of the PRC, the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and with all necessary approvals from the relevant government authorities.

By Order of the Board
Chen Biting
Chairman

Beijing, 30 March 2007

As at the date of this notice, the Directors of the Company are Mr. Chen Biting and Dr. Ling Wen, Mr. Zhang Xiu, Executive Directors, Mr. Zhang Yuzhuo and Mr. Han Jianguo, Non-executive Directors, Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Dr. Chen Xiaoyue, Independent Non-executive Directors.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. AGM notice

Please see the announcement made on 26 March 2007 for the renewal of and amendments to certain connected transaction agreements and the setting of the annual caps for 2008 to 2010 and adjustments to the annual caps for certain connected transactions in 2007. It is expected that a circular, setting out the details of the proposed resolution for the revision of these caps, will be despatched to shareholders in due course.

2. Eligibility for attending the annual general meeting

Holders of H Shares of the Company whose names appear on the register of members of the Company kept by the Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at the close of business of Saturday, 14 April 2007 are entitled to attend at the annual general meeting.

To qualify for attendance and vote at the annual general meeting to be held on Tuesday, 15 May 2007, all transfers of H Shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4p.m. on Friday, 13 April 2007.

3. Proxy

- (1) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (2) The proxies shall be appointed in writing by shareholders. The instrument appointing a proxy must be signed by the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign or other documents of authorization must be notarized.
- (3) To be valid, the notarially certified power of attorney, or other documents of authorization, and the form of proxy must be delivered to the Company's registered address for holders of domestic shares and at the H share registrar of the Company for holders of H shares not less than 24 hours before the time fixed for convening the annual general meeting or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so wishes. The H share registrar of the Company is Computershare Hong Kong Investor Services Limited.
- (4) A proxy may exercise the right to vote by showing his hand or by poll. However, if a shareholder appointed more than one proxy, such proxies shall only exercise the right to vote by poll.

NOTICE OF ANNUAL GENERAL MEETING

4. **Registration procedures for attending the annual general meeting**

- (1) A shareholder or his proxy should produce proof of identity when attending the annual general meeting.

If a corporate shareholder appoints its legal representative to attend the meeting, such legal representative or the person authorized by the board of directors or other governing body shall produce a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.

- (2) Shareholders who intend to attend the annual general meeting should return the reply slip of such meeting to the Company on or before Tuesday, 24 April 2007.
- (3) Shareholders of the Company may return the reply slip personally, by post or by facsimile to the Company.

5. **Closure of register of members**

The register of members of the Company will be closed from Saturday, 14 April 2007 to Monday, 14 May 2007 (both dates inclusive).

6. **Procedures on demanding a poll**

Subject to the Listing Rules of the stock exchange on which the shares of the Company have been listing, a poll may be demanded in respect of any resolutions by the following persons before or after a vote is carried out by a show of hands:

- (1) the chairman of the meeting; and
- (2) at least two shareholders or their proxies entitled to vote thereat; or
- (3) one or more shareholders (including their authorized proxies) separately or jointly representing 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll is demanded, the chairman of the meeting shall declare the result of a proposal put to vote on a show of hands. A demand for a poll may be withdrawn by the person who made the demand.

7. **Miscellaneous**

- (1) The annual general meeting is expected to be held for less than half a day. Shareholders who attend the meeting shall bear their own travelling and accommodation expenses.
- (2) The register of members will be closed from Saturday, 14 April 2007 to Monday, 14 May 2007 (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the annual general meeting and qualify for

NOTICE OF ANNUAL GENERAL MEETING

receiving the dividend appropriation for 2006 must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited by no later than 4:00 p.m. on Friday, 13 April 2007 for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company. The dividend is expected to be paid on or about 20 June 2007 to the shareholders whose names appear on the register of members of the Company on Monday, 14 May 2007.

- (3) The Share Registrar of the Company for H Shares is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
- (4) The registered address of the Company:

Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, China
Postal Code: 100011
Telephone: (+86) 10 5813 3355/99
Facsimile: (+86) 10 8488 2107